



2018 FINANCIAL REPORT

Consolidated Financial Statements



Contents

CONSOLIDATED FINANCIAL STATEMENTS	
(Primary statements and Reclassified Balance Sheet)	3
Consolidated Income Statement and Other Components of the Comprehensive Income Statement	4
Consolidated Balance Sheet	5
Cash Flow Statement	6
Changes in Consolidated Shareholders' Equity	7
Reclassified Consolidated Balance Sheet	8
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	11
1. Introduction	12
1.1 Newly applied standards	12
1.2 Presentation formats of the Financial Statements adopted by the Group	13
1.3 Main changes in the scope of consolidation compared with December 31, 2017	14
2. Performance	16
2.1 Highlights	16
2.2 Segment Information	17
2.3 EBITDA	19
2.4 From EBITDA to Group interest in profit (loss)	24
3. Net working capital	25
3.1 Credit risk management	25
3.2 Operating working capital	25
3.3 Other assets and liabilities	27
4. Market risk management	28
4.1 Market risks and risk management	28
4.2 Hedge Accounting and Economic Hedge – Fair Value Hierarchy	30
4.3 Effects of derivatives transactions on Income Statement and Balance Sheet at December 31, 2018	32
5. Fixed assets and provisions	37
5.1 Tangible, intangible assets and goodwill	37
5.2 Equity investments and other non-current financial assets	42
5.3 Provisions for risks and employee benefits	43
5.4 Contingent assets and liabilities	46
6. Shareholders' equity, financial debt and cost of debt	47
6.1 Shareholders' equity	47
6.2 Management of financial resources	48
6.3 Net financial debt and cost of debt	48
6.4 Financial risk management	50
7. Taxation	54
7.1 Tax risk management	54
7.2 Taxes	54
7.3 Tax assets and liabilities	55
8. Non-Energy Activities	59
9. Other notes	64
9.1 Information pursuant to IFRS 3 revised	64
9.2 Other commitments	67
9.3 Intercompany and Related-party transactions	68
10. Criteria and methods	71
10.1 Comparability	71
10.2 Criteria and methods of consolidation	74
10.3 Valuation criteria	76
11. Other information	86
11.1 Additional disclosure about natural gas and oil	86
11.2 Significant non-recurring events and transactions	88
11.3 Transactions resulting from atypical and/or unusual activities	88
11.4 Information pursuant to Article 1, Sections 125-129, Law No. 124 of 2017	88
Significant events occurring after December 31, 2018	89
Scope of consolidation	90
Certification pursuant to Art. 81-ter of CONSOB Regulation No. 11971	96
Report of the Independent Auditors	97

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

2018 Financial Report

**CONSOLIDATED
FINANCIAL STATEMENTS**





Consolidated Financial Statements

(Primary statements and Reclassified Balance Sheet)

CONSOLIDATED INCOME STATEMENT

(in millions of euros)	Chapter	2018		2017 (*)	
			of which related parties		of which related parties
Sales revenues (*)		9,159	937	8,783	443
Other revenues and income		154	8	143	14
Total net revenues		9,313	945	8,926	457
Commodity and logistic costs (-) (*)		(7,419)	(557)	(7,026)	(271)
Other costs and services used (-)		(651)	(56)	(572)	(58)
Labor costs (-)		(337)		(311)	
Receivables (writedowns)/reversals	3	(15)		(61)	
Other costs (-)		(98)		(153)	
EBITDA	2	793		803	
Net change in fair value of derivatives (commodity and exchange rate risk)	4	(7)		(221)	
Depreciation and amortization (-)	5	(464)		(486)	
(Writedowns) and reversals	5	(100)		(169)	
Other income (expense), net	2	-		146	15
Other income (expense) non Energy activities	8	(23)		(31)	
EBIT		199		42	
Net financial income (expense) on debt	6	(5)	(2)	(12)	(2)
Other net financial income (expense)	2	(3)	16	(33)	(5)
Net financial income (expense) on assigned trade receivables without recourse	3	(11)		(7)	
Income from (Expense on) equity investments	5	4	4	(31)	9
Profit (Loss) before taxes		184		(41)	
Income taxes	7	(117)		(122)	
Profit (Loss) from continuing operations		67		(163)	
Profit (Loss) from discontinued operations		-		-	
Profit (Loss)		67		(163)	
Broken down as follows:					
Minority interest in profit (loss)		13		13	
Group interest in profit (loss)		54		(176)	

(*) "Sales revenues" and "Commodity and logistic costs" related to 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.

OTHER COMPONENTS OF THE COMPREHENSIVE INCOME STATEMENT

(in millions of euros)	Chapter	2018	2017
Profit (Loss)		67	(163)
Other components of comprehensive income:			
A) Change in the Cash Flow Hedge reserve	6	(50)	149
- Gains (Losses) arising during the year		(70)	207
- Income taxes		20	(58)
B) Differences on the translation of assets in foreign currencies		3	(14)
- Gains (Losses) arising during the year not realized		5	(19)
- Income taxes		(2)	5
C) Pro rata interest in other components of comprehensive income of investee companies		-	-
D) Actuarial gains (losses) (*)		-	(1)
- Actuarial gains (losses)		-	(1)
- Income taxes		-	-
Total other components of comprehensive income net of taxes (A+B+C+D)		(47)	134
Total comprehensive profit (loss)		20	(29)
Broken down as follows:			
Minority interest in comprehensive profit (loss)		13	13
Group interest in comprehensive profit (loss)		7	(42)

(*) Items not reclassifiable in Income Statement.

CONSOLIDATED BALANCE SHEET

(in millions of euros)	Chapter	12.31.2018		12.31.2017	
		of which related parties		of which related parties	
ASSETS					
Property, plant and equipment	5	3,647		3,662	
Intangible assets	5	617		476	
Goodwill	5	2,403		2,313	
Investments in companies valued by the equity method	5	71	71	64	64
Investments at fair value through profit and loss (*) and other investments	5	3	2	4	3
Other non-current financial assets	5	66	52	80	69
Deferred-tax assets	7	461		467	
Non-current tax receivables	7	34		34	
Other non-current assets	3	121		124	
Fair value	4	170		144	
Assets for financial leasing	6	3		-	
Total non-current assets		7,596		7,368	
Inventories	3	223		182	
Trade receivables	3	1,654	92	1,656	77
Current tax receivables	7	43	29	25	17
Other current assets	3	387	34	507	27
Fair value	4	530		316	
Current financial assets (*)	6	3	3	6	3
Cash and cash equivalents	6	149	29	260	141
Total current assets		2,989		2,952	
Total assets		10,585		10,320	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Share capital		5,377		5,377	
Reserves and retained earnings (loss carryforward)		389		601	
Reserve for other components of comprehensive income		66		113	
Group interest in profit (loss)		54		(176)	
Total shareholders' equity attributable to Parent Company shareholders	6	5,886		5,915	
Shareholders' equity attributable to minority shareholders	6	255		288	
Total shareholders' equity		6,141		6,203	
Provisions for employee benefits	5	40		42	
Provisions for decommissioning and remediation of industrial sites	5	716		692	
Provisions for risks and charges	5	211		252	
Provisions for income tax liabilities	7	29		58	
Provisions for risks and charges for non Energy activities	8	250		247	
Deferred-tax liabilities	7	120		76	
Other non-current liabilities	3	1		-	
Fair value	4	168		65	
Non-current financial debt	6	353	60	221	70
Total non-current liabilities		1,888		1,653	
Trade payables	3	1,580	87	1,696	74
Current tax payables	7	65	51	52	33
Other current liabilities	3	222	15	295	1
Fair value	4	471		260	
Bonds	6	-		4	
Current financial debt	6	218	28	157	29
Total current liabilities		2,556		2,464	
Total liabilities and shareholders' equity		10,585		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.

CASH FLOW STATEMENT

The table below analyzes the **cash flow** as it applies to short-term liquid assets (i.e., due within 3 months) in 2018 and 2017. In order to provide a better understanding of the Group's cash generation and utilization dynamics and changes in net financial debt, please see paragraph 6.3 Net financial debt and cost of debt. The information provided below is supplemented by the data presented in a separate statement included in the Report on Operations.

(in millions of euros)	Chapter	2018		2017	
			of which related parties		of which related parties
Profit (Loss) before taxes		184		(41)	
Depreciation, amortization and writedowns	5	564		655	
Writedowns of activities held for sale		-		55	
Net additions to provisions for risks		(45)		35	
Interest in the result of companies valued by the equity method (-)	5	(4)	(4)	(9)	(9)
Dividends received from companies valued by the equity method	5	11	11	15	15
(Gains) Losses on the sale of non-current assets		-		(135)	
Change in the provision for employee benefits		(3)		(4)	
Change in fair value recorded in EBIT	4	7		226	
Change in operating working capital		(13)	(2)	208	(18)
Change in non-operating working capital		(13)	7	(8)	(2)
Change in other operating assets and liabilities		4		(5)	
Total net financial (income) expense		19	(14)	52	7
Net financial income (expense) paid		(13)	14	(20)	(6)
Net income taxes paid		(110)	(5)	(63)	(8)
A. Cash flow from continuing operations		588		961	
Additions to intangibles and property, plant and equipment (-)	5	(447)		(457)	
Additions to non-current financial assets (-)	5	(13)	(13)	(5)	(5)
Net price paid on business combinations (*)	9	(400)		(56)	
Financial effects of non-recurring transactions		-		489	
Cash and cash equivalents disposed		-		(7)	
Proceeds from the sale of intangibles and property, plant and equipment		38		12	
Proceeds from the sale of non-current financial assets		4		47	
Repayment of capital contribution by non-current financial assets		-		4	
B. Cash used in investing activities from continuing operations		(818)		27	
Receipt of new medium-term and long-term loans		143		25	
Redemption of medium-term and long-term loans (-)		(25)		(775)	(150)
Other net change in financial debt		48	-	(147)	(108)
Change in financial assets		-	-	9	9
Net liabilities resulting from financing activities (**)	6	166		(888)	
Capital and reserves contributions (+)		-		1	
Dividends and reserves paid to controlling companies or minority shareholders (-)	6	(47)	(1)	(46)	(1)
C. Cash used in financing activities from continuing operations		119		(933)	
D. Net currency translation differences		-		(1)	
E. Net cash flow for the year from continuing operations (A+B+C+D)		(111)		54	
F. Net cash flow for the year from discontinued operations		-		-	
G. Net cash flow for the year (continuing and discontinued operations) (E+F)		(111)		54	
H. Cash and cash equivalents at the beginning of the year from continuing operations		260	141	206	74
I. Cash and cash equivalents at the beginning of the year from discontinued operations		-		-	
L. Cash and cash equivalents at the end of the year (continuing and discontinued operations) (G+H+I)		149	29	260	141
M. Cash and cash equivalents at the end of the year from discontinued operations		-		-	
N. Cash and cash equivalents at the end of the year from continuing operations (L-M)		149	29	260	141

(*) Acquisitions prices -331 million euros net of 17 million euros of Cash and cash equivalents acquired; financial debt reimbursed -86 million euros.

(**) For the reconciliation with the amounts of balance sheet please refer to paragraph 6.3 "Net financial debt and cost of debt".

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

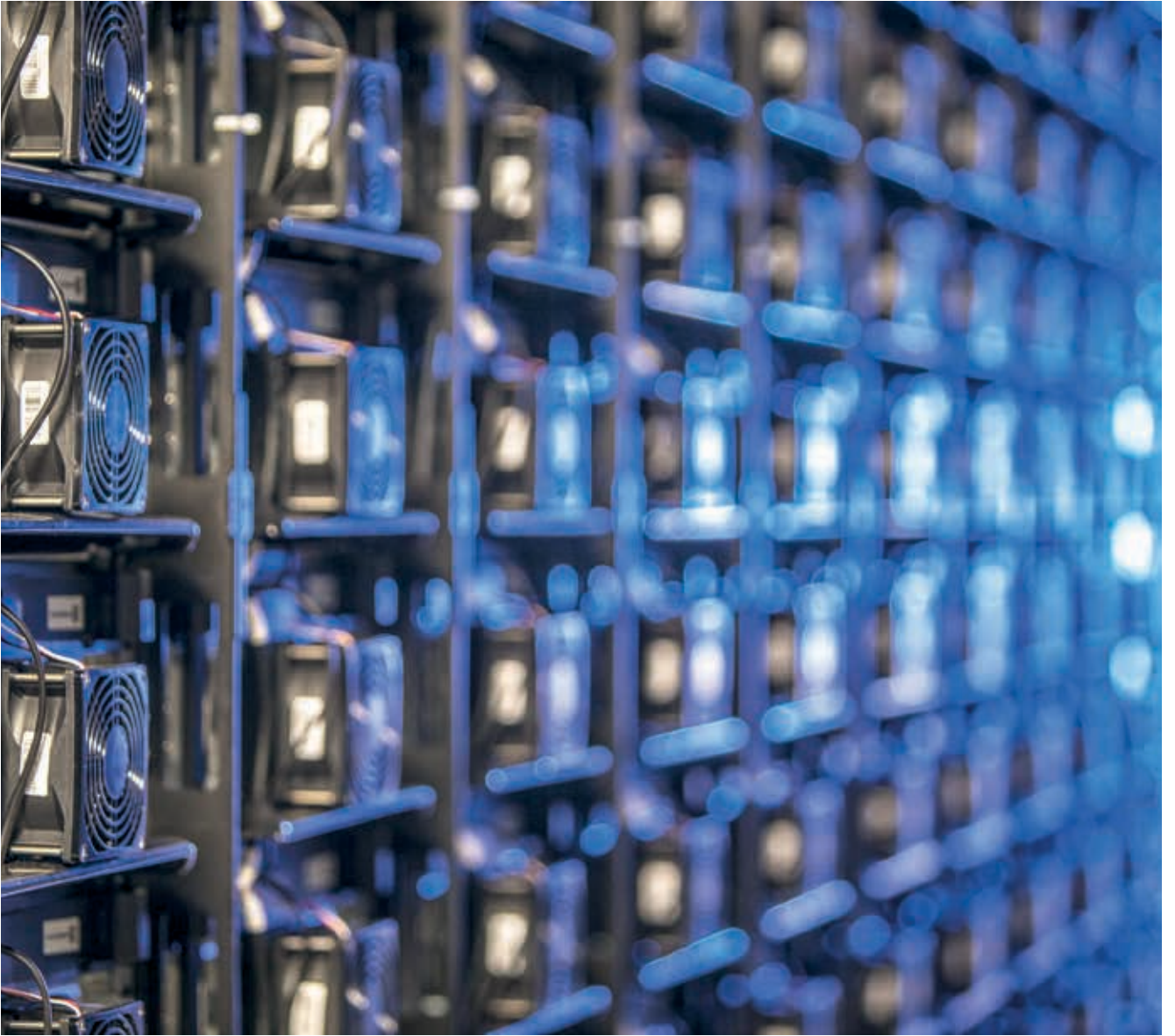
(in millions of euros)

	Share capital	Reserves and retained earnings (loss carry-forward)	Reserve for other components of comprehensive income				Actuarial gains (losses)	Group interest in profit (loss)	Total shareholders' equity attributable to Parent Company shareholders	Shareholders' equity attributable to minority shareholders	Total shareholders' Equity
			Cash Flow Hedge reserve	Differences on the translation of assets in foreign currencies	Interest in other components of comprehensive income of investee companies						
Balance at December 31, 2016	5,377	988	(57)	39	-	(3)	(389)	5,955	310	6,265	
Appropriation of the previous year's profit (loss)	-	(389)	-	-	-	-	389	-	-	-	
Dividends and reserves distributed	-	-	-	-	-	-	-	-	(46)	(46)	
Increase of share capital and reserves	-	-	-	-	-	-	-	-	1	1	
Changes in the scope of consolidation	-	-	-	-	-	-	-	-	10	10	
Other changes	-	2	-	-	-	-	-	2	-	2	
Total comprehensive profit (loss)	-	-	149	(14)	-	(1)	(176)	(42)	13	(29)	
of which:											
- Change in comprehensive income	-	-	149	(14)	-	(1)	-	134	-	134	
- Profit (Loss) for 2017	-	-	-	-	-	-	(176)	(176)	13	(163)	
Balance at December 31, 2017	5,377	601	92	25	-	(4)	(176)	5,915	288	6,203	
IFRS 9 - first adoption		(29)						(29)	-	(29)	
Balance at January 1, 2018	5,377	572	92	25	-	(4)	(176)	5,886	288	6,174	
Appropriation of the previous year's profit (loss)	-	(176)	-	-	-	-	176	-	-	-	
Dividends and reserves distributed	-	-	-	-	-	-	-	-	(47)	(47)	
Changes in the scope of consolidation	-	(5)	-	-	-	-	-	(5)	1	(4)	
Other changes	-	(2)	-	-	-	-	-	(2)	-	(2)	
Total comprehensive profit (loss)	-	-	(50)	3	-	-	54	7	13	20	
of which:											
- Change in comprehensive income	-	-	(50)	3	-	-	-	(47)	-	(47)	
- Profit (Loss) for 2018	-	-	-	-	-	-	54	54	13	67	
Balance at December 31, 2018	5,377	389	42	28	-	(4)	54	5,886	255	6,141	

RECLASSIFIED CONSOLIDATED BALANCE SHEET

This schedule, prepared on a voluntary basis, reclassifies the Balance Sheet items in order to allow a quicker reconciliation with the information provided in the following chapters.

(in millions of euros)	Chapter	12.31.2018	12.31.2017
Net Working Capital	3	582	478
Trade receivables		1,654	1,656
Inventories		223	182
Trade payables		(1,580)	(1,696)
Other assets (liabilities)		285	336
Fair Value commodity	4	61	135
Fixed assets and provisions	5	5,840	5,613
Tangible, intangible assets and goodwill		6,667	6,451
Equity investments		74	68
Other non-current financial assets		66	80
Provisions for employee benefits		(40)	(42)
Provisions for decommissioning and remediation of industrial sites		(716)	(692)
Provisions for risks and charges		(211)	(252)
Tax assets (liabilities)	7	324	340
Current and non-current tax receivables (payables)		12	7
Deferred-tax assets (Deferred-tax liabilities)		341	391
Provisions for income tax liabilities		(29)	(58)
NET INVESTED CAPITAL (*)		6,807	6,566
Provisions for risks and charges for non Energy Activities	8	(250)	(247)
TOTAL NET INVESTED CAPITAL		6,557	6,319
SHAREHOLDERS' EQUITY	6	6,141	6,203
Shareholders' equity attributable to Parent Company shareholders		5,886	5,915
Shareholders' equity attributable to minority shareholders		255	288
NET FINANCIAL DEBT	6	416	116
Assets for financial leasing (-)		(3)	-
Current financial assets (-)		(3)	(6)
Cash and cash equivalents (-)		(149)	(260)
Bonds (current and non-current) (+)		-	4
Financial debts (current and non-current) (+)		571	378
Fair Value (current and non-current) (+/-)		-	-
		12.31.2018	12.31.2017
(*) NET INVESTED CAPITAL - by business segment		6,807	6,566
Electric Power Operations		3,900	3,857
Hydrocarbons Operations		2,482	2,349
Corporate/Eliminations		425	360





Notes to the Consolidated Financial Statements at December 31, 2018



1. INTRODUCTION

The Consolidated Financial Statements of the Edison Group at December 31, 2018 comply with the requirements of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as published in the Official Journal of the European Union (O.J.E.U.).

The Board of Directors, meeting on February 14, 2019, authorized the publication of these Consolidated Financial Statements, which were audited by Deloitte & Touche Spa in accordance with an assignment awarded by the Shareholders' Meeting of April 26, 2011 for a period of nine years (2011-2019), pursuant to Legislative Decree No. 39 of January 27, 2010.

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

1.1 NEWLY APPLIED STANDARDS

The accounting principles, the valuation criteria and the consolidation criteria applied are consistent with those adopted for the preparation of the 2017 Consolidated Financial Statements. During the year **two new international accounting standards** were adopted, which are **applicable from January 1, 2018** and briefly described below. For a complete analysis reference should be made to chapter 10. Criteria and methods, which includes, inter alia, a follow-up on new accounting standards (paragraph 10.3 – section 10.3.2).

- **IFRS 15 "Revenue from contracts with customers"** is a standard which introduces specific and more restrictive principles with respect to the previous IAS 18 "Revenue". In transition, there were no impacts on the shareholders' equity as at January 1, 2017, while 'Sales revenues' and 'Commodity and logistic costs' saw a reduction of the same amount (1,157 million euros), with no impact on the EBITDA. This change was caused by the application of the following rules:

a. "principal versus agent";

b. "combination of contracts";

the following table shows the effects referred to 2017:

IFRS 15 impacts (in millions of euros)	2017 with new exposure	Principal vs agent	Combination of contracts	Total impact IFRS 15	2017 restated
Electric Power Operations	5,127	(316)	(841)	(1,157)	3,970
Hydrocarbons Operations	5,592	-	-	-	5,592
Corporate	54	-	-	-	54
Eliminations	(833)	-	-	-	(833)
Total Sales revenues	9,940	(316)	(841)	(1,157)	8,783
Electric Power Operations	(4,225)	316	841	1,157	(3,068)
Hydrocarbons Operations	(4,741)	-	-	-	(4,741)
Corporate	-	-	-	-	-
Eliminations	783	-	-	-	783
Total Commodity and logistic costs	(8,183)	316	841	1,157	(7,026)

- **IFRS 9 “Financial Instruments”** which replaced IAS 39 with effect for financial years starting on or after January 1, 2018; it (i) amended the classification and measurement model for financial assets basing it on the characteristics of the financial instrument and the business model adopted by the company, which for Edison Group is the so-called Held-to-collect and sell model; (ii) introduced a new method of impairment of financial assets which takes account of expected losses (so-called expected credit losses); and (iii) modified hedge accounting rules. The adoption of IFRS 9 entailed a reduction in Group’s shareholders’ equity at January 1, 2018, of about 29 million euros (37 million euros net of the associated tax effect of 8 million euros) referring primarily to the adoption of the expected credit losses model. The prospective application of the hedge accounting entailed the re-assessment of the existing hedge accounting relationships which, in some cases, were reviewed and extended in coherence with the risk management objectives; it did not produce any material impact at the transition date, but it determined benefits in terms of containment of volatility in the income statement. Finally, it should be noted that following the introduction of IFRS 9, non-significant investments recognized at December 31, 2017 under available-for-sale investments (1 million euros) and equity investments held for trading (3 million euros), were reclassified to investments at fair value through profit and loss (4 million euros) with no impact on the initial shareholders’ equity.

With reference to the new **IFRS 16 “Leases”** standard, published in the Official Journal of the European Union on November 9, 2017 and **which will be applied in transition on a prospective basis, starting from January 1, 2019**, it is estimated on a preliminary basis that the impact of first application on financial debt will be around 165 million euros. In implementing the new standard that will enter into force in 2019, the relevant interpretations that will be issued by IFRS Interpretations Committee (IFRIC) and accounting practices to be observed will be taken into account.

For more information on the new standards and the criteria and methods adopted by the Group, refer to the comments in chapter 10. Criteria and methods.

1.2 PRESENTATION FORMATS OF THE FINANCIAL STATEMENTS ADOPTED BY THE GROUP

Based on the numerous projects that IASB is developing on the topic “**Effective Communication**”, Edison opted for the introduction, starting this year, of a new presentation method that will make the financial statements information more relevant and effective, considering information materiality and stakeholders’ expectations. For this purpose, the notes to the financial statements have been reviewed and broken down into chapters of similar topics, instead of detailing them for single item of the financial statements. Consequently, the primary statements have been revised and supplemented and the reclassified consolidated balance sheet has been introduced. For the reconciliation between the comparative values presented in the statements and those published in the previous year, please refer to paragraph 10.1 Comparability.

The primary statements utilized have the following characteristics:

- the **Consolidated Income Statement** is a step-by-step income statement, with the different components broken down by nature. It includes a schedule of Other Components of the Comprehensive Income Statement, which shows the components of net profit or loss provisionally recognised in equity;
- in the **Consolidated Balance Sheet**, assets and liabilities are analysed by maturity. Current and non-current items, which are due within or after 12 months from the end of the reporting period, respectively, are shown separately;
- the **Cash Flow Statement** is prepared reporting the cash flows in accordance with the “indirect method”, as allowed by IAS 7;
- the Statement of **Changes in Consolidated Shareholders’ Equity** shows separately the flows from component of the reserve for other components of comprehensive income.

As an integration of the previous formats, a **Reclassified Consolidated Balance Sheet** was prepared on a voluntary basis in order to allow a quicker reconciliation with the information provided in the following chapters.

1.3 MAIN CHANGES IN THE SCOPE OF CONSOLIDATION COMPARED WITH DECEMBER 31, 2017

The main changes in the Group’s scope of consolidation involved:

- in February, Edison Spa acquired 100% of **Gas Natural Vendita Italia Spa**, a company that sells natural gas and electricity and is consolidated on a line-by-line basis; the company’s name was then changed to **Edison Energie Spa**; on December 10, the merger by incorporation deed into Edison Energia was signed with effect for third parties from January 1, 2019; in these notes the company will be named **GNVI**;
- in February, the company **Edison Esplorazione e Produzione Spa**, now **Edison Exploration & Production Spa**, was established, it is 100% owned by Edison Spa and consolidated on a line-by-line basis; in this company were conveyed all the assets and liabilities related to the Italian hydrocarbon concessions and the equity stakes in foreign companies;
- in May, Edison Energia Spa acquired 100% of **Attiva Spa**, a company that sells natural gas and is consolidated on a line-by-line basis;
- on July 2, Fenice Qualità per l’Ambiente Spa (Fenice), a wholly-owned subsidiary of Edison, purchased, from Prima Holding Srl, 71.32% of the ordinary share capital (corresponding to 70.66% of the total capital represented by ordinary shares and performing shares) of **Zephyro Spa**, a company operating in the energy efficiency sector and supplying integrated energy management solutions; the company was consolidated on a line-by-line basis. Fenice then promoted a public tender offer on the remaining ordinary shares and during the subscription period, which started on August 22, 2018 and ended, including the reopening of terms, on October 15, 2018, a total of 3,289,715 common shares were contributed. Following the public tender offer, considering the shares already held and those acquired on the AIM Italia market, Fenice ended up holding 99.93% of the share capital represented by ordinary shares and 99.05% of the total share capital of Zephyro. The total outlay was 105.6 million euros, corresponding to a price of 10.25 euros per share, of which 71.8 million euros was paid out on July 2, 2018 to acquire the majority stake and 33.8 million euros was paid out in October 2018. Consequently, given the conditions for delisting were also verified, Borsa Italiana ordered the cancellation of trading of Zephyro common shares and warrants on the AIM Italia market, effective from October 23, 2018. Furthermore, note that, following the purchase of additional shares on January 25, 2019, Fenice holds 99.5% of Zephyro’s total share capital;
- in October, Edison Spa acquired 100% of **Idroelettrica Brusson Srl** and **Idroelettrica Cervino Srl**, companies that operate in the mini hydroelectric sector and consolidated on a line-by-line basis.

The following table shows a summary of business combination transactions; for more information, please refer to the comments in chapter 9. Other notes – paragraph 9.1 Information pursuant to IFRS 3 revised.

Fair value of acquired assets and liabilities (in millions of euros)	GNVI	Attiva	Zephyro (*)	Idroelettrica Brusson and Idroelettrica Cervino	Total business combinations
Total non-current assets	139	7	110	25	281
Total current assets	188	6	62	1	257
Total assets	327	13	172	26	538
Total non-current liabilities	36	2	29	12	79
Total current liabilities	177	5	47	1	230
Total liabilities	213	7	76	13	309
Fair value of net acquired assets	114	6	96	13	229
% attributable to Edison	100%	100%	70.66%	100%	
Fair value attributable to Edison	114	6	68	13	201
Goodwill	79	13	4	-	96
Price of acquisition	193	19	72	13	297
Cash and cash equivalents acquired	(7)	(1)	(9)	-	(17)
Financial debt reimbursed	86	-	-	-	86
Price paid for step up	-	-	34	-	34
Net price paid on business combination	272	18	97	13	400

(*) The Purchase Price Allocation was carried out on the date of acquisition of control of Zephyro Spa (July 2, 2018) and refers to the acquisition of 70.66% of total share capital. Subsequently, further purchases were made, corresponding to 28.39% of total share capital (total shareholding at December 31, 2018 equal to 99.05% of total share capital).

Income statement from acquisition date (in millions of euros)	GNVI	Attiva	Zephyro	Idroelettrica Brusson and Idroelettrica Cervino	Total business combinations
Sales revenues (*)	253	7	36	-	296
EBITDA	5	-	(2)	-	3
Depreciation and writedowns	(9)	-	(6)	-	(15)
EBIT	(4)	-	(8)	-	(12)

(*) Including transactions with other companies in Edison Group.

2. PERFORMANCE

2.1 HIGHLIGHTS



(*) NFD Net Financial Debt.

Highlights 2018 (in millions of euros)	Electric Power Operations	Hydrocarbons Operations	Corporate	Eliminations
EBITDA	328	570	(105)	-
EBIT	96	239	(133)	(3)
Gross Investments	239	201	7	-

2.2 SEGMENT INFORMATION

The segments, as identified by the Group in accordance with IFRS 8, correspond to the Electric Power Operations, the Hydrocarbons Operations and Corporate. This segment information disclosure is based on the same structure used for the reports that are periodically analyzed by Management and the Board of Directors to manage the Group's business activities and for management reporting, planning and control purposes.

Electric Power Operations: the Group operates throughout the entire electricity supply chain with a portfolio of power generation plants from thermoelectric, hydroelectric, wind and photovoltaic sources and performs activities related to plant management and development, enhancement, dispatching and sale of energy to both wholesalers and end customers (residential, PA, SMEs and business). Electric Power Operations also includes the assets and activities of energy and environmental services.

Hydrocarbons Operations: Edison is present in the various phases of the hydrocarbon supply chain with activities: i) upstream: assets for exploration, development and production of hydrocarbons in Italy and abroad; ii) midstream gas: development of transport infrastructure, procurement contracts, storage management and distribution networks; iii) downstream gas: sale to wholesalers and end consumers (industrial and residential).

Corporate: include centralized and cross-functional activities by the Parent Company and the activities of certain holding and real estate companies. This includes the management of non-Energy Activities discussed in chapter 8. Non-Energy Activities.

(in millions of euros)	Electric Power Operations	Hydrocarbons Operations	Corporate	Adjustments	Edison Group
Income Statement 2018					
Sales Revenues	3,768	6,098	69	(776)	9,159
- Third parties	3,753	5,387	19	-	9,159
- Intra-Group	15	711	50	(776)	-
Commodity and logistic costs	(2,863)	(5,273)	(7)	724	(7,419)
Other costs and services used	(400)	(200)	(109)	58	(651)
Labor costs	(186)	(88)	(63)	-	(337)
Other revenues and income/(costs), net	9	33	5	(6)	41
EBITDA	328	570	(105)	-	793
Net change in fair value of derivatives	1	(5)	-	(3)	(7)
Depreciation and amortization	(232)	(227)	(5)	-	(464)
(Writedowns) and reversals	(1)	(99)	-	-	(100)
Other income (expenses), net	-	-	-	-	-
Other income (expenses) non Energy activities	-	-	(23)	-	(23)
EBIT	96	239	(133)	(3)	199
Balance Sheet at 12.31.2018					
Total assets	5,274	5,131	3,553	(3,373)	10,585
Total liabilities	1,612	3,111	1,159	(1,438)	4,444
Total shareholders' equity					6,141
Net financial debt					416
Other information and ratios					
Number of employees	3,303	1,437	632	-	5,372
EBITDA/Sales revenues	8.7%	9.3%	n.m.	n.m.	8.7%
EBIT/Sales revenues	2.5%	3.9%	n.m.	n.m.	2.2%
NFD/EBITDA					0.5
Income Statement 2017					
Sales Revenues (*)	3,970	5,592	54	(833)	8,783
- Third parties	3,953	4,821	9	-	8,783
- Intra-Group	17	771	45	(833)	-
Commodity and logistic costs (*)	(3,068)	(4,741)	-	783	(7,026)
Other costs and services used	(353)	(181)	(93)	55	(572)
Labor costs	(172)	(76)	(63)	-	(311)
Other revenues and income/(costs), net	(88)	19	3	(5)	(71)
Reported EBITDA	289	613	(99)	-	803
Net change in fair value of derivatives	4	(225)	-	-	(221)
Depreciation and amortization	(226)	(252)	(8)	-	(486)
(Writedowns) and reversals	(49)	(120)	-	-	(169)
Other income (expenses), net	15	-	131	-	146
Other income (expenses) non Energy activities	-	-	(31)	-	(31)
EBIT	33	16	(7)	-	42
Balance Sheet at 12.31.2017					
Total assets	5,224	4,630	3,431	(2,965)	10,320
Total liabilities	1,448	3,723	1,038	(2,092)	4,117
Total shareholders' equity					6,203
Net financial debt					116
Other information and ratios					
Number of employees	3,156	1,359	629	-	5,144
Reported EBITDA/Sales revenues	7.3%	11.0%	n.m.	n.m.	9.1%
EBIT/Sales revenues	0.8%	0.3%	n.m.	n.m.	0.5%
NFD/EBITDA					0.1

(*) 2017 "Sales revenues" and "Commodity and logistic costs" were restated following IFRS 15 adoption with no EBITDA impact.

The Group does not view geographic area segment information as meaningful.

Major customers as defined by IFRS 8

The Group's sales are generally not concentrated and there are not relevant customers.

2.3 EBITDA

EBITDA	2018	2017	Change	Change %
(in millions of euros)				
Reported EBITDA				
Electric Power Operations	328	289	39	13.5%
Hydrocarbons Operations	570	613	(43)	(7.0%)
Corporate	(105)	(99)	(6)	6.1%
Total for the Group	793	803	(10)	(1.2%)
Adjusted EBITDA (*)				
Electric Power Operations	328	265	63	23.8%
Hydrocarbons Operations	570	637	(67)	(10.5%)
Corporate	(105)	(99)	(6)	6.1%
Total for the Group	793	803	(10)	(1.2%)

(*) The adjusted EBITDA reflect the reclassification to the Electric Power Operations of a portion of the result from transactions executed to hedge natural gas importation contracts, since, from an operational standpoint, the margins earned on sales of electric power also benefit from these hedges. In 2018 there are not hedges to be reclassified between the two segments. Adjusted EBITDA for 2017 is not subjected to independent audit.

The year 2018 was characterized by a general increase in prices of oil commodities and electricity prices in Italy. Specifically, the domestic electricity market in 2018 can be depicted as follows:

- an increase in prices from which mainly benefited production from renewable sources (hydroelectric, wind, and photovoltaic) whose contribution to the domestic energy need has been increasing, mainly due to higher hydroelectric production capacity;
- higher imports from abroad supported by high domestic prices and the increase in production costs from thermoelectric sources linked to price trends in oil commodities;
- a reduction in margins for thermoelectric generation with a consequent reduction in productions.

The notable increase in prices on the Italian natural gas market led to a decrease in uses of over 3%, the decrease is mainly due to the reduction in consumption by thermoelectric plants, for the above mentioned.

In this scenario, Group EBITDA was positive by 793 million euros, substantially unchanged from the prior year (803 million euros).

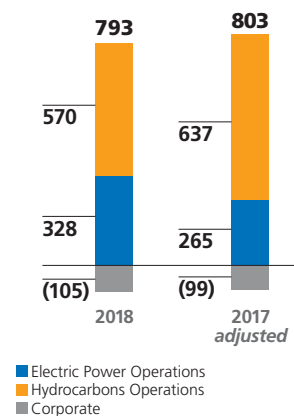
The EBITDA of Electric Power Operations, equal to 328 million euros, improved compared to the previous year (265 million euros), mainly due to the contribution of higher hydroelectric production and the better profitability of the thermoelectric power plants.

Hydrocarbons Operations contributed with an EBITDA of 570 million euros, down compared to 2017 (637 million euros). The decrease is related to the reduction in volumes sold and profitability of gas activities, partially offset by better performance in the Exploration & Production sector, which benefited from high prices and the entry into operation of new investments in Algeria and Egypt.

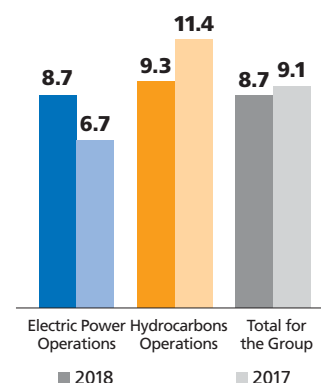
The Exploration & Production sector's contribution to the EBITDA of Hydrocarbons Operations is shown below.

The main components of EBITDA are analyzed below.

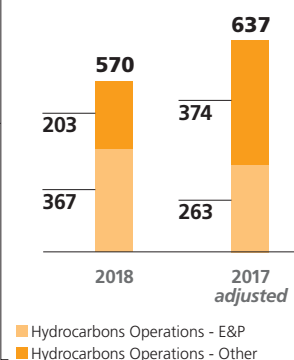
EBITDA BY BUSINESS SEGMENT (M€)



EBITDA/SALES REVENUES (%)



EBITDA HYDROCARBONS OPERATIONS - E&P DETAIL (M€)

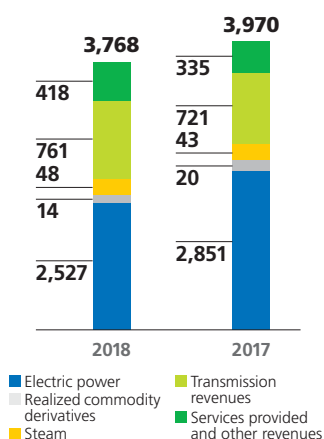


2.3.1 Sales revenues

	2018	2017 (*)	Change	Change %
Sales revenues (in millions of euros)	9,159	8,783	376	4.3%
Electric power	2,522	2,846	(324)	(11.4%)
Natural gas	4,946	4,231	715	16.9%
Realized commodity derivatives	(5)	213	(218)	n.s.
Steam	48	43	5	11.6%
Oil	200	181	19	10.5%
Transmission revenues	915	817	98	12.0%
Storage services	71	88	(17)	(19.3%)
Revenues from services provided	427	345	82	23.8%
Other revenues	35	19	16	84.2%
Total	9,159	8,783	376	4.3%

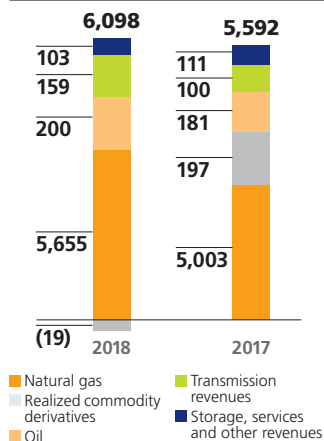
(*) "Sales revenues" and "Commodity and logistic costs" in 2017 were restated according to IFRS 15 with no EBITDA impacts.

ELECTRIC POWER OPERATIONS (M€)



Sales revenues of electric power decreased mainly as a result of a reduction in volumes sold due to a different optimization of the portfolio, partially offset by the average increase in sales prices. Revenues from services provided include the energy services revenues of Fenice Group (361 million euros in 2018, 289 million euros in 2017).

HYDROCARBONS OPERATIONS (M€)



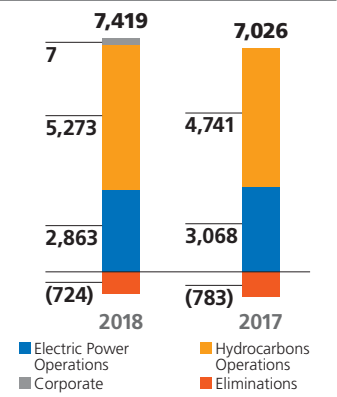
Sales revenues from natural gas increased mainly due to higher prices for oil and natural gas. The reduction of the income from realized commodity derivatives (concerning the foreign exchange and commodities hedge executed to mitigate the risk of fluctuation in the cost of natural gas and that related to its sale, in line with the indexing formulas and the risk factors included) should be analyzed together with the corresponding cost item included in Commodity and logistic costs, also this in decrease.

2.3.2 Commodity and logistic costs

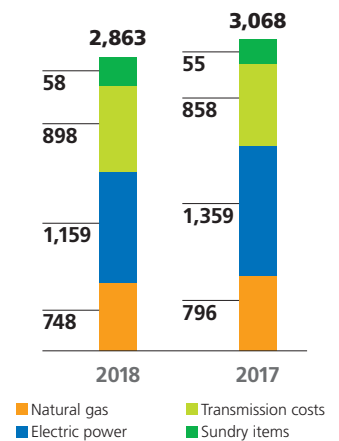
Commodity and logistic costs (in millions of euros)	2018	2017 (*)	Change	Change %
Natural gas	4,545	3,767	778	20.7%
Realized commodity derivatives	(172)	103	(275)	n.s.
Electric power	1,159	1,359	(200)	(14.7%)
Transmission costs	1,723	1,618	105	6.5%
Regasification fee	115	115	-	0.0%
Sundry items	49	64	(15)	(23.4%)
Total	7,419	7,026	393	5.6%

(*) "Sales revenues" and "Commodity and logistic costs" in 2017 were restated according to IFRS 15 with no EBITDA impacts.

Commodity and logistic costs, up 5.6% compared to the previous year, are linked to the trend in revenues, which increased by 4.3%.

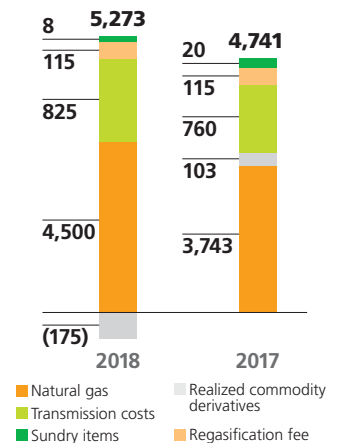


ELECTRIC POWER OPERATIONS (M€)

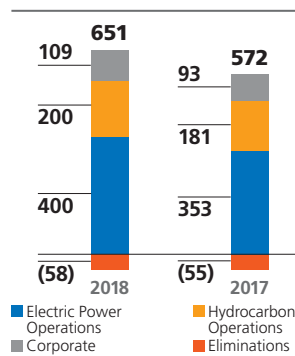


The item Regasification fee, amounting to 115 million euros, includes charges recognized to Terminale GNL Adriatico, for regasification activities.

HYDROCARBONS OPERATIONS (M€)



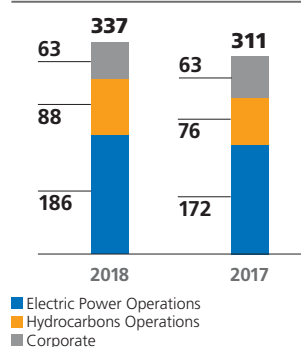
2.3.3 Other costs and services used



	2018	2017	Change	Change %
Other costs and services used (in millions of euros)				
Maintenance	250	229	21	9.2%
Professional services	123	101	22	21.8%
Use of property not owned	114	99	15	15.2%
Insurance costs	22	21	1	4.8%
Advertising and communication costs	21	17	4	23.5%
Sundry items	121	105	16	15.2%
Total	651	572	79	13.8%

The increase over the previous year, among other things, is associated with the changes in the scope of consolidation and with rent fees relative to Foro Buonaparte properties, sold at the end of 2017.

LABOR COSTS (M€)



2.3.4 Labor costs

These costs recorded an increase of 26 million euros compared to the previous year, mainly in reference to the acquired companies.

The following table shows the increase in the average number of staff compared to the previous year and provides the classification of the staff according to movement by category.

Changes by employee category (number of employees)	12.31.2017	Added to payroll (*)	Removed from payroll (*)	Changes of classification	12.31.2018	Average payroll 2018	Average payroll 2017
Executives	233	11	(20)	23	247	241	231
Office staff and Middle managers	3,194	405	(245)	22	3,376	3,339	3,136
Production staff	1,717	355	(278)	(45)	1,749	1,744	1,629
Total for the Group	5,144	771	(543)	-	5,372	5,324	4,996

(*) Including changes in the scope of consolidation effects referred to acquired (375 employees) and disposed (139 employees) companies.

2.3.5 Other revenues and income and Other costs

Other revenues and income (in millions of euros)	2018	2017	Change	Change %
Recovery of costs from partners in hydrocarbon exploration projects	7	10	(3)	(30.0%)
Net reversals in earnings of provisions for sundry risks	19	14	5	35.7%
Gains on disposals	2	1	1	n.s.
Insurance indemnities	8	14	(6)	(42.9%)
Out of period and other income	118	104	14	13.5%
Total	154	143	11	7.7%

Note that the item Out of period and other income in 2018 includes 37 million euros related to the reimbursement of exploration costs incurred in previous years by the Exploration & Production sector in Algeria.

Other costs (in millions of euros)	2018	2017	Change	Change %
Indirect taxes and duties	24	20	4	20.0%
Additions to provisions for risks	40	45	(5)	(11.1%)
Out of period and sundry items	34	88	(54)	n.s.
Total	98	153	(55)	(35.9%)

2.4 FROM EBITDA TO GROUP INTEREST IN PROFIT (LOSS)

In addition to the industrial performance discussed above, other main factors have to be considered:

- the containment of the impact of volatility linked to hedges on commodities and foreign exchanges (-7 million euros in 2018, -221 million euros in 2017) due both to the effects of the first adoption of the new accounting principle IFRS 9 and to the maturity of the transactions that determined volatility in previous years (please see below chapter 4. Market risk management);
- lower amortization and writedowns, in particular in 2018 writedowns amount to 100 million euros while in 2017 they amounted to 169 million euros (please see below chapter 5. Fixed assets and provisions);
- the lack of a benefit from non-recurring transactions, which had a positive effect of 146 million euros in 2017 (mainly related to the sale of Foro Buonaparte properties).

EBIT amounted to 199 million euros (42 million euros in 2017).

Financial items recorded a total of 19 million euros in net expenses (52 million euros in 2017), decreasing mainly for a lower average debt and for improving net foreign exchange translation gains (losses).

Concerning Net financial income (expense) on debt and Net financial income (expense) on assigned trade receivables without recourse please refer to paragraph 6.3 Net financial debt and cost of debt and 3.2 Operating working capital respectively; the following is a breakdown of the item **Other net financial income (expense)**.

Other net financial income (expense) (in millions of euros)	2018	2017	Change
Financial expenses on provisions (*)	(32)	(30)	(2)
Net foreign exchange translation gains (losses) (**)	5	(17)	22
Other	24	14	10
Other net financial income (expense)	(3)	(33)	30

(*) Mainly related to provision for decommissioning and remediation of industrial sites.

(**) Including net results of the transactions with EDF Sa to cover exchange rate risk.

After deducting the charges for **income taxes** (117 million euros, reviewed in chapter 7. Taxation) and having allocated the minority interest (13 million euros in profit), the **Group interest in profit (loss) was positive for 54 million euros, against a loss of 176 million euros in 2017.**

3. NET WORKING CAPITAL

Net Working Capital (in millions of euros)	12.31.2018	12.31.2017	Change
Trade receivables	1,654	1,656	(2)
Inventories	223	182	41
Trade payables	(1,580)	(1,696)	116
Operating Working Capital (A)	297	142	155
Other non-current assets	121	124	(3)
Other current assets	387	507	(120)
Other non-current liabilities	(1)	-	(1)
Other current liabilities	(222)	(295)	73
Other assets/(liabilities) (B)	285	336	(51)
Net Working Capital (A+B)	582	478	104

3.1 CREDIT RISK MANAGEMENT

The credit risk represents Edison group's exposure to potential losses that could be incurred if a commercial and/or financial counterpart fails to meet its obligations.

To control this risk, the Edison Group consolidated the procedures and programs designed to evaluate customer credit standing and optimized the collection strategies for the various customer segments. When it comes to choosing counterparties for transactions to manage temporary excess liquidity or execute financial hedging contracts (derivatives) the Group deals only with entities with a high credit rating. At December 31, 2018, there were no significant exposures to risks related to a possible deterioration of the overall financial environment and/or no significant levels of concentration held by non-institutional individual counterparties.

3.2 OPERATING WORKING CAPITAL

Change during the year is mainly linked to the contribution of new companies acquired and the increase in inventories of natural gas.

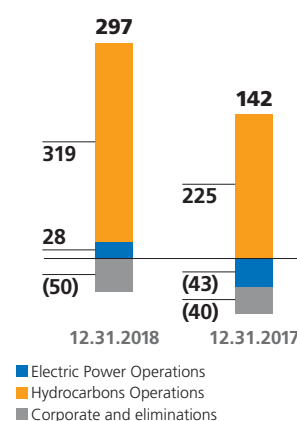
3.2.1 Trade receivables

Trade receivables (in millions of euros)	12.31.2018	12.31.2017	Change
Electric Power Operations	670	681	(11)
Hydrocarbons Operations	1,000	987	13
Corporate and eliminations	(16)	(12)	(4)
Trade receivables	1,654	1,656	(2)
of which allowance for doubtful accounts	(251)	(211)	(40)
Guarantees in place to hedge receivables outstanding	28	60	

Trade receivables stem from contracts to supply electric power and steam, contracts to supply natural gas, and Power Exchange transactions.

Edison Group regularly carries out transactions to assign trade receivables without recourse on

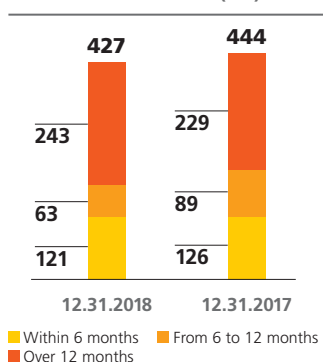
OPERATING WORKING CAPITAL (M€)



a revolving monthly basis and by the transfer of credit risk on a non-recourse basis; note that in 2018, transactions to assign trade receivables without recourse were initiated for the Retail segment. The receivables assigned with such transactions in 2018 totaled 3,814 million euros (4,136 million euros in 2017). These receivables were not exposed to the risk of recourse at December 31, 2018. The costs related to managing these activities are recorded under financial items and amount to 11 million euros (7 million euros in 2017).

Edison Group continues to pursue a credit management approach differentiated over three market segments (Retail, Business and Public Administration), which is aimed, through structural actions, at preventing the formation of new trade receivables and quickly reduce both current and non-performing receivables.

PAST DUE RECEIVABLES (M€)



The reduction is mainly due to the relevant collections performed in 2018 by the foreign business activities in Egypt, partially offset by the inclusion of past-due receivables related to the acquisitions made during the year. In particular, past-due receivables recognized at December 31, 2018 from the Egyptian General Petroleum Corporation (EGPC) (128 million euros), decreased by 56 million euros compared with December 31, 2017 (184 million euros).

The table that follows shows the changes in "Allowance for doubtful accounts":

(in millions of euros)	12.31.2017	IFRS 9 - first adoption	Additions	Utilizations	Others	12.31.2018
Allowance for doubtful accounts (*)	(211)	(31)	(23)	43	(29)	(251)

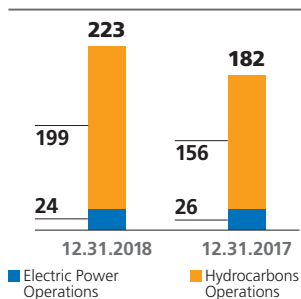
(*) Including default interests.

Additions to the allowance reflect the result of an assessment, performed consistent with the Group's policy, of the different status of receivables, taking into account each customer segment, the corresponding past-due receivables and the aging; utilizations were mainly recognised for receivables deemed uncollectible during the year, while other movements refer primarily to changes in the scope of consolidation.

EBITDA for the year shows net charges related to writedowns and reversals on receivables for 15 million euros (61 million euros in 2017).

The amount of the allowance for doubtful accounts is determined based on the different underlying credit statuses or, particularly for receivables owed by Retail customers, taking into account the relative age of the non-performing receivables and the methodology envisaged in the new IFRS 9 accounting standard, applicable from January 1, 2018 (expected credit losses model).

3.2.2 Inventories



Inventories (in millions of euros)	12.31.2018	12.31.2017	Change
Stored natural gas	151	113	38
Fuels	16	13	3
Engineering consumables	39	36	3
Other	17	20	(3)
Inventories	223	182	41

The inventories included 63 million euros for stored natural gas the use of which is restricted as a strategic reserve.

3.2.3 Trade payables

Trade payables (in millions of euros)	12.31.2018	12.31.2017	Change
Electric Power Operations	666	750	(84)
Hydrocarbons Operations	880	918	(38)
Corporate and eliminations	34	28	6
Trade payables	1,580	1,696	(116)

Trade payables reflect mainly purchases of electric power, natural gas and other utilities, as well as services related to plant maintenance.

3.3 OTHER ASSETS AND LIABILITIES

Other assets and liabilities (in millions of euros)	12.31.2018	12.31.2017	Change
VAT credit	287	227	60
Other tax receivables	11	18	(7)
Deposits	8	8	-
Advances to suppliers	19	26	(7)
Other	183	352	(169)
Total other assets (A)	508	631	(123)
Amount owed to employees	34	32	2
Payables owed to social security institutions	23	23	-
Other	166	240	(74)
Total other liabilities (B)	223	295	(72)
Other assets and liabilities (A-B)	285	336	(51)

With reference to **VAT credit**, note that during 2018 the refunds requested in relation to 2016 tax credits were collected for about 102 million euros.

COMMITMENTS

At December 31, 2018, were recognized guarantees of about 111 million euros provided to the Revenue Agency mainly for VAT credit refunds for 2015 and 2016.

4. MARKET RISK MANAGEMENT

This Chapter provides an overview of the policies and principles adopted by the Edison Group to manage and control the commodity price risk that arises from the volatility of the prices of energy commodities and environmental securities, the foreign exchange risk linked to commodities and other risks related to foreign exchange rate.

In accordance with IFRS 7 Financial Instruments - Disclosure, consistent with Report on Operations, the paragraphs that follow provide information about the nature of the risk related to financial instruments, based on accounting and management sensitivity considerations.

In addition, effects of derivatives transactions on Income Statement and Balance Sheet at December 31, 2018 are provided too.

4.1 MARKET RISKS AND RISK MANAGEMENT

4.1.1 Commodity price risk and exchange rate risk related to commodity transactions

The Edison Group is exposed to the risk of fluctuations in the prices of all of the energy commodities that it handles (electric power, natural gas, petroleum products and environmental securities), both directly, with pricing formula, and indirectly, through statistical correlations and economic relations, which have an impact on the revenues and expenses of its production, storage and marketing operations. Moreover, because some contracts are settled in currencies different from euro and/or include a translation into different currencies through price indexing formulas, the Group is also exposed to exchange rate risk.

The management and control of these risks are governed by the Energy Risk Policies, which involve the use of derivatives for hedging purposes in order to reduce or mitigate the related risk. From an organizational standpoint, the governance model adopted by the Group requires the separation of the risk control and management functions from the derivatives trading activity.

At the operational level, the net exposure is computed for the Group's entire portfolio of assets and contracts (so-called Industrial Portfolio), which is the net residual exposure after maximizing all available vertical and horizontal integrations provided by the different business operations. This net exposure is then used to compute the overall level of Economic Capital involved (stated in millions of euros), measured in terms of Profit at Risk (PaR¹) with a confidence index of 97.5% and an annual time horizon.

Each year, the Board of Directors approves the Economic Capital ceiling concurrently with the approval of the annual budget. The Risk Management Committee, which is headed by Senior Management, reviews monthly the Group's net exposure and, if the Profit at Risk is higher than the predetermined ceiling, defines the appropriate Strategic Hedging policies, which may involve the use of suitable derivatives instruments.

These activities are performed in line with the policy of the Group with the aim to minimize the use of financial markets for hedging, by maximizing the benefits of vertical and horizontal integration of the various business operations and the homogenization of the formulas and indexing between the sources and physical uses. In addition, the gradualness of Strategic Hedging ensures the minimization of the execution risk, related to the concentration of all the hedges in a phase of unfavorable market, the volume risk, linked to the variability of the underlying hedged based on the best volume projections, and of the operational risk, related to implementation errors.

Provided transactions are approved in advance by the Risk Office, which determines whether they are consistent with the Group's risk management objectives and with the Group's total

1. Profit at Risk: is a statistical measurement of the maximum potential negative variance in the budgeted margin in response to unfavorable markets moves, within a given time horizon and confidence interval.

exposure, the Edison Group, responding to specific requests from individual Business Units, may also use other types of hedges called Operational Hedges with the aim to fix the margin related to a single transaction or to limited set of transactions correlated.

At December 31, 2018, outstanding derivatives instruments were measured at fair value against the forward market curve at the end of the reporting period, when the underlying assets were traded on markets that provided official and liquid forward prices. When no forward market quotes were available, projected price curves based on simulation models developed internally by the Edison Group were used.

The Italian forward market for electric power does not yet meet IFRS requirements to qualify as an active market. Specifically, both the Over The Counter (OTC) markets operated by brokerage firms (e.g. TFS) and those operated by Borsa Italiana (IDEX) and the Manager of the Energy Markets (MTE) lack sufficient liquidity for peak and off-peak products and for maturities longer than one year.

Consequently, market price data obtained from those market should be viewed as input for the internal valuation model used to measure at fair value the abovementioned products.

As required by IFRS 7, a simulation is carried out for the derivatives instruments that hedge the Industrial Portfolio, some of which qualify for hedge accounting under IFRS 9 (Cash Flow Hedges or Fair Value Hedge) while others qualify as Economic Hedges, to assess the potential impact that fluctuations in the market prices of the underlying assets could have on the fair value of outstanding derivatives. The simulation is carried out for a length of time equal to the residual lives of outstanding derivative contracts, the farthest maturity of which is currently 2021. For derivative contracts in place as at December 31, 2018, the method requires the use of the commodities forward prices and exchange rates, measured at the reporting date, and of the related volatility and correlations.

Having thus obtained a probability distribution for changes in fair value, it then becomes possible to extrapolate the maximum expected negative change in the fair value of outstanding derivative contracts over the length of a reporting year with a level of probability conventionally set at 97.5%. The following table shows, based on the method explained above, the maximum expected negative variance in the fair value of the outstanding hedging derivatives with a 97.5% probability and a one-year time horizon, compared with the fair value determined at December 31, 2018.

Value at Risk (VaR) (*) (in millions of euros)	12.31.2018	12.31.2017
Maximum negative variance in the fair value of derivatives	522	497
Maximum negative variance in the fair value including the change in the fair value of the contracts object of hedge; of which:	232	320
- potential impact on Income Statement (**)	12	53
- potential impact on balance sheet in Cash Flow Hedge reserve (***)	220	267

(*) Value at Risk: is a statistical measurement of the maximum potential negative variance in portfolio's fair value in response to unfavorable market moves, within a given time horizon and confidence interval.

(**) Referring to derivatives qualified as Economic Hedge and to the ineffective portion of derivatives qualified as Cash Flow Hedge and Fair Value Hedge.

(***) Referring to the effective portion of derivatives qualified as Cash Flow Hedge.

The maximum negative variance in the fair value of derivatives increase compared with the level measured at December 31, 2017 is mainly attributable to higher volatility on the energy markets where the Group operates.

The hedging strategy deployed during the year enabled the Group to comply with its risk management objectives; the Industrial Portfolio's commodity price risk profile within the approved limit of Economic Capital in terms of absorption of economic capital is the following:

Industrial portfolio - Economic Capital absorbed	2018		2017	
	without derivatives	with derivatives	without derivatives	with derivatives
Average absorption of the approved limit of Economic Capital	187%	52%	68%	40%
Maximum absorption	260% - Dec'18	71% - Nov'18	105% - Jan. '17	83% - Jan. '17

In 2018 the trading operations of Edison are carried out under the joint venture agreement with EDF Trading: from September 1, 2017, in fact, is in force, between EDF Trading and Edison Spa (formerly Edison Trading Spa merged in Edison Spa since December 1, 2017), the MASA (Trading Joint Venture and Market Access Services Agreement) which disciplines the proprietary trading, defining the performance of the activity through a joint desk with EDF Trading, and the methods to access to the forward power market. A residual trading activity is still in place with reference to those contracts negotiated before the agreement signing and which will be managed by Edison till their delivery.

4.1.2 Foreign exchange risk

The foreign exchange risk arises from the fact that part of the activities of the Edison Group are carried out in currencies other than the euro or are influenced by changes in foreign exchange rates through contractual components indexed to a foreign currency. Revenues and expenses denominated in foreign currencies can be affected by fluctuations in foreign exchange rates that have an impact on sales margins (economic risk). Likewise, the amount of trade and financial payables and receivables denominated in foreign currencies can be affected by the translation rates used, with an impact on profit or loss (transactional risk). Lastly, fluctuations in foreign exchange rates have an impact on consolidated results and on the shareholders' equity attributable to Parent Company shareholders because the financial statements of subsidiaries denominated in a currency other than the euro are translated into euros from each subsidiary's functional currency (translational risk).

The foreign exchange risk management objectives are described in specific Policies. The exposure to economic and transaction risk arising from exchange rate, related to commodity transactions, is managed in accordance with specific limits and strategies (see the previous paragraph in this regard).

4.2 HEDGE ACCOUNTING AND ECONOMIC HEDGE – FAIR VALUE HIERARCHY

Whenever possible, the Group applies hedge accounting, provided the transactions comply with the requirements of IFRS 9.

4.2.1 Classification

Forward transactions and derivatives outstanding are classified as follows:

- 1) **Derivatives that qualify as hedges in accordance with IFRS 9.** This category includes (i) transactions that hedge the risk of fluctuations in cash flow (Cash Flow Hedges - CFH) on interest rates, exchange rates and commodity and (ii) transactions that hedge the fair value of the hedged item (Fair Value Hedge - FVH) on commodity (price and exchange rate).

- 2) **Forward transactions and derivatives that do not qualify as hedges in accordance with IFRS 9** that comply with internal risk policies and procedures on management of exchange rate and energy commodity risks.

4.2.2 Fair Value hierarchy according to IFRS 13

The classification of financial instruments at fair value, provided by IFRS 13, based on the reliability of inputs used to measure it, is based on the following hierarchy:

- **Level 1:** Determination of fair value based on quoted prices (unadjusted) for identical assets or liabilities in active markets. Instruments with which Edison Group operates directly in active markets (e.g., futures) are included in this category.
- **Level 2:** Determination of fair value based on inputs other than the quoted prices of Level 1 but which are directly or indirectly observable (e.g., forward contracts or swaps in futures markets).
- **Level 3:** Determination of fair value based on valuation models with inputs not based on observable market data (unobservable inputs). As at December 31, 2018, two categories are classified at this level (one category at December 31, 2017), which fair value amount is not material.

The valuation of financial instruments can entail significant subjective judgment. However, Edison uses prices quoted in active markets, when available, as the best estimate of the fair value of all derivatives.

4.3 EFFECTS OF DERIVATIVES TRANSACTIONS ON INCOME STATEMENT AND BALANCE SHEET AT DECEMBER 31, 2018

4.3.1 Effects of derivatives transactions on Income Statement in 2018

(in millions of euros)	12.31.2018			12.31.2017		
	Realized (A)	Change in Fair Value in the year (B)	Amounts recognized in earnings (A+B)	Realized (C)	Change in Fair Value in the year (D)	Amounts recognized in earnings (C+D)
Result from price risk and exchange risk hedges for commodities of which:						
Total definables as hedges pursuant to IFRS 9 (CFH) (*)	141	(8)	133	(33)	2	(31)
Price risk hedges for energy products	160	(9)	151	(38)	6	(32)
Exchange risk hedges for commodities	(19)	1	(18)	5	(4)	1
Total definables as hedges pursuant to IFRS 9 (FVH)	31	8	39	58	(8)	50
Price risk hedges for energy products	36	(245)	(209)	53	(1)	52
Exchange risk hedges for commodities	(5)	66	61	5	(71)	(66)
Fair value physical contracts	-	187	187	-	64	64
Total not definables as hedges pursuant to IFRS 9	(6)	(7)	(13)	85	(215)	(130)
Price risk hedges for energy products	1	(2)	(1)	73	(191)	(118)
Exchange risk hedges for commodities	(7)	(5)	(12)	12	(24)	(12)
Total price risk and exchange risk hedges for commodities (A)	166	(7)	159	110	(221)	(111)
Margin on trading activities of which:						
Margin on physical trading activities	(2)	1	(1)	(5)	(4)	(9)
Margin on financial trading activities	2	(1)	1	12	(1)	11
Total margin on trading activities (B)	-	-	-	7	(5)	2
TOTAL INCLUDED IN EBIT (A+B)	166	(7)	159	117	(226)	(109)
Result from interest rate hedges:						
Definables as hedges pursuant to IFRS 9 (CFH/FVH)	-	-	-	15	(15)	-
Not definables as hedges pursuant to IFRS 9	-	-	-	-	-	-
Total interest rate hedges (C)	-	-	-	15	(15)	-
Result from exchange rate hedges:						
Definables as hedges pursuant to IFRS 9 (CFH)	10	-	10	(8)	-	(8)
Not definables as hedges pursuant to IFRS 9	2	-	2	(2)	-	(2)
Total exchange rate hedges (D)	12	-	12	(10)	-	(10)
TOTAL INCLUDED IN FINANCIAL ITEMS (C+D)	12	-	12	5	(15)	(10)

(*) Includes the ineffective portion.

It is noted that the margin on trading activities (line B in the table above) is referred to the contracts closed by Edison before the signing of the cooperation agreement with EDF Trading (MASA) and not yet expired.

The economic results of the trading operations managed in compliance with MASA joint venture agreement with EDF Trading – so-called profit sharing – aren't included in the table above because are recorded in the item Other revenues and income (2 million euros in 2018).

Total interest rate hedges in 2017 (line C in the table above) were referred to Fair Value Hedge for Edison Spa bond loan that was reimbursed at its maturity in November 2017.

Focus on Net change in fair value of derivatives (commodity and exchange rate risk)

The tables below provide the 2018 and 2017 effects on the Income Statement from the changes in the fair value of the derivatives (commodity and foreign exchange rate), negative for 7 million euros and 221 million euros respectively (please see line A with interception with columns B and D in the table above).

Net change in fair value of derivatives (commodity and exchange rate risk) (in millions of euros)	Definable as hedges (CFH) (*)	Definable as hedges (FVH)	Not definable as hedges	Total net change in fair value
2018				
Hedges of price risk on energy products	(9)	(245)	(2)	(256)
Hedges of foreign exchange risk on commodities	1	66	(5)	62
Change in fair value in physical contracts (FVH)	-	187	-	187
Total 2018	(8)	8	(7)	(7)
2017				
Hedges of price risk on energy products	6	(1)	(191)	(186)
Hedges of foreign exchange risk on commodities	(4)	(71)	(24)	(99)
Change in fair value in physical contracts (FVH)	-	64	-	64
Total 2017	2	(8)	(215)	(221)

(*) It refers to the ineffective portion.

We remind 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 2017, negative by 221 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.

4.3.2 Effects of derivatives transactions in Balance Sheet as at December 31, 2018

The following table shows Fair Value breakdown recorded in Balance Sheet and gives its classification according to IFRS 13.

(in millions of euros)	12.31.2018			12.31.2017		
Broken down as follows:	Receivables	Payables	Net	Receivables	Payables	Net
- Financial assets (liabilities)	-	-	-	-	-	-
- Non-current assets (liabilities)	170	(168)	2	144	(65)	79
- Current assets (liabilities)	530	(471)	59	316	(260)	56
Fair Value recognized as assets or liabilities (a)	700	(639)	61	460	(325)	135
of which of (a) related to:						
- Interest Rate Risk Management	-	-	-	-	-	-
- Exchange Rate Risk Management	55	(17)	38	2	(78)	(76)
- Commodity Risk Management	366	(481)	(115)	414	(154)	260
- Trading Portfolios (physical and financial)	1	(1)	-	10	(10)	-
- Fair value on physical contracts	278	(140)	138	34	(83)	(49)
Broken down on fair value hierarchy:						
- Level 1	68	(1)	67	20	(1)	19
- Level 2	630	(638)	(8)	440	(324)	116
- Level 3 (*)	2	-	2	-	-	-
IFRS 7 potential offsetting (b)	(302)	302		(91)	91	
Potential Net Fair Value (a+b)	398	(337)	61	369	(234)	135

(*) The fair value classified at level 3 is recognized in change of fair value derivatives.

It is worth of mentioning that, as a counterpart of assets and liabilities shown above, was recorded in the shareholders' equity a positive Cash Flow Hedge reserve by 57 million euros, gross of deferred tax assets and liabilities. For more information, please refer to paragraph 6.1 Shareholders' equity.

Instruments outstanding at December 31, 2018

The tables that follow provide an illustration of the information listed below:

- fair value hierarchy;
- derivatives that were outstanding, classified by maturity;
- the value at which these contracts are reflected on the Balance Sheet, which is their fair value.

1) Interest rate and foreign exchange rate risk management

(in millions of euros)		Fair Value Hierarchy (***)		Notional amount (*)						Balance sheet value at 12.31.18 (**)	Notional amount at 12.31.17 (*)		Balance sheet value at 12.31.17 (**)
				due within 1 year	due between 2 and 5 years	due after 5 years		Total		Total			
Interest rate risk management:													
- Cash Flow Hedge pursuant to IFRS 9		2	-	6	30	36		-	-	-		-	
Total interest rate derivatives													
				due within 1 year	due between 2 and 5 years	due after 5 years		Total		Total			
				receivable payable	receivable payable	receivable payable		receivable payable		receivable payable			
Foreign exchange rate risk management:													
A. Cash Flow Hedge pursuant to IFRS 9, broken down as follows:													
- on commercial transactions		2	908 (161)	45 (62)	-	-	953 (223)	8	926 (99)	(45)		(45)	
- on financial transactions		2	25	-	-	-	25	-	-	-		-	
B. Fair Value Hedge pursuant to IFRS 9, broken down as follows:													
- on commercial transactions		2	-	-	-	-	-	30	-	-		(20)	
C. contracts that do not qualify as hedges in accordance with IFRS 9, to hedge margins:													
- on commercial transactions		2	33 (37)	-	-	-	33 (37)	-	129	-		(11)	
- on financial transactions		2	-	-	-	-	-	-	-	-		-	
Total foreign exchange rate derivatives													
		966	(198)	45	(62)	-	-	1,011	(260)	38	1,055	(99)	(76)

(*) Represents the sum of the notional amounts of the basic contracts that would result from an unbundling of complex contracts.

(**) Represents the net receivable (+) or payable (-) recognized on the balance sheet following the measurement of derivatives at fair value.

(***) For the definition see the section 4.2.2 Fair Value hierarchy according to IFRS 13.

2) Commodity risk management

	Fair Value Hierarchy (***)	Notional amount (*)					Balance sheet value at 12.31.18 (**)	Notional amount at 12.31.17 (*)	Balance Sheet value at 12.31.2017 (**)
		Unit of measure	Due within one year	Due within two years	Due after two years	Total	(in millions of euros)	Total	(in millions of euros)
Price risk management for energy products									
A. Cash Flow Hedge pursuant to IAS 39, broken down as follows:						52		180	
- Electric power	3	TWh	(4.87)	-	-	(4.87)	1	(0.07)	-
- Natural Gas	2	Millions of therms	(315.04)	110.02	2.99	(202.03)	26	(352.20)	(32)
- LNG and oil	2	Barrels	13,342,070	768,608	-	14,110,678	(42)	19,783,650	193
- CO ₂	1	Millions of tons	4.68	1.31	0.02	6.01	67	7.89	19
B. Fair Value Hedge pursuant to IFRS 9, broken down as follows:						(168)		73	
- Natural Gas	2	Millions of therms	(125.6)	(682.9)	39.5	(769.0)	(143)	(1,346.3)	73
- LNG and oil	2	Barrels	10,104,550	7,274,400	-	17,378,950	(25)	-	-
C. Contracts that do not qualify as hedges pursuant to IFRS 9, to hedge margins:						1		7	
- Natural Gas	2/3	Millions of therms	38.47	(1.50)	-	36.97	(1)	(70.80)	(15)
- LNG and oil	2	Barrels	32,515	800	-	33,315	2	4,966,300	23
- CO ₂	2	Millions of tons	(0.78)	-	-	(0.78)	-	(0.78)	(1)
Total							(115)		260

(*) + for net purchases, - for net sales.

(**) Represents the net receivable (+) or payable (-) recognized on the balance sheet following the measurement of derivatives at fair value.

(***) For the definition see the section 4.2.2 Fair Value hierarchy according to IFRS 13.

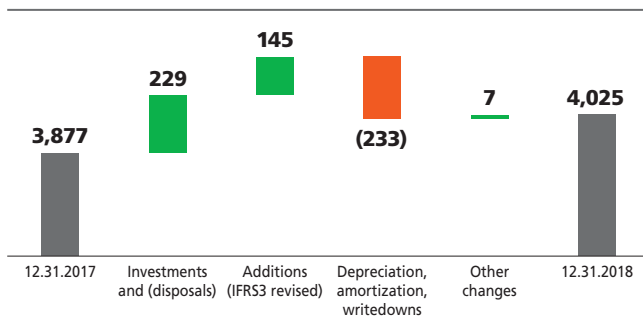
5. FIXED ASSETS AND PROVISIONS

5.1 TANGIBLE, INTANGIBLE ASSETS AND GOODWILL

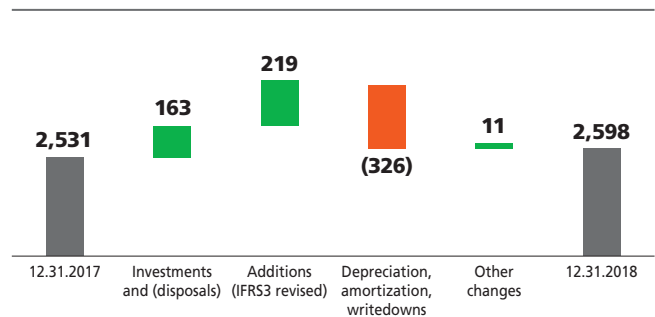
Tangible, intangible assets and goodwill (in millions of euros)	Property, plant and equipment	Intangible assets	Goodwill	Total
Balance at 12.31.2017 (A)	3,662	476	2,313	6,451
Changes in 2018				
- investments	377	70	-	447
- additions (IFRS 3 revised)	73	195	96	364
- disposals (-)	(46)	(2)	-	(48)
- depreciation and amortization (-)	(347)	(117)	-	(464)
- writedowns (-)	(82)	(18)	-	(100)
- other changes (*)	10	13	(6)	17
Total changes (B)	(15)	141	90	216
Balance at 12.31.2018 (A+B)	3,647	617	2,403	6,667

(*) Including the effects of the finalization of the Purchase Price Allocation process relative to Energon Facility Solutions (now Edison Facility Solutions).

CHANGE IN ELECTRIC POWER OPERATIONS (M€)



CHANGE IN HYDROCARBONS OPERATIONS (M€)



With reference to Hydrocarbons Operations it should be noted that, at December 31, 2018, net tangible and intangible assets related to operations outside Italy amount to 912 million euros, equal to about 13% of net invested capital.

COMMITMENTS ON FIXED ASSETS

Commitments amount to 497 million euros, increased compared with December 31, 2017 (431 million euros) and mainly include:

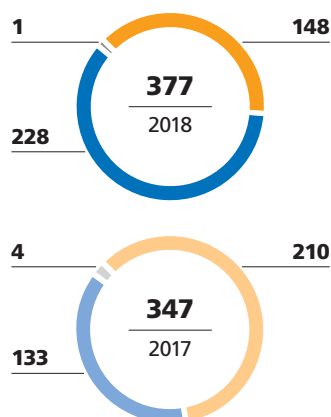
- 183 million euros for the completion of investment projects in progress in Italy and abroad; the decrease compared with December 31, 2017 (282 million euros) is mainly due to wind sector;
- 190 million euros for future lease payments on buildings, in particular, the lease on Foro Buonaparte properties sold in November 2017, and other rent including land and cars leases; the amount of 134 million euros at December 31, 2017 included only leases for the most significant buildings;
- 77 million euros for a 12-year long term charter party agreement (with options to extend it for additional 8 years), entered with the Norwegian shipowner Knutsen OAS Shipping, for a LNG vessel that is under construction and will be delivered in the first half of 2021;
- 12 million euros for initiatives linked to investments in Egypt;
- 20 million euros on the contract for the supply of gas from the Shah Deniz II field in Azerbaijan, transferred to Edison during the year, to be recognized to Gas Natural Fenosa from 2021 with the first delivery of gas to Italy through the Trans Adriatic Pipeline (TAP) (see also the comments in section 5.1.2 Intangible assets);
- 15 million euros, amount unchanged compared to 2017, are encumbered on an asset of Electric Power Operations as collateral for loans provided by a financial institution.

5.1.1 Property, plant and equipment

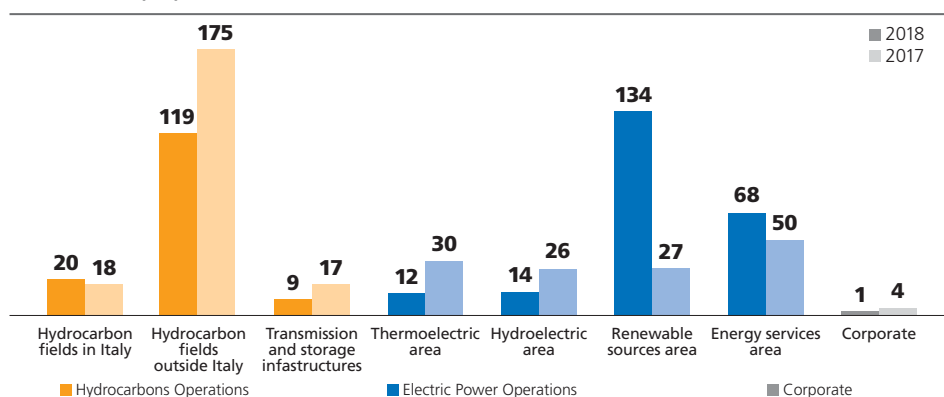
Property, plant and equipment (in millions of euros)	Land and buildings	Plant and machinery	Assets transferable at no cost	Assets acquired under financial leases (*)	Other assets	Construction in progress and advances	Total
Balance at 12.31.2017 (A)	326	2,930	133	7	15	251	3,662
Changes in 2018							
- investments	4	107	2	-	2	262	377
- additions (IFRS 3 revised)	-	62	-	10	1	-	73
- disposals (-)	-	(46)	-	-	-	-	(46)
- depreciation (-)	(13)	(316)	(14)	-	(4)	-	(347)
- writedowns (-)	-	(81)	-	-	-	(1)	(82)
- other changes	-	88	2	(2)	-	(78)	10
Total changes (B)	(9)	(186)	(10)	8	(1)	183	(15)
Balance at 12.31.2018 (A+B)	317	2,744	123	15	14	434	3,647

(*) Recorded as required by IAS 17 revised; the relative financial debt is exposed in "Non-current financial debt" (9 million euros) and in "Current financial debt" (2 million euros).

Investments



INVESTMENTS (M€)



In **Electric Power Operations** mainly include:

- investments in wind generation plants following the award to E2i Energie Speciali (E2i), through the process of calls for tenders issued by the Electric Services Manager at the end of 2016, of new wind power capacity to be installed;
- activities related to energy services, in particular in Fenice Group.

In **Hydrocarbons Operations**, are mainly focused on the Exploration & Production sector:

- in Italy, where the development of the Ibleo project and a work over of a well in the Colle di Lauro area continue;
- abroad, mainly in Norway, for developments in the Dvalin (formerly Zidane) and Skarfield projects, in Algeria for the development of the Reggane field and in Egypt for the development of the NAQ PIII platform of Abu Qir.

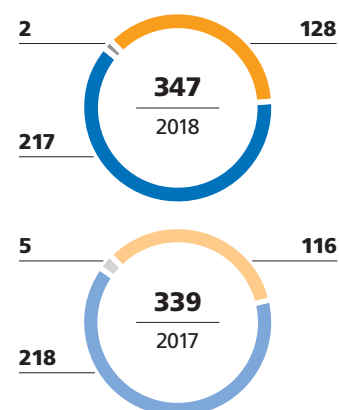
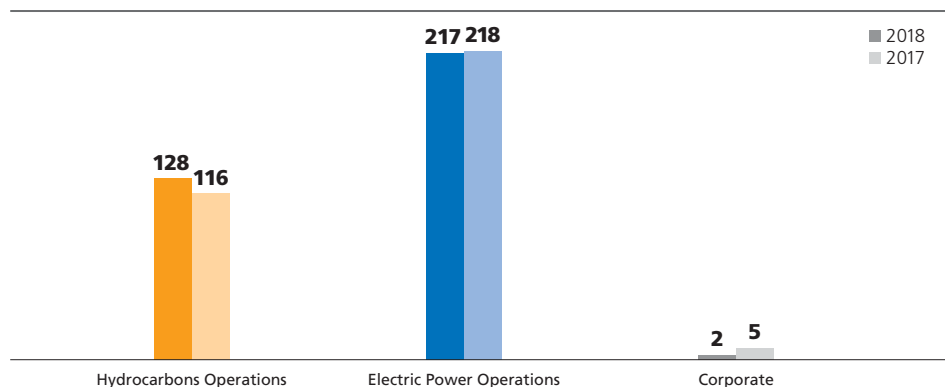
The borrowing costs capitalized as part of property, plant and equipment, as allowed by IAS 23 revised, were not material.

The item **additions (IFRS 3 revised)** refers to the acquisitions of Zephyro, Idroelettrica Brusson and Idroelettrica Cervino; for a detailed analysis, please refer to the paragraph 9.1 Information pursuant to IFRS 3 revised.

The item **disposals** includes, *inter alia*, the value of some assets of Hydrocarbons Operations sold at the beginning of the year.

Depreciation

DEPRECIATION PROPERTY, PLANT AND EQUIPMENT (M€)



For details on **writedowns**, 82 million euros, please refer to the disclosure in section **5.1.4 Impairment test in accordance with IAS 36** below.

5.1.2 Intangible assets

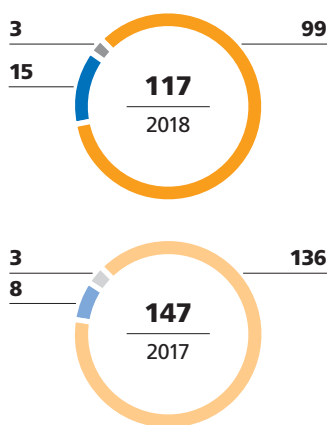
Intangible assets (in millions of euros)	Hydrocarbon concessions	Concessions, licenses, patents and similar rights (*)	Exploration costs	Other intangible assets	Work in progress and advances	Total
Balance at 12.31.2017 (A)	322	98	-	44	12	476
Changes in 2018:						
- investments	-	13	29	10	18	70
- additions (IFRS 3 revised)	-	5	-	190	-	195
- disposals	-	-	-	(2)	-	(2)
- amortization (-)	(45)	(15)	(29)	(28)	-	(117)
- writedowns (-)	(17)	-	-	(1)	-	(18)
- other changes	-	2	-	12	(1)	13
Total changes (B)	(62)	5	-	181	17	141
Balance at 12.31.2018 (A+B)	260	103	-	225	29	617

(*) Including the infrastructures used to distribute natural gas (62 concessions) as required by IFRIC 12.

Investments

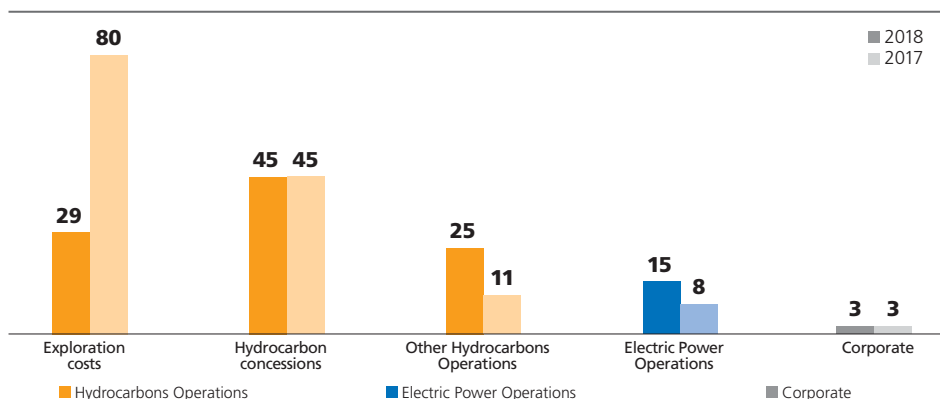
Investments include 10 million euros for the advance paid to purchase from Gas Natural Fenosa the contract of gas supply from the Shah Deniz II field in Azerbaijan. The contract coming into effect is dependent on the construction of the TAP gas pipeline and the relative import of gas is expected to begin from the end of 2020, thus, the advance is considered a fixed asset in progress, which is not amortized but subject to impairment. Starting in 2021, with the first delivery of gas to Italy through the TAP, an additional 20 million euros will be paid to the counterparty; this amount, as previously commented in paragraph 5.1, is recognized among commitments at December 31, 2018.

The item **additions (IFRS 3 revised)** includes, *inter alia*, for 128 million euros, the valuation of GNVI's intangible assets and, for 59 million euros, those of Zephyro; for a detailed analysis reference should be made to paragraph 9.1 Information pursuant to IFRS 3 revised.



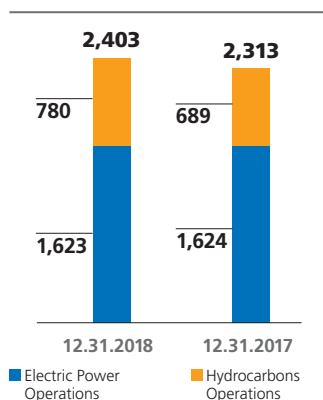
Amortization

AMORTIZATION OF INTANGIBLE ASSETS (M€)



For details on **writedowns**, 18 million euros, please refer to the disclosure in section 5.1.4 **Impairment test in accordance with IAS 36** below.

GOODWILL (M€)



5.1.3 Goodwill

The increase in goodwill allocated to Hydrocarbons Operations is attributable to the acquisitions of GNVI and Attiva. The Electric Power Operations reflect an increase linked to the acquisition of Zephyro and a decrease of the goodwill provisionally allocated in 2017 on Energon Facility Solutions (now Edison Facility Solutions), following the completion of the Purchase Price Allocation process. In total the increase of goodwill for new acquisitions amounts to 96 million euros. For more details, please refer to paragraph 9.1 Information pursuant to IFRS 3 revised.

The balance in this account is an intangible asset with an indefinite useful life. As such, it cannot be amortized in regular installments, but must be tested for impairment at least once a year. The impairment test carried out at the end of 2018 didn't show impairment losses.

5.1.4 Impairment test in accordance with IAS 36

During the year, writedowns totaling 100 million euros were recognized (82 million euros on property, plant and equipment and 18 million euros on intangible assets):

- 97 million euros deriving from the asset impairment test carried out in accordance with IAS 36 (all attributable to Hydrocarbons Operations);
- 2 million euros as a result of a trigger on a specific asset in Hydrocarbons Operations;
- 1 million euros as a result of evaluation of some assets in the Electric Power Operations to be sold.

The impairment test results and sensitivities are shown below; the methodology is thoroughly reviewed in the chapter 10 Criteria and methods, paragraph 10.3 – section 10.3.1.

The following tables show the results of the test conducted in 2018 by segment / Cash Generating Unit (CGU).

Impairment of goodwill

Segment/CGU	Net Book Value	WACC	Growth rate	Writedowns (in millions of euros)
Electric Power Operations	1,623	5.8%	0-2%	-
Hydrocarbons Operations	780	5.5%-10.7%	0-2%	-
Total impairment writedowns				-

Impairment of assets

Segment/CGU	Main impairment indicators	WACC	Writedowns (in millions of euros)
Hydrocarbons Operations			
- Abroad E&P CGUs	Oil & Gas scenarios / profile of production	7.7%-10.7%	97
- CGU regulated activities	Trigger on specific asset	n.a.	2
Total Hydrocarbons Operations			99
Total impairment writedowns on assets			99

The writedowns that emerged were mainly the result of the expected trends in long-term prices of oil and gas and the change in the future production profiles of certain foreign E&P assets.

The main assumptions that determined the results of the test are the following:

- in general, and compared to 2017, the 2018 impairment test's reference scenario considers an increase of energy commodity prices in the short/medium term but the growth assumptions in the long term were revised downward.
- Brent and gas prices were, on average, higher in 2018 than the previous year, resulting in an upward revision for the short/medium-term horizon. Uncertainties related to global growth have, instead, led to a downward revision of the assumptions in the long term.
- In developing the reference scenario for the Italian electricity market, the current uncertainty in the regulatory context was taken into account, as well as the delay in introducing the announced capacity incentive mechanisms (so-called capacity payment), the increase in production costs of gas-fuelled power plants, the increasing contribution from production from renewable sources, and the likely shut down of coal plants in the long term. These assumptions have resulted in an increase in the forecast of prices for the short/medium term - mainly due to the increase in production costs - anyway leading to a downward revision of thermoelectric generation margins (spark spread).
- WACC used in the 2018 impairment test are, overall, in line with those of last year for the Electric Power Operations; on the other side, they are lightly higher for Hydrocarbons Operations.
- Due to the lowering of the Brent forward curves at the end of the year, in order to incorporate the trend in prices, the medium-term scenarios were reviewed by weighting the reference scenario with one that incorporates the latest market projections available at the end of December 2018.

To support the analyses resulting from the test, sensitivity analyses were also performed to highlight the impact on the assets' recoverable values of changes in specific assumptions on the following variables:

- Brent and gas prices: considering the decrease seen at the end of the year, a specific sensitivity analysis was conducted on the Hydrocarbons Operations CGUs most exposed to the commodity scenario. The sensitivity analysis regarded the impact of the assumptions regarding Brent prices on the medium-term plan horizon (2019-2022), determining the effect on the recoverable amount both on the assumption that the most recent market projections are confirmed as well as, alternatively, on the original assumption of the 2018 plan. This sensitivity was included at 50% in the assessment of recoverable value.
- Capacity payment: in reference to the regulatory uncertainty regarding its introduction, which led to test the concerned CGUs with the assumption of flat and conservative tariffs in the long term, several sensitivities were performed.

The details and the values related to the sensitivity analyses on some Hydrocarbons Operations CGUs and Electric Power Operations CGUs are shown below:

Sensitivities and impacts on groups of CGUs		
Segment/CGU	Sensitivity	Impact on recoverable value (in millions of euros)
Hydrocarbons Operations/CGUs Exploration & Production	Medium term scenario revision	-20 +20
Electric Power Operations /CGUs thermoelectric and hydroelectric	Increase of long-term projection of capacity payment tariffs	115
Electric Power Operations /CGUs thermoelectric, hydroelectric and renewables	Impact of failure to introduce capacity payment tariffs	-30

With reference to the goodwill key variables were used as inputs in Montecarlo simulation to target the recoverable value.

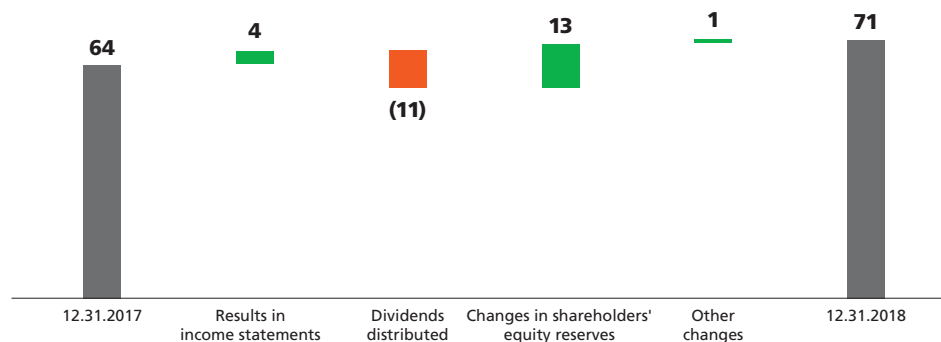
Besides the reference recoverable amount, the simulation allows to quantify the possible deviations from the reference value related to the oscillations of input variables and to the statistical probability of those changes.

Considering a reasonable range, the Group's recoverable amount may have a relative change nevertheless marginal (in the range of +/-280 million euros).

5.2 EQUITY INVESTMENTS AND OTHER NON-CURRENT FINANCIAL ASSETS

5.2.1 Investments in companies valued by the equity method

The change during the year is reported below.



The **results in Income Statement** refer mainly to the companies Ibiritermo, IGI Poseidon and EDF EN Services Italia. The **dividends distributed** refer mainly to Ibiritermo and EDF EN Services Italia. The **changes in shareholders' equity reserves** pertain to IGI Poseidon and Depositi Italiani GNL.

5.2.2 Investments at fair value through profit and loss and other investments

They amounted to 3 million euros at December 31, 2018 and are mainly referred to companies in liquidation. As a result of application of the new IFRS 9 standard, since January 1, 2018, this item includes investments that, at December 31, 2017, were recorded under "Available-for-sale investments" (1 million euros) and "Equity investments held for trading" (3 million euros included in "Current financial assets"). In 2018 equity shares held in Acsm-Agam Spa have been sold for a consideration substantially equal to their carrying value.

The results of equity investments reflected in the income statement are broken down below:

Income from (Expense on) equity investments	2018	2017	Change
<small>(in millions of euros)</small>			
Investments valued by equity method	4	-	4
Writedowns of activities held for sale	-	(55)	55
Capital gains from investments disposal	-	20	(20)
Other	-	4	(4)
Income from (Expense on) equity investments	4	(31)	35

With reference to 2017, please note that:

- **writedowns of activities held for sale** reflected the adjustment to the value of the sale (finalized in October 2017) of Infrastrutture Trasporto Gas (ITG) and the 7.3% equity investment in Terminale GNL Adriatico;
- **capital gains** mainly referred to the sale of equity investments in Istituto Europeo di Oncologia (7 million euros), Alerion Clean Power (3 million euros) and Eta3 (5 million euros).

5.2.3 Other non-current financial assets

These amount to 66 million euros (80 million euros at December 31, 2017) and include for 51 million euros (67 million euros at December 31, 2017) the financial receivable recognized by Edison International Holding NV (EIH) from the company Elpedison Sa, which was adjusted on January 1, 2018 pursuant to IFRS 9. The loan to Elpedison Sa expired in September 2018 and was refinanced through September 2021. Note that the capital repayments and the payments of the interest due during the year have been regularly made.

COMMITMENTS

Guarantees amounting to approximately 22 million euros (24 million euros at December 31, 2017) were recognized, provided by EIH to financial institutions in the interest of Elpedison.

5.3 PROVISIONS FOR RISKS AND EMPLOYEE BENEFITS

<small>(in millions of euros)</small>	12.31.2017	Additions	Utilizations	Financial expenses	Other changes/ Changes in scope of consolidation	12.31.2018
Provisions for employee benefits	42	-	(3)	1	-	40
Provisions for decommissioning and remediation of industrial sites	692	-	(12)	26	10	716
Provisions for risks and charges	252	40	(74)	2	(9)	211
Total	986	40	(89)	29	1	967

5.3.1 Provisions for employee benefits

These provisions reflect the accrued severance indemnities and other benefits owed to employees at the end of the year.

The actuarial (gains) and losses are recorded in equity. A valuation in accordance with the actuarial criteria of IAS 19 is performed only for the liability corresponding to the provision for Employee Severance Indemnities that is still held at the Company.

5.3.2 Provisions for decommissioning and remediation of industrial sites

Include the valuation, discounted to the reporting date, of the decommissioning costs that the Group expects to incur for industrial sites and mineral extraction facilities. The change during the year reflects, in particular, the increase for the discounting effect, under the income statement item 'Other net financial income (expense)', and a change in estimated costs, which, among other things, involved the increase of some provisions and consequently of the relative fixed assets in the item 'Plant and machinery'.

5.3.3 Provisions for risks and charges

These refer to provisions of a purely industrial nature for the various areas in which the Group operates, and also include some provisions related to the sale of equity investments and tax disputes related to property taxes. These reflect, *inter alia*, the valuation of **probable liabilities** linked to some disputes for which it was possible to reliably estimate the underlying expected obligation, even though the timing of any resulting monetary outlay cannot be objectively predicted. With regard to the changes during the year, note in particular the following:

Edison Spa - Dispute with Axpo Italy for alleged non-compliance with the natural gas supply contract - Concluded

On December 23, 2013, Axpo Italia brought a case against Edison before the Court of Milan to obtain compensation for alleged damages from non-compliance as a result of Edison's alleged failure to supply the agreed gas volumes. Edison appeared in Court, flatly denying any breach and filing a counterclaim against Axpo Italia for breach of contract.

In June 2018, the Court of Milan issued a judgement in first instance, ordering Edison to pay compensation of approximately 15 million euros to Axpo Italia. Therefore, the outstanding risk provision was adjusted to this amount.

In the second half of 2018, Edison paid the amount determined by the Court, furthermore, deciding not to appeal the judgement. The risk provision was therefore used to fully cover the disbursement.

Edison Energia Spa - Sanctions procedure initiated by ARERA - fees for paper invoices - Concluded

In the first half of 2018, ARERA launched a sanctions procedure against Edison Energia for the alleged violation of the provisions of Italian Legislative Decree no. 102/2014, in relation to invoicing of consumption and, in particular, as provided for in terms of economic conditions for sending the related paper documentation. In response to the findings formulated by ARERA, the Company proposed a detailed series of commitments aimed at reducing the sanctioning conditions and incentivising the efficient use of energy by domestic customers.

After being subjected to market testing, the proposal of commitments was accepted and made binding by ARERA in December 2018.

Commitments are currently being implemented with the use of the dedicated risk provision, recognised in the first half of 2018.

Edison Spa - Reclassification for registration tax purposes of the business transfer transaction to Taranto Energia and subsequent sale of the equity investment

At the end of 2018, the Milan Revenue Agency requested that Edison Spa pay the pending amount of the registration tax liquidated for the business transfer transaction of the Taranto thermoelectric power plants to Taranto Energia and subsequent sale of the equity investment to ILVA in 2011.

The tax was paid by Edison to avoid enforcement procedures: in fact, it was due because the dispute, together with that proposed by ILVA, is currently pending before the Court of Cassation following an unfavourable decision for the companies. The charge was fully covered through the partial use of the outstanding risk provision for the sale of the equity investment.

Note that the tax is still payable jointly by both companies and, in relation to which, a formal request has been sent to ILVA. However, the Company is assessing possible developments in the dispute based on the new provisions envisaged in the 2019 Budget Law, as well as based on the provisions of Italian Legislative Decree no. 119/2018.

Edison Spa - Disputed municipal property taxes (ICI and IMU) and assessed property values of hydroelectric and thermoelectric power plants

In the spring of 2018, the long dispute was finally concluded in relation to the definition of property values for the Torviscosa (Udine) thermoelectric power plant: the Court of Cassation definitively confirmed the fairness of the property value proposed by the Company, which had been relevant up through 2015.

Consequently, during the year all the disputes for local taxes and consortium contributions, which had originated indirectly from the adjustment of the property value, were defined.

Edison Spa (with charges borne by the transferee Edison E&P Spa) – Disputed municipal property taxes (ICI and IMU) on offshore hydrocarbon production platforms

In 2016, the Court of Cassation affirmed, for some disputes against ENI and Edison, that offshore platforms were subject to municipal property taxes (ICI and IMU), pronouncing how the possible tax base could be determined and yet not clarifying which criterion, in the absence of a specific law, should be considered valid in defining the territorial jurisdiction between Municipalities. Consequently, disputes continued with the various Municipalities to establish the actual jurisdiction and the tax bases on which the tax should be applied, in line with what has been declared by the Court of Cassation.

In the first half of 2018, the dispute was resolved with the Municipality of Vasto in relation to the tax due for the Rospo Mare C platform in the Rospo Mare field in the Adriatic Sea.

In December 2018, a settlement was reached for the pending dispute with the Municipality of Porto Sant'Elpidio for the Sarago Mare and Vongola Mare platforms in the Adriatic Sea. The amount due was paid in December 2018 and the amount, as per the agreements included in the transfer deed, was charged back to Edison E&P Spa, the company to which the business unit and the existing risk provision were transferred.

Finally, in January 2019 the disputes claimed by the Municipality of Scicli for Vega A, a platform in the Channel of Sicily, were concluded. The amount paid will be charged back to Edison E&P Spa in 2019. All the payments done or planned are covered by provisions.

The remaining existing risk provision will cover potential estimated risks for the disputes still pending.

Fenice – Administrative proceedings on Internal Users Networks (RIU)

The proceedings regard Resolution no. 539/2015 of ARERA where it established that, with reference to RIU, private networks were equivalent to (public) distribution networks, for which the Operator of an RIU is likened to an electric power distributor as of October 1, 2017, with extremely costly economic and organizational effects for the operator.

By a decision of 2016 the Regional Administrative Court of Lombardy put back a series of legitimacy questions to the European Union Court of Justice, which by ruling of 2018, declared ARERA regulation incompatible with Community Law. The Regional Administrative Court of Lombardy will now have to enforce the rules contained in the Court's ruling.

5.4 CONTINGENT ASSETS AND LIABILITIES

Contingent assets

Benefit not recognized in financial statements as it is not virtually certain.

Edison Spa – Dispute for registration fees on transactions requalified as disposal of business operations regarding CIP 6/92 power plants

The dispute, pending since 2010, concerns the registration tax paid following the requalification as sale of a business of the conveyance of business operations consisting of the thermoelectric power plants subject to CIP 6/92 to a newco and the subsequent sale of the equity investment. This dispute is currently pending before the Court of Cassation, following an unfavorable decision by the Regional Tax Commission; anyway the tax was already paid in full while lawsuit was pending.

Contingent liabilities

Not recognized in financial statements as they depend on the occurrence of events that are possible, but not probable, or are probable but their impact cannot be quantified reliably and are likely to result in a cash outlay of an amount that cannot reasonably be estimated.

Edison Spa - Ministry for the Environment - request for compensation for environmental damages

On May 31, 2018, the Ministry for the Environment notified Edison of a claim for compensation for alleged environmental damages deriving from reinjection activities in the Vega 6 well of the aquifer and process waters, operated by the Vega A platform.

The request for compensation totals about 80 million euros.

The facts in question have already been the subject of a criminal procedure declared closed by the competent court.

Edison believes that this claim for compensation is completely unfounded, since the activities in question not illegal, rather, on the contrary, authorized according to the applicable regulation have not produced any environmental damage, nor any risk of geological pollution, or pollution of the aquifer or the sea.

For this reason, the Company appeared in court requesting the full dismissal of the request from the Ministry for the Environment.

Edison Spa (formerly Edison Trading Spa) – Notice of assessment for 2010 VAT

The merged company Edison Trading is involved in a VAT dispute relative to 2010, which concerns the deduction of VAT relating to some transactions involving the purchase of green certificates, imposing the relevant sanctions.

Both the Provincial Tax Commission and, in January 2019, the Regional Tax Commission fully upheld the Company's appeal, cancelling the assessment and sanctions. However, the Revenue Agency may still appeal to the Court of Cassation.

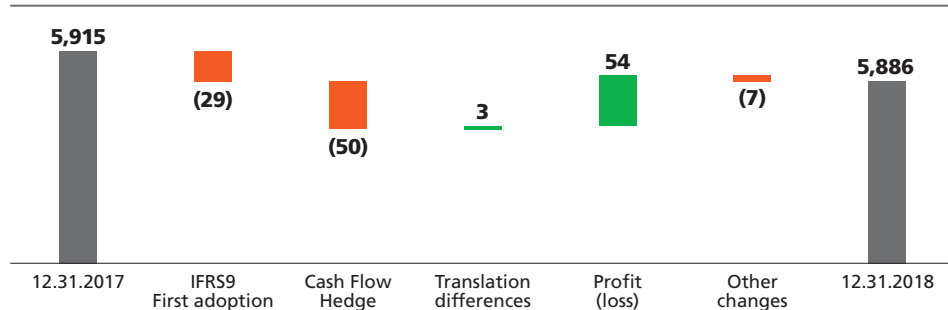
In view of the Company's correct and lawful conduct, there appears to be no need to recognize a provision for risks.

6. SHAREHOLDERS' EQUITY, FINANCIAL DEBT AND COST OF DEBT

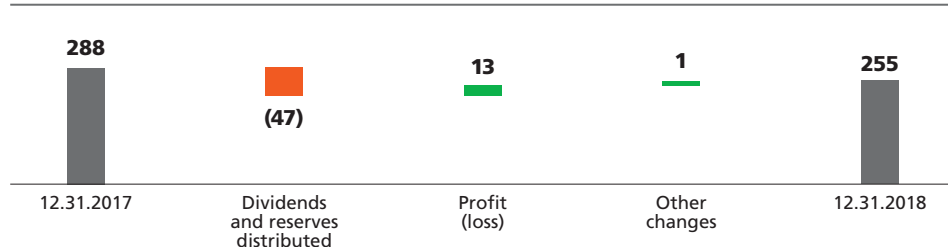
6.1 SHAREHOLDERS' EQUITY

The main changes that occurred during the year in shareholders' equity attributable to Parent Company shareholders and in net equity attributable to minority shareholders are presented below. A breakdown of the shareholders' equity attributable to Parent Company shareholders and to minority shareholders is provided in the schedule entitled "Changes in Consolidated Shareholders' Equity".

CHANGES IN SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS (M€)



CHANGES IN SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MINORITY SHAREHOLDERS (M€)



Dividends and reserves distributed are mainly related to those from E2i, which is consolidated line by line, to its shareholder F2i.

The table below provides a breakdown of the change that occurred in the Cash Flow Hedge reserve due to the adoption of IFRS 9 for the accounting 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 will be reflected in the income statement concurrently with the economic effects produced by the hedged items.

Cash Flow Hedge Reserve (in millions of euros)	Gross reserve	Taxes	Net reserve
Reserve at 12.31.2017	127	(35)	92
Change in the period	(70)	20	(50)
Reserve at 12.31.2018	57	(15)	42

6.2 MANAGEMENT OF FINANCIAL RESOURCES

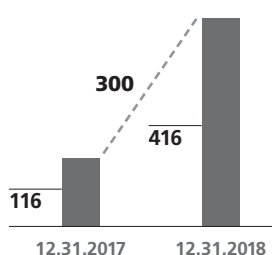
Edison defines its financial strategy with the primary objective of guaranteeing the availability of financial resources at the best market conditions and with the appropriate balancing, to support ordinary business management and the development of investments to sustain future growth. For this purpose, Edison mainly – but not exclusively - relies on the Controlling company EDF Sa to obtain loans in any technical form, to guarantee flexibility in liquidity and/or coverage of structural needs. For Edison, terms and conditions are in line with the best market conditions. Concerning treasury, Edison dedicates one of its current bank accounts to a cash-pooling agreement with EDF Sa, which allows significant flexibility thanks to the availability of up to 199 million euros at market conditions.

Liquidity management is mainly centralized at the level of Edison Spa, which in general directly manages, or in some cases simply co-ordinates, the treasury operations of its subsidiaries through intercompany current accounts and intra-group loans at market conditions. Further information is provided in the 2018 Separate Financial Statements, to which reference should be made for completeness of disclosure.

To support certain investment activities, Edison resorts to the market whenever specifically attractive opportunities of financing arise. This is the case of some credit lines granted to Edison by the European Investment Bank (EIB), directly or through EDF Sa, dedicated to the development of specific projects i.e. the gas storage fields of San Potito and Cotignola and the natural gas production fields of Fauzia and Clara North West in the Adriatic Sea (in operation since 2014 and 2016, respectively) and Cassiopea in the Channel of Sicily. In addition, the construction of eight wind farms (three complete reconstructions and five green fields) for a total of 165 MW of capacity in Central and Southern Italy, which E2i was awarded at the end-of-year 2016 GSE auction, is financed in part with EIB funds.

At December 31, 2018 Edison’s credit rating is BBB- with a stable outlook for Standard & Poor’s and Baa3 with a stable outlook for Moody’s.

CHANGE IN NET FINANCIAL DEBT (M€)

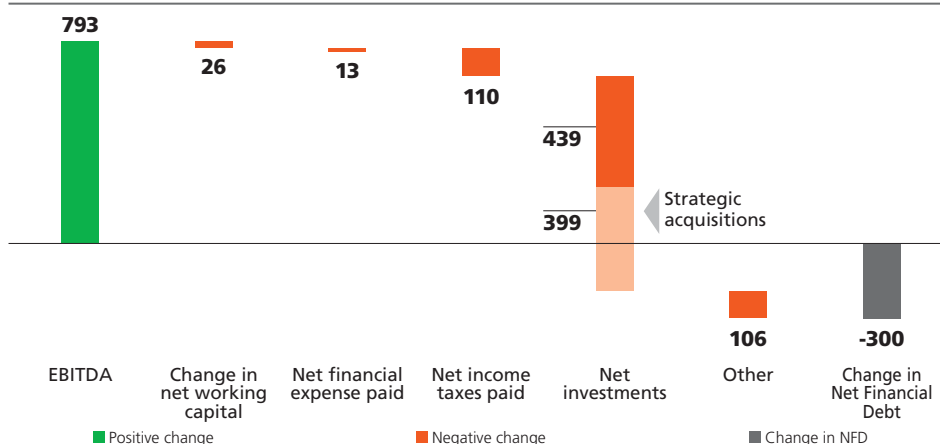


6.3 NET FINANCIAL DEBT AND COST OF DEBT

A summary of the main facts that had an impact on net financial debt, which totaled 416 million euros at December 31, 2018, is provided below.

The change in the year reflects the acquisitions of GNVI, Attiva and Zephyro and the good cash generation of the ordinary business activities, which contained the level of net financial debt.

ANALYSIS OF CHANGES IN NET FINANCIAL DEBT (M€)



In addition to the effects resulting from the strategic acquisitions of GNVI, Attiva, and Zephyro (-399 million euros), net investments include: (i) capital expenditures and exploration (-447 million euros), (ii) acquisitions of smaller companies and equity investments (-34 million euros), (iii) restructuring operations (+42 million euros). For more details on the acquisitions, refer to paragraph 9.1 Information pursuant to IFRS 3 revised.

Net financial debt can be broken down as follows:

Net financial debt (in millions of euros)	12.31.2018	12.31.2017	Change
Non-current financial debt	353	221	132
- Due to banks	275	144	131
- Due to EDF Group companies	60	70	(10)
- Financial leasing	9	2	7
- Due to other lenders	9	5	4
Assets for financial leasing	(3)	-	(3)
Non-current net financial debt	350	221	129
Bonds - current portion	-	4	(4)
Current financial debt	218	157	61
- Due to banks	120	56	64
- Due to EDF Group companies	16	14	2
- Financial leasing	2	1	1
- Due to other lenders	80	86	(6)
Current financial assets (*)	(3)	(6)	3
Cash and cash equivalents	(149)	(260)	111
Current net financial debt	66	(105)	171
Net financial debt	416	116	300
of which:			
Gross financial debt	571	382	189
Cash and cash equivalents and financial assets	(155)	(266)	111

(*) Since January 1, 2018, following the application of the new accounting standard IFRS 9 the "Equity investments held for trading" (included for about 3 million euros in "Current financial assets" at December 31, 2017), were reclassified in "Investments at fair value through profit and loss".

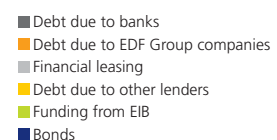
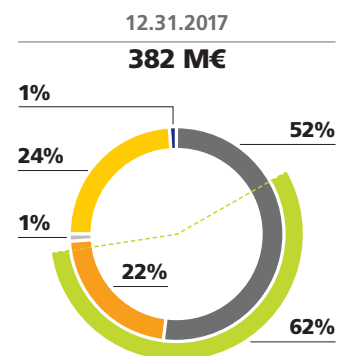
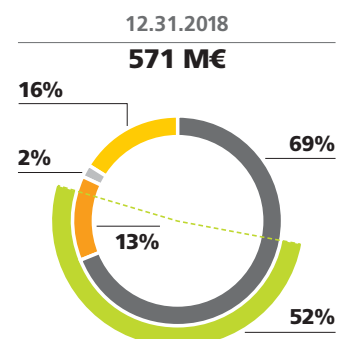
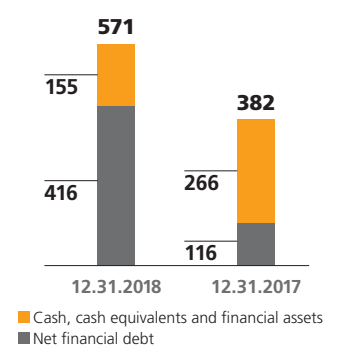
The increase in **non-current net financial debt** primarily reflects:

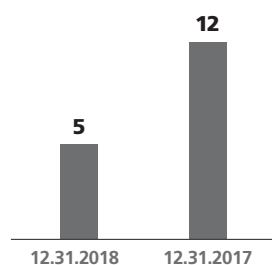
- the drawdown of 85 million euros from the 150 million euros credit line granted by the EIB to Edison in 2017 (25 million euros at December 31, 2017), usable in tranches with expirations up to 15 years, for the construction of specific wind power plants;
- the use of 50 million euros of the Club Deal loan granted in 2018 to E2i (E2i Club Deal) by a pool of banks and Cassa Depositi e Prestiti (total nominal value of 100 million euros);
- the **reclassification in current financial debt** of the portion to be repaid in 2019 of the medium-long term credit line earmarked for specific investment projects in Exploration & Production sector. This loan was granted in 2015 by EDF Sa to Edison Spa (total nominal value of 200 million euros, of which a total of 70 million euros has been used, as in 2017), drawn from a similar credit line granted by EIB to EDF Sa.

Note that, in December, the Frendy Energy bond loan (4 million euros) was repaid at its natural expiry.

Cash and cash equivalents include 28 million euros (140 million euros at December 31, 2017) of available funds held in the current account with EDF Sa.

GROSS FINANCIAL DEBT AND BREAKDOWN BY FINANCIAL SOURCE (M€)



NET FINANCIAL EXPENSE
ON DEBT (M€)

The funding sources of which Edison made use during the year are primarily represented by long-term loans for the development of specific projects in the wind sector, in gas storage, Exploration & Production and, to a residual extent, in thermoelectric generation, granted by the EIB, directly or through EDF Sa.

Net financial expense benefit from a lower level of average debt and a lower cost due to a different mix of financial resources. Note that, in 2017, the figure included 8 million euros of expenses for the bond loan of Edison Spa, repaid upon expiry in November 2017.

For the analysis of interest rate risks, please refer to paragraph 6.4 - section 6.4.1 below.

In accordance with IAS 7 "Cash Flow Statement", the changes in liabilities resulting from financing activities are reported below. The table shows the reconciliation of cash flows exhibited in the 'Cash Flow Statement' with the total changes recorded during the year from balance sheet items that contribute to net financial debt.

(in millions of euros)	12.31.2017	Cash Flow (*)	Non-cash Flow			Other changes	12.31.2018
			Changes in scope of consolidation (**)	Currency differences	Changes in fair value (***)		
Non-current financial debt	221	118	18	0	0	(4)	353
Bonds	4	(4)	0	0	0	0	0
Current financial debt	157	52	5	0	0	4	218
Assets for financial leasing	0	0	(3)	0	0	0	(3)
Current financial assets	(6)	0	0	0	0	3	(3)
Net liabilities resulting from financing activities	376	166	20	0	0	3	565
Cash and cash equivalents (*)	(260)	128	(17)	0	0	0	(149)
Net Financial debt	116	294	3	0	0	3	416

(*) Flows shown in the Cash Flow Statement.

(**) For the acquisition transactions please refer to the paragraph 9.1. "Information pursuant to IFRS 3 revised".

(***) Related to the hedge (IRS) operated in 2018 by E2i, the related fair value at December 31, 2018 is immaterial.

6.4 FINANCIAL RISK MANAGEMENT

6.4.1 Interest rate risk

Considering the low level of debt, Edison Group's exposure to interest rate risk is currently limited. Given that the Group has outstanding bank loans at variable rates (primarily the Euribor rate), Edison assesses its exposure to the risk of fluctuations in interest rates on a regular basis and manages it mainly by negotiating loans, and, if appropriate, with hedging instruments.

(in millions of euros)	12.31.2018			12.31.2017		
	without derivatives	with derivatives	% with derivatives	without derivatives	with derivatives	% with derivatives
Gross Financial Debt						
Mix fixed and variable rate:						
- fixed rate portion	98	134	23%	40	40	10%
- variable rate portion	473	437	77%	342	342	90%
Total gross financial debt	571	571	100%	382	382	100%

The table shows that the financial debt is mainly indexed to a variable rate, which, to date, has allowed significant savings in financial expense. In 2018 some transactions have been implemented to mitigate the risk of increase of interest rates.

The increase of the fixed rate portion in 2018 is due to the drawdown of two fixed rate tranches of the EIB loan provided for the development of wind generation capacity of E2i. Furthermore, during the year, E2i has purchased interest rate swaps (IRS) with a notional amount of 36 million euros to hedge from interest rate fluctuations (Euribor 6 months). This hedging, carried out on the E2i Club Deal loan at variable rate, is qualified as Cash Flow Hedge pursuant to IFRS 9; at December 31, 2018 the relevant fair value is not material.

The table below provides a sensitivity analysis that shows the impact on the income statement of a hypothetical shift of the forward curve of plus or minus 50 basis points compared with the rates actually applied in 2018 and provides a comparison with the corresponding data for 2017.

Sensitivity analysis (in millions of euros)	2018			2017		
	Impact on financial expense			Impact on financial expense		
	+50 bps	base	-50 bps	+50 bps	base	-50 bps
Edison Group	4	3	3	10	9	9

6.4.2 Liquidity risk

Liquidity risk is the risk that Edison Group may not have access to sufficient financial resources to meet its financial and commercial obligations in accordance with agreed terms and maturities. Edison aims to ensure that the Group always has sufficient funding sources to meet its obligations that are falling due and to support in time the established investment programs, with reasonable margins of financial flexibility.

The table below provides a prudential assessment of the total outstanding liabilities at the time the financial statements were prepared until their natural expiry. It includes:

- in addition to principal and accrued interest, all future interest payments estimated for the entire duration of the underlying debt obligation; where applicable, the effect of interest rate derivative contracts is also included;
- financing facilities are treated as if repayable on demand, in the case of revocable lines of credit, or on the first due date when repayment can be demanded, in other cases.

For a better representation, the prudential value thus obtained is compared with the existing cash and cash equivalents, without considering other assets (e.g. trade receivables).

Cash flow projections (in millions of euros)	12.31.2018			12.31.2017		
	1 to 3 months	More than 3 months and up to 1 year	After 1 year	1 to 3 months	More than 3 months and up to 1 year	After 1 year
Bonds	-	-	-	-	4	-
Financial debt (*)	83	51	346	23	29	218
Interests due on financial debt	1	3	29	-	1	15
Trade payables	1,523	57	-	1,639	57	-
Total debt	1,607	111	375	1,662	91	233
Guarantees provided to third parties (**)	-	-	22	-	17	7
Cash and cash equivalents	149	-	-	260	-	-

(*) Financial debt excluding current due to other lenders.

(**) These guarantees have been issued to lenders of unconsolidated companies.

The future cash outflows are compared with available resources below.

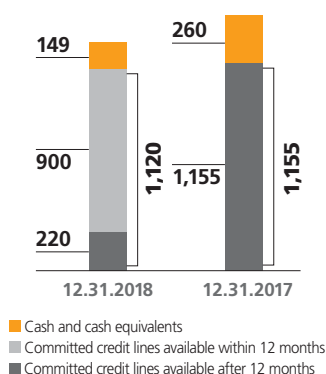
Committed credit lines: availability and main maturities

Committed credit lines at December 31, 2018 (in millions of euros)	Notional amount of the financing (a+b)	Amount used at 12.31.2018* (a)	Available amount at 12.31.2018 (b)	Expiry date	Maturities of the amounts used at 12.31.2018 (a)			
					1 to 3 months	more than 3 months and up to 1 year	2020-2023	after 2023
EDF RCF	600	-	600	apr-19	-	-	-	-
Banks Club deal RCF	300	-	300	mar-19	-	-	-	-
EIB committed credit lines for the development of specific projects (mainly wind farms, storage and E&P)**	468	298	170	2019-28	-	27	104	167
Bank committed credit lines to E2i	120	70	50	2019-26	-	20	13	37
Other bank committed credit lines	19	19	-	2019-29	1	4	9	5
Leasing	11	11	-	2019-30	-	2	5	4
Other financial debts	10	10	-	2019-21	-	1	9	-
Total	1,528	408	1,120		1	54	140	213

* Notional amounts that may differ from accounting values.

** Also including loans on EIB funds indirectly received through EDF (70 million euros) and Intesa San Paolo (5 million euros). The withdrawn of available amount is linked to the development of the projects financed.

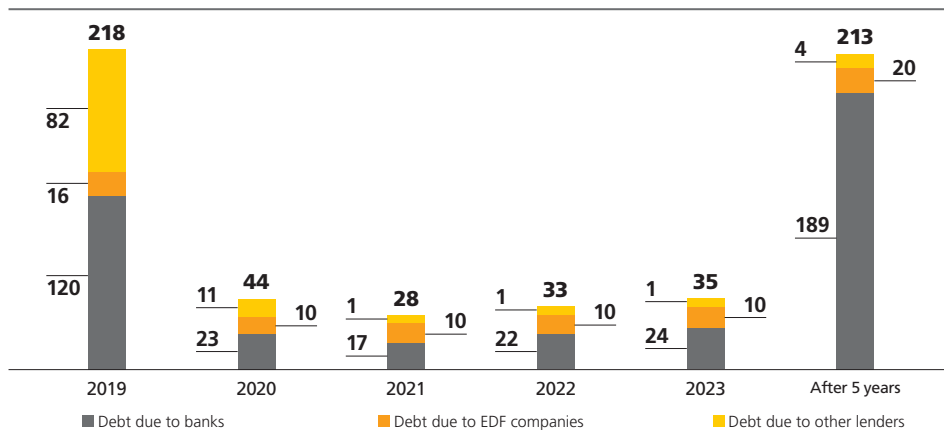
TOTAL AVAILABLE FINANCIAL RESOURCES (M€)



At December 31, 2018, Edison had available credit lines for a total of 1,120 million euros, of which 900 million euros were represented by the revolving credit line with EDF Sa and by the Club Deal with a pool of banks (600 million euros and 300 million euros respectively). Both credit lines will expire in the first half of 2019.

Edison is working to renew the expiring credit lines, in order to ensure adequate liquidity to support ordinary activities and future development projects.

GROSS FINANCIAL DEBT: DEBT MATURITIES (M€)



6.4.3 Risk of anticipated reimbursement of loans

The financial covenants apply to certain bank loans granted to some subsidiaries (mainly to bank loans granted to E2i). Their non-compliance can entail an early repayment of the loan.

At December 31, 2018, the covenants were adequately met.

Financial covenant	Covenant observed	Adequacy margin
NFD/EBITDA	✓	✓

For a more detailed explanation of the effects that a change in control of Edison could have on outstanding loans, please refer to the discussion in the Report on Corporate Governance and on the Company's Ownership Structure, in the paragraph Change of Control clauses.

The loan agreements do not contain clauses that could result in the early termination of the loan as an automatic effect if the credit rating assigned to Edison Spa by the rating agencies is downgraded or cancelled.

Note that the medium/long-term credit lines provided by EIB envisage restrictions on the use of funds and on the management of projects financed, typical of specific-purpose loans for industrial businesses.

At the time of the financial statements were prepared, there are no situations of default.

7. TAXATION

7.1 TAX RISK MANAGEMENT

In 2018, a tax risk management and reporting system was adopted (so-called the Tax Control Framework or TCF), which is integrated within the Group's overall risk control system. The TCF adopted consists of a Tax Policy and General Rules applicable to all Group companies, as well as matrices, coordinated with the provisions of Saving Law 262, to monitor activities with potential tax impacts on the main business processes and the Group's results.

7.2 TAXES

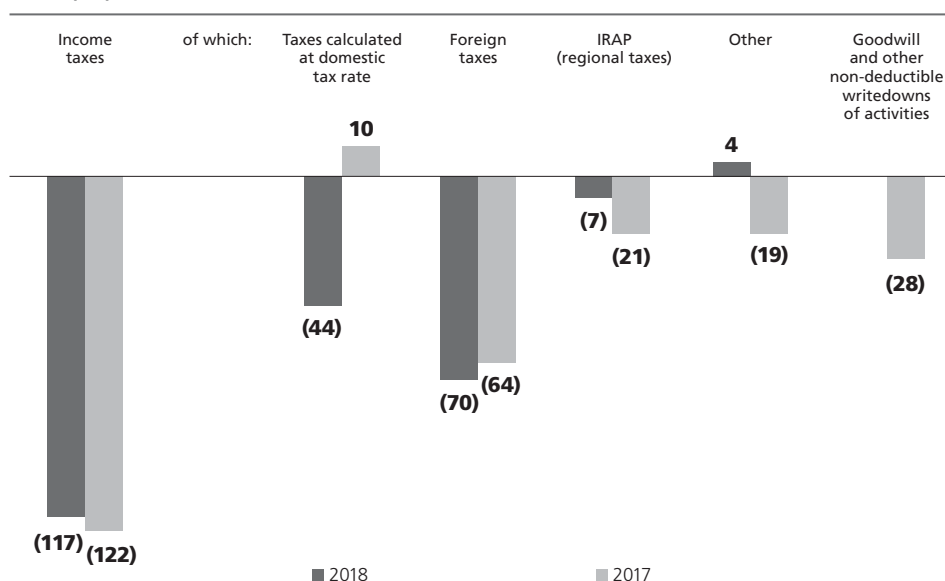
7.2.1 Income taxes and tax proof

Income taxes (in millions of euros)	2018	2017	Change
Current taxes	(108)	(104)	(4)
Net deferred-tax liabilities (assets)	(20)	16	(36)
Other	11	(34)	45
Total	(117)	(122)	5
Tax rate	63.6%	n.s.	n.a.

The Group's 2018 tax rate mainly reflects the charge of foreign taxes, only partially recoverable in Consolidated Corporate Income Tax Return, effect partially offset by lower IRAP for the year and lower income taxes attributable to previous years.

It is worth mentioning that 2017 was also penalized by the tax impact of non-deductible writedowns, including the one on goodwill, as well as by some allocations to tax risk provisions. The reconciliation between the theoretical tax burden determined by applying the IRES tax rate in force in Italy of 24% (unchanged from 2017) and the effective tax burden is shown in the following chart:

TAXES (M€)



7.2.2 Income taxes paid

Net income taxes paid amount to 110 million euros and include 57 million euros for net foreign taxes (73 million euros paid and 16 million euros cashed), and payments for certain tax disputes totaling 38 million euros.

7.3 TAX ASSETS AND LIABILITIES

7.3.1 Current and non-current tax receivables and payables

At December 31, 2018, net receivables of 12 million euros were recognised (7 million euros at December 31, 2017); details are provided in the following table.

Current and non-current tax receivables and payables	12.31.2018	12.31.2017	Change
(in millions of euros)			
Non-current tax receivables	34	34	-
Current tax receivables	14	8	6
Receivables owed by the controlling company in connection with the filing of the consolidated income tax return	29	17	12
Total tax receivables (A)	77	59	18
Current tax payables	14	19	(5)
Liabilities owed to the controlling company in connection with the filing of the consolidated income tax return	51	33	18
Total tax payables (B)	65	52	13
Current and non-current tax receivables (payables) (A-B)	12	7	5

Non-current tax receivables mainly refer to the taxes paid for the so-called Robin Tax and claimed for reimbursement.

The receivables and payables to the controlling company for tax consolidation refer to the IRES National Consolidated Tax Return, as shown below.

Consolidated Corporate Income Tax (IRES) Return Filed by Transalpina di Energia Spa

In 2018, the renewed option for the three-year period (2016-2018) is in place for corporate income tax (IRES) purposes pursuant to art. 117 et seq. of the Uniform Income Tax Code - known as the National Consolidated Tax Return - which is filed by Transalpina di Energia Spa (TdE) and involves all the main Group companies. Consequently, the companies included in the return must determine their IRES liability in coordination with the Controlling Company TdE. Mutually agreed commitments and actions are governed by new bilateral agreements executed by TdE, the consolidating entity, and the individual companies.

7.3.2 Deferred-tax assets and Deferred-tax liabilities

At December 31, 2018, net assets of 341 million euros were recognized (391 million euros at December 31, 2017); details are provided below.

Deferred-tax assets	12.31.2018	12.31.2017	Change
(in millions of euros)			
Tax loss carryforward	26	32	(6)
Taxed provisions for risks	103	98	5
Valuation differences of fixed assets	323	323	-
Other	9	14	(5)
Deferred-tax assets	461	467	(6)

It is worth mentioning that deferred-tax assets increased by 9 million euros as result of business combination transactions that took place during the year (for more details, please refer to paragraph 9.1 Information pursuant to IFRS 3 revised) and that the first application of IFRS 9 resulted in an increase of 8 million euros.

Deferred-tax assets were valued based on the likelihood that they would be realized and their possible tax benefits recovered within the limited time horizon consistent with the business plans of the various companies. In particular, previous tax losses were measured, using a conservative approach, at 50%.

Changes during the year are detailed below in "Effects on Income Statement and Shareholders' equity".

The table shows a breakdown by type of underlying temporary difference and the deferred-tax assets used as an offset when they meet the requirements of IAS 12.

Deferred-tax liabilities	12.31.2018	12.31.2017	Change
<i>(in millions of euros)</i>			
Deferred-tax liabilities:			
- Valuation differences of fixed assets	103	41	62
- Adoption of IFRS 9 to value financial instruments with impact:			
- on Income Statement	-	1	(1)
- on Shareholders' equity	15	35	(20)
- Other	57	47	10
Total deferred-tax liabilities before offsets (A)	175	124	51
Deferred-tax assets usable for offset purposes:			
- Valuation differences of fixed assets	6	5	1
- Other	49	43	6
Total Deferred-tax assets (B)	55	48	7
Total Deferred-tax liabilities (A-B)	120	76	44

It is worth noting that, following the business combination transactions that occurred during the year, **deferred-tax liabilities** were recognized for 56 million euros (for a more detailed analysis, please refer to paragraph 9.1 Information pursuant to IFRS 3 revised).

Effects on Income Statement and Shareholders' equity

Details of the changes in "Deferred-tax assets" and "Deferred-tax liabilities" are provided below, broken down by type of timing difference, determined based on the tax rates envisaged by governing measures, as well as the amount of deferred-tax assets that can be offset, where permitted, with deferred-tax liabilities.

Changes in Deferred-tax liabilities/Deferred-tax assets (in millions of euros)	12.31.2017	IFRS 9 - first adoption	Impact on Income Statement	Impact on Shareholders' equity	Changes in scope of consolidation	Other changes / Reclassifications / Offsets	12.31.2018
Deferred-tax liabilities (-):							
Valuation differences of fixed assets	41	-	3	-	56	3	103
Adoption of IFRS 9 to value financial instruments with impact:							
- on the Income Statement	1	-	(1)	-	-	-	-
- on Shareholders' equity	35	-	-	(20)	-	-	15
Other	47	-	(1)	8	-	3	57
	124	-	1	(12)	56	6	175
Offsets	(48)	-	-	-	-	(7)	(55)
Deferred-tax liabilities net of offsets	76	-	1	(12)	56	(1)	120
Deferred-tax assets:							
Tax loss carryforward	32	-	(6)	-	-	-	26
Taxed provisions for risks	98	8	(8)	-	8	(3)	103
Valuation differences of fixed assets	328	-	(4)	-	-	5	329
Other	57	-	(1)	6	1	(5)	58
	515	8	(19)	6	9	(3)	516
Offsets	(48)	-	-	-	-	(7)	(55)
Deferred-tax assets net of offsets	467	8	(19)	6	9	(10)	461
(Deferred-tax liabilities)/ Deferred-tax assets	391	8	(20)	18	(47)	(9)	341

7.3.3 Provisions for income tax liabilities

These represent the valuation of **probable liabilities** related to certain tax disputes involving the Group, for which it was possible to reliably estimate the underlying expected obligation, even though the timing of any monetary outlay cannot be objectively predicted. The following table shows changes during 2018:

(in millions of euros)	12.31.2017	Additions	Utilizations	Financial expenses	Other changes	12.31.2018
Provisions for income tax liabilities	58	4	(35)	1	1	29

Provisions were used against charges incurred during the year relating to some tax disputes, for which the changes during 2018 are shown below.

Other tax disputes for income taxes have not had updates, for which reference should be made to the comments in the 2017 Consolidated Financial Statements in the chapter "Commitments, risks and contingent assets".

Edison Spa (incorporated Edison Spa) - Dispute related to direct taxes (IRPEG and ILOR) for years 1995-1997

During 2018, following the decisions handed down on review by the Regional Tax Commission, favourable only in part to the Company, the Company is again submitting appeals before the Court of Cassation as what was laid out in these recent decisions does not appear to be aligned with OECD guidelines on transfer pricing.

In the meantime, as the proceedings are in progress and pending the settlement of the disputes, the Company paid the amounts that have become enforceable for part of the higher taxes assessed. The payment, still provisional in nature, was fully covered by part of the existing provision for risks. The dispute could be settled in 2019, taking advantage of the provisions set forth in Italian Decree Law no. 119/2019.

COMMITMENTS

In front of this dispute a guarantee equal to 15 million euros, unchanged compared to the previous year, was recognized by Edison Spa to the Revenue Agency.

Edison International Spa – IRES dispute for years 2010-2013 - Concluded

The complex and significant dispute was settled and concluded during 2018. In late March 2018, deeds were entered into with the Revenue Agency - Lombardy Regional Office for the settlement of disputes relating to direct taxes for all relevant years (2010-2014). The settlement entailed the payment of expenses the following April, nearly entirely covered by the provision for risks set aside in previous years.

It is worth mentioning that the findings referred for the most part to the taxation to be applied to the tax credit obtained as a refund from the Norwegian tax authorities. The complexity of the dispute, its relevance and number of years concerned made an out-of-court settlement more appropriate, eliminating a relevant risk for higher taxes as well as possible penalties.

8. NON-ENERGY ACTIVITIES

The Edison Group is involved in various legal and arbitral disputes ranging in different types, through Edison Spa, as universal successor of Montedison Spa, merged in it. As a result, there are charges and risk provisions in the financial statements recognized in relation to disputes arising from events over the time, connected, *inter alia*, to the management of chemical production plants already held by Montedison Group – that were object, from the 1990s to 2010, of a wide-range divestment policy that led to Edison Group's activities being redirected into the energy sector - and which therefore are not relevant to the current business management of Edison Spa and its subsidiaries.

For this reason, it was decided to isolate and represent in a dedicated chapter the contribution of these activities to the consolidated income statement and balance sheet, as well as the related contingent liabilities.

In following the legal and tax disputes related to these activities and in the assessment of likely impacts, the Company's management must use estimates and assumptions that are more relevant, in particular as regards provisions related to environmental litigation for the chemical facilities of Montedison Group. In this regard, note that the present quantification of the provisions was determined as residual amount of the original accrual referred to the specific dispute, considering the juridical complexity, the type of proceeding and also the uncertainty about the evolution of every proceeding in terms of duration and thus of the outcomes. The quantification and the review of these provisions are part of a recurring process of assessment based on what stated above; likewise, and in general, the periodical assessment also includes the quantification and updating of the other provisions for risk related to legal and arbitral disputes.

The resulting effects are recognized in the Corporate segment and in particular, in the income statement, the related income and expenses, including the associated legal costs, are recorded in the item 'Other income (expense) non-Energy activities' included in EBIT.

Net expenses for 2018 amounted to 23 million euros (net expenses of 31 million euros in the previous year).

The breakdown and changes in the **risk provisions** present in the financial statements and the elements that led to their recognition are as follows:

(in millions of euros)	12.31.2017	Additions	Utilizations	Financial expenses	12.31.2018
A) Risks for disputes, litigation and contracts	130	2	(1)	2	133
B) Charges for contractual guarantees on sale of equity investments	52	-	-	-	52
C) Environmental risks	62	1	(1)	-	62
D) Disputed tax items	3	-	-	-	3
Provisions for risks and charges for non-Energy activities	247	3	(2)	2	250

A) Probable liabilities for which a provision for disputes, litigation and contracts risks was recognized in the Balance Sheet:

Date started/ Jurisdiction	Description of dispute	Status of proceedings
Collapse of the Stava Dam		
October 25, 2000 Court of Milan/Milan Court of Appeals/Court of Cassation	The last civil dispute that is still pending with regard to the events that occurred in Val di Stava in 1985, when the levies of two mining mud holding ponds, operated by a Montedison-owned company were breached causing the well-known disaster. In its decision, the lower court ruled that the statute of limitation prevented the action filed against Edison. By a decision published in November 2015, the Milan Court of Appeals upheld that decision.	An appeal against the Court of Cassation has been filed.
Actions for damages and administrative proceedings arising from the operation of industrial facilities conveyed to Enimont Edison is a party to these proceedings as universal successor to Montedison Spa		
Porto Marghera – Civil lawsuits		
October 25, 2000 Court of Venice/Venice Court of Appeals	These lawsuits represent the tail end of the so-called “Marghera Maxi-trial,” which, as it is well known, involved alleged occurrences of i) manslaughter for exposure to monovinyl chloride and ii) environmental disaster due to pollution for which some former Montedison executives and employees were allegedly responsible. These are lawsuits filed by the counsel of some plaintiffs in the proceedings (heirs to the estates of former employees, environmental associations and local governmental entities, such as the Municipality and Province of Venice and the Veneto Region) seeking payment for the legal expenses they incurred.	The lawsuits are pending at various stages before the lower or appellate court.
Mantua – Criminal Proceedings		
October 25, 2000 Court of Mantua/Brescia Court of Appeals/Court of Cassation	This trial concerns the Mantua petrochemical facility operated for several decades first by companies of the Montedison Group and later by companies of the Eni Group. The facts subject of the pending trial concern determining the fortuity for a series of death caused by cancer identified by the Public Prosecutor and concerning employees of the facility. After the judgement, in February 2016, whith which the Brescia Court of Appeals confirmed 9 convictions for manslaughter, in 2017, the Supreme Court, uphold some pleas, had partially rejected, returning the record of the proceedings to the same Brescia Court of Appeals.	As per the description of the dispute.
Mantua – Administrative proceedings		
2012 – 2016 Lombardy Regional Administrative Court – Brescia Section	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 (Petrochimico 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 liability for environmental issues. 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 rejected seven of the eight lawsuits.	Edison has already claimed before Council of State against the ruling.
Brindisi – Administrative proceedings		
February 25, 2013 Apulia Regional Administrative Court – Lecce Section	These proceedings concern the industrial park of the Port of Brindisi, where the Montedison Group operated petrochemical facilities for over 60 years. On February 25, 2013, the Province of Brindisi notified to Edison, Eni, Syndial and Versalis an injunction pursuant to Article 244, Section 2, of Legislative Decree No. 152/2006 (so-called “Environmental Code”) concerning an alleged landfill adjacent to the Brindisi petrochemical plant. The Company challenged this injunction and, after its plea was denied by the lower court, is waiting for a pronouncement at the appellate level by the Council of State.	Waiting for a hearing for oral arguments to be scheduled.
Crotone – Criminal Proceedings		
2005 Court of Crotone	The proceedings concerned are three and are related to the chemical facility operated in Crotone by Montecatini Spa (Montedison Group). The first concerns the alleged occupational diseases that would have been determined by exposure to asbestos of workers of the facility for events occurring until 1989. The proceeding is now pending on appeal. The second is related to a dispute of poisoning of the groundwater and, consequently, of the water intended for feed; the proceedings in first instance is in progress. The third, which also concerns occupational disease, is pending in first instance.	As per the description of the dispute.

Date started/ Jurisdiction	Description of dispute	Status of proceedings
Belvedere di Spinello – Civil Proceeding		
October 31, 1986 Court of Catanzaro/Catanzaro Court of Appeals	<p>This proceeding concerning the Belvedere di Spinello mining concession, derives from rock salt mining activities carried out at this location by Montedipe Spa for over 20 years. The proceeding has to do with compensation for the damages suffered by two provincial administrations due to the destruction of a provincial road caused by the collapse of the mine in 1984.</p> <p>By ruling 1634/2018 the Catanzaro Court of Appeals, at the outcome of the technical expert's report disposed in 2016, sentenced Montedipe (now Edison) to compensation for damages for an amount of 3 million euros, besides interests and legal expenses.</p> <p>The appeal before the Court of Cassation against this ruling is being prepared.</p>	As per the description of the dispute.
Claims for Damages Caused by Exposure to Asbestos		
<p>In recent years, there has been a significant increase in the number of claims for damages arising from the deaths or illnesses of workers that were allegedly caused by exposure to different forms of asbestos at factories formerly owned by Montedison Spa (now Edison) or from judicial cases taken over by Edison as a result of corporate transactions. Without rendering an opinion on the merits of these claims, considering the long latency of illnesses related to exposure to different types of asbestos and the industrial activities carried out in the past by Group companies that belonged to the chemical industry, the presence of these companies throughout Italy and the manufacturing technologies used (considering the dates when these activities were carried out and the state of technological advancement at the time), which complied fully with the laws in force at that time, the possibility that new legitimate claims for damages may emerge in addition to those that are already the subject of several civil and criminal proceedings cannot be excluded.</p>		
B) Probable liabilities for which a provision for risks for contractual guarantees on sale of equity investments was recognized in the Balance Sheet:		
Civil lawsuits, criminal trials and administrative proceedings concerning the sale of Agorà Spa, which owned 100% of the shares of Ausimont Spa Edison is a party to these proceedings in its capacity as universal successor to Montedison Spa		
Ausimont – Bussi sul Tirino – Administrative proceedings of remediation of so-called "Solvay External Areas", areas "2A" and "2B"		
February 28, 2018	<p>On February 28, 2018 the Province of Pescara communicated to the companies Solvay Specialty Polymers Italy Spa and Edison Spa the initiation of a proceeding pursuant to Title V Part IV of Legislative Decree 152/2006 for the identification of the responsible for the contamination of the so-called "Solvay External Areas" in Bussi sul Tirino, dumping areas 2A and 2B and neighboring.</p> <p>Subsequently, on June 26, 2018, the Province of Pescara communicated to Edison by order in accordance with the article 244 of Decree Law No. 152/2006 (Environmental Code) for the removal of all waste abandoned over time in the aforementioned areas of the Bussi site.</p> <p>With regard to this provision it should be noted that: i) such portions of land had been conferred to Ausimont since it was incorporated in 1981; ii) Ausimont, solely and exclusively, has obtained the authorizations to operate, has realized, has managed and has closed the landfills called 2A and 2B on these portions of land; iii) the shares of Ausimont were transferred to Solvay Solexis Spa, today Solvay Specialty Polymers Italy Spa, in May 2002; iv) Ausimont was merged in Solvay Solexis in November 2002, with consequent succession of the latter in the legal, active and passive position, belonging to the company Ausimont.</p> <p>Regarding this order, of which Edison firmly disputes the lawfulness, the Company reserves any actions in order to preserve their rights and legitimate interests.</p>	As per the description of the disputes
Ausimont – Bussi sul Tirino – Administrative proceedings		
June 2011 Latium Regional Administrative Court – Rome Section and Abruzzo Regional Administrative Court – Pescara Section	<p>This dispute concerns the activities to ensure site safety and remediation that Solvay Solexis (now Solvay Specialty Polymers) and Solvay Chimica Bussi were required to implement at areas inside the Bussi sul Tirino chemical plant, operated, until 2002 by Ausimont Spa, a Montedison Group company that was sold to the Solvay Group.</p> <p>Edison was sued by the companies of the Solvay Group as counter-interested party and as former parent of Ausimont.</p> <p>These proceedings are still pending before the Council of State, after the Regional Administrative Court of Latium, by a decision handed down in March 2011, found that part of the complaints filed by Solvay Chimica Bussi and Solvay Solexis were inadmissible and dismissed other complaints.</p>	As per the description of the disputes.
Ausimont – Bussi sul Tirino – Criminal proceedings		
2008 Court of Pescara/Chieti Court of Assizes/Court of Cassation/Court of Assizes of Appeals of L'Aquila	<p>On September 28, 2018, the Italian Supreme Court quashed the judgement rendered by the Court of Appeals 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.</p>	Concluded.

Date started/ Jurisdiction	Description of dispute	Status of proceedings
Ausimont – Spinetta Marengo – Administrative proceedings		
February 2012 Piedmont Regional Administrative Court	The case concerns activities that Solvay Specialty Polymers was ordered to carry out, under various titles, to ensure safety and environmental remediation of areas inside the Spinetta Marengo (AL) chemical plant. This plant was operated until 2002 by Ausimont Spa, a Montedison Group company sold to the Solvay Group in May 2002. Edison joined these proceedings exclusively to protect its rights and legitimate interests in connection with the challenges filed against the administrative actions of the relevant Services Conference by Solvay Specialty Polymers, which specifically contested the failure to identify Edison as a respondent (or correspondent) in the proceedings.	As per the description of the proceedings.
Ausimont – Spinetta Marengo – Criminal proceedings		
October 2009 Alessandria Court of Assizes	On January 4, 2019 the Court of Assizes of Turin published the reasons for the ruling that confirmed the acquittal of former managers and employees of Montedison and Ausimont with respect to alleged facts of environmental disaster and water poisoning related to the management of the industrial site of Spinetta Marengo.	As per the description of the dispute.
Ausimont – Solvay Arbitration		
May 2012 ICC – Geneva	These arbitration proceedings were initiated in 2012 by Solvay Sa and Solvay Specialty Polymers Italy Spa against Edison, for alleged violations of certain representations and warranties in the environmental area concerning the industrial sites of Bussi sul Tirino and Spinetta Marengo included in the deed of sale of Agorà Spa (parent company of Ausimont Spa) executed on the one hand by Montedison Spa and Longside International Sa and on the other hand by Solvay Solexis Spa (now Solvay Specialty Polymers) in December 2001. The proceedings, after a first phase focused on preliminary and prejudicial issues, is currently examining the several requested made by parties related to the merit of the dispute.	As per the description of the dispute.

C) Probable liabilities for which a provision for environmental risks was recognized in the Balance Sheet:

Bussi sul Tirino National Interest Site – “former Montedison Srl” area and Bolognano site

2011 and 2015 Abruzzo Regional Administrative Court - Pescara Section	<p>“Former Montedison Srl” area: the proceedings for the remediation of the “Tre Monti” area in the “National Interest Site” (SIN) of Bussi, is currently at an advanced stage of the pre-trial phase before the Ministry of the Environment.</p> <p>The Company, albeit maintaining a cooperative approach with the Ministry and the other Public Administrations, reserves the right to act to protect its interests and rights, if it deems that any current and/or future decisions taken in relation to the event could be illegitimate.</p> <p>Bolognano site: with regard to the site of Piano D’Orta, SIN of Bussi, and the remediation and environmental restoration injunction concerning the so-called “former Montecatini” site, located in the municipality of Bolognano (PE), it should be noted that Edison Spa already started the activities foreseen in the plan of intervention shared with the competent public entities.</p> <p>Regarding criminal proceedings for the alleged “omitted remediation” it should be noted that in December 2018 the Public Prosecutor’s Office of Pescara demanded their dismissal.</p>	As per the description of the dispute.
-----------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------

D) Probable liabilities for which a provision for tax disputes was recognized in the Balance Sheet:

Date started/ Assessing office	Description of dispute	Status of proceedings
Income Tax Assessments for 1991 and 1992 (Old Calcestruzzi Spa)		
Assessments notified in 1997-1998 by the former Ravenna Income Tax Office	The disputes, relating to the years 1991 and 1992, regard the tax treatment of transactions performed by Calcestruzzi Spa involving beneficial interests in shares. The appeal has been pending before the Court of Cassation since 2012. The Company has, pending a judgment, arranged for the payment of higher taxes, sanctions and interest as per the rulings issued. The existing provision relates to possible charges deriving from minor recoveries cancelled as of today.	The dispute is pending before the Supreme Court.

In addition, there are **contingent liabilities**, which are dependent on the occurrence of events that are possible, but not probable, or are probable but their impact cannot be quantified reliably and the corresponding cash outlays cannot be reasonably estimated, for which risk provisions are not recognized and are only discussed in the comments to the notes.

Contingent liabilities associated with legal disputes

Environmental Legislation

In addition to the probable liabilities for environmental risks, already covered by provisions and previously described, in recent years, we have witnessed an expansion and evolution of environmental laws (most recently with Legislative Decree No. 152 of April 3, 2006 "Environmental Regulations", as amended), specifically with regard to liability for environmental damages, which is especially relevant to the purposes of these notes. In particular, the discussion and adoption in several legal systems of the principle of "internalization" of environmental costs (summarized in the expression "those who pollute must pay") have resulted in the development of two new types of liabilities for the act of polluting: objective liability (which does not require the subjective element of guilt) and indirect liability (which stems from the actions of others), which can arise as a result of an earlier act that constitutes a violation of acceptable contamination levels under current laws. Therefore, taking into account the current and past scope of the industrial operations of the Company and the Group, particularly in the chemical industry, which were carried out in full compliance with the statutes then in force, it cannot be excluded that, in light of current legislation, new allegations of contaminations may arise, in addition to those currently subject to administrative and judicial proceedings.

Date started/ Jurisdiction	Description of dispute	Status of proceedings
Montecatini Spa – Montefibre Spa – Verbania – criminal proceedings		
2002 - 2015 Court of Verbania/Turin Court of Appeals / Court of Cassation	All these litigations concern the alleged responsibility of former Directors and executives of the company Montefibre Spa, already part of Montedison Group, for the crimes of involuntary manslaughter and involuntary personal injuries in the violation of the occupational accident prevention regulations, caused in connection with the death or illness of employees at the old plant Montefibre of Pallanza (VB) allegedly caused by exposure to asbestos. Edison Spa is exclusively involved in its capacity as the former parent company (until 1989) of Montefibre. A trial started in 2007 and after the acquittal of first instance of the defendants the decision was reformed on appeal. Challenging this decision an appeal was filed before the Court of Cassation which decided to defer the lawsuit to the Turin Court of Appeals. This latter in 2018 decided the acquittal of the defendants and rejected the claims for damages. For a second proceeding, started in 2015, the Court decided the acquittal of the defendants.	As per the description of the dispute.
Ausimont's participation in a cartel in the peroxides and perborates market – Claim for damages		
April 2010 Court of Düsseldorf – Court of Justice of the European Union	In April 2010, Edison was served with notices setting forth four amending briefs filed by Akzo Nobel Nv, Kemira Oyi, Arkema Sa and FMC Foret Sa in proceedings before the Court of Düsseldorf in which Cartel Damage Claims Hydrogen Peroxide Sa, a Belgian company specialized in class action lawsuits, is claiming compensation for alleged damages to competition caused by the members of a cartel for the production and distribution of peroxides and perborates on which the European Commission levied a fine in 2006. Edison is being sued due to Ausimont's involvement in the antitrust proceedings launched by the Commission. However, the proceedings are still in the preliminary phase. This is because, in 2013, the judge in the proceedings decided to submit some pretrial questions to the Court of Justice of the European Union, which handed down Decision No. C-352/13 on May 21, 2015.	The merit proceedings are continuing with the exchange of briefs between the parties, following the judge held the hearing documentation for his decision.

9. OTHER NOTES

9.1 INFORMATION PURSUANT TO IFRS 3 REVISED

The year 2018 was characterized by:

1) Some business combination's transactions related to:

- **Gas Natural Vendita Italia Spa (GNVI);**
- **Attiva Spa;**
- **Zephyro Spa;**
- **Idroelettrica Brusson Srl and Idroelettrica Cervino Srl.**

These transactions are reflected in the financial statements in accordance with IFRS 3 revised "Business Combinations," recognizing the acquired assets, liabilities and contingent liabilities at fair value at the acquisition date (Purchase Price Allocation or PPA), as detailed below.

2) Finalization of the PPA process related to some companies acquired during last quarter of 2017:

- **Frendy Energy**, for which there were no valuation differences compared to the discussion provided in the 2017 Consolidated Financial Statements, to which reference is made;
- **Energon Facility Solutions (now Edison Facility Solutions)**, acquired by Fenice on December 20, 2017 and for which a preliminary amount of 15 million euros was recognised as goodwill at December 31, 2017; as at December 31, 2018 the recognized goodwill was reduced to about 7 million euros, following the identification of additional intangible assets for approximately 11 million euros, representing the valuation of customer lists, net of the related deferred taxes for 3 million euros.

The business combination's transactions carried out during 2018 are described below.

Gas Natural Vendita Italia Spa (GNVI)

On February 22, 2018, following the European Competition clearance, Edison Spa completed the acquisition of the 100% of GNVI from Gas Natural Fenosa for a price, subject to adjustment, of about 193 million euros and in addition the payment of financial interests for about 2.5 million euros fully recognized in income statement.

The company commercializes natural gas and electricity with a customer portfolio consisting of around 500,000 customers. This acquisition is part of Edison Group strategy to become market leader in the retail sector and, at the same time, to strengthen its position in Southern Italy, namely in Puglia, Calabria and Sicily regions.

The PPA process identified about 122 million euros as intangible assets related to the customer list and about 79 million euros as goodwill, the last one resulting from *inter alia* the development and the synergies expected from the company's integration into Edison Group. These amounts should be viewed definitive.

COMMITMENTS

It is worth of mentioning that, as at December 31, 2017, commitments were recorded for 203 million euros following the binding agreement signed on October 13, 2017 by Edison and Gas Natural Fenosa for the acquisition of GNVI and the contract for the long-term supply of gas from the Shah Deniz II field. These commitments have been cancelled in 2018 with the finalization of the acquisition.

Attiva Spa

On May 18, 2018 Edison Energia acquired from Soleil Group the 100% of Attiva Spa for an amount of about 19 million of euros subject to price adjustment.

The company operates in the market of natural gas sales in all municipalities in the province of Lecce and in some municipalities in the provinces of Bari, Brindisi and Taranto with about 30,000 customers. Through this acquisition Edison Energia strengthens and increases its customer base in Southern Italy.

The PPA process identified about 7 million euros as intangible assets related to the customer list and about 13 million euros as goodwill, the last one resulting from *inter alia* the development and the synergies expected from the company's integration into Edison Group. These amounts should be viewed definitive.

Zephyro Spa

As more widely commented in paragraph 1.3 Main changes in the scope of consolidation compared with December 31, 2017, during 2018 Fenice acquired 99.93% of the share capital represented by Zephyro ordinary shares and 99.05% of total capital, for an overall disbursement of 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.

The PPA process, carried out at the date of acquisition of the majority stake and thus the control, has identified intangible assets for about 58 million euros and a goodwill for about 4 million euros. These amounts should be viewed provisional at the moment since, pursuant to the IFRS 3 revised, the valuation becomes final 12 months after the date of acquisition. Purchases of shareholdings made after the date of acquisition of control have been treated as transactions between shareholders and posted to equity; at Edison Group's level this led to the recognition in shareholders' equity attributable to Parent Company shareholders of a negative amount of about 5 million euros.

Idroelettrica Brusson Srl and Idroelettrica Cervino Srl

During October Edison Spa acquired 100% of share capital of Idroelettrica Brusson Srl and Idroelettrica Cervino Srl, companies operating in mini-hydroelectric sector. The fair value of net acquired assets is in line with the price paid.

The recorded amounts should be viewed provisional at the moment since, pursuant to the IFRS 3 revised, the valuation becomes final 12 months after the date of acquisition.

The following table summarizes the values of assets and liabilities identified during the business combination's transactions described above, as well as the acquisition prices and the contribution to income statement for 2018 of the acquired entities, starting from the acquisition date.

Fair value of acquired assets and liabilities (in millions of euros)	GNVI	Attiva	Zephyro	Idroelettrica Brusson and Idroelettrica Cervino	Total business combinations
ASSETS					
Property, plant and equipment	1	-	48	24	73
Intangible assets	128	7	59	1	195
Equity investments	-	-	1	-	1
Deferred-tax assets	7	-	2	-	9
Assets for financial leasing	3	-	-	-	3
Total non-current assets	139	7	110	25	281
Inventories	18	-	-	-	18
Trade receivables	148	5	47	1	201
Current tax receivables	1	-	3	-	4
Other current assets	14	-	3	-	17
Cash and cash equivalents	7	1	9	-	17
Total current assets	188	6	62	1	257
Total assets (A)	327	13	172	26	538
LIABILITIES					
Provisions for employee benefits	1	-	1	-	2
Provisions for risks and charges	1	-	1	1	3
Deferred-tax liabilities	34	2	16	4	56
Non-current financial debt	-	-	11	7	18
Total non-current liabilities	36	2	29	12	79
Trade payables	50	1	30	-	81
Current tax payables	3	-	1	-	4
Other current liabilities	38	3	13	-	54
Current financial debt	86	1	3	1	91
Total current liabilities	177	5	47	1	230
Total liabilities (B)	213	7	76	13	309
Fair value of net acquired assets (A-B)	114	6	96	13	229
- % attributable to Edison	100%	100%	70.66%	100%	-
- Fair value attributable to Edison (C)	114	6	68	13	201
Goodwill (D-C)	79	13	4	-	96
Price of acquisition (D)	193	19	72	13	297
Cash and cash equivalents acquired (E)	(7)	(1)	(9)	-	(17)
Financial debt reimbursed (F)	86	-	-	-	86
Net price paid (D+E+F) = G	272	18	63	13	366
-% purchased after acquisition of control	-	-	28.39%	-	-
Price paid for step-up (H)	-	-	34	-	34
Total net price paid on business combination (G+H)	272	18	97	13	400
Income statement from acquisition date (in millions of euros)					
Sales revenues (*)	253	7	36	-	296
EBITDA	5	-	(2)	-	3
Depreciation, amortization and writedowns	(9)	-	(6)	-	(15)
EBIT/ Profit (Loss) before taxes	(4)	-	(8)	-	(12)
Profit (Loss)	(5)	-	(6)	-	(11)

(*) Including transactions with other companies of Edison Group.

9.2 OTHER COMMITMENTS

In the following table are indicated the other commitments outstanding to be considered in addition to the ones disclosed, as a complement of information and homogeneousness of topic, in the previous chapters.

(in millions of euros)	12.31.2018	12.31.2017	Change
Guarantees provided	1,103	1,140	(37)
Other commitments and risks	32	31	1
Total for the Group	1,135	1,171	(36)

Guarantees provided (1,103 million euros) were determined based on the undiscounted amount of contingent commitments at the end of reporting period. They consist mainly of guarantees provided by the Group's parent company or by banks with the Parent Company's counter-guarantee to secure the performance of contractual obligations by subsidiaries and affiliated companies. They also include, guarantees issued to third parties concerning activities on the Power Exchange, in particular to the GME, plus sureties issued to the individual operators with which the Group carries out electricity and gas trading activities.

Please also note that with regard to **other commitments and risks** (32 million euros) are considered also the procurement of CO₂ certificates and Certified Emission Reductions (CERs)/ Emission Reduction Units (ERUs), for the 2013-2020 period; Edison Spa signed Amended Agreements to the original Emission Reductions Purchase Agreements (ERPA) to purchase CERs in China for up to 26 million euros. These agreements represent extensions of contracts already held by Edison Spa and originally signed for the 2008-2013 period.

Unrecognized commitments and risks

The main commitments and risks that were unrecognized, pertaining to Hydrocarbons Operations, are in relation to long-term contracts for the importation of natural gas from Russia, Libya, Algeria and Qatar, for a total maximum nominal supply of 14.4 billion cubic meters of natural gas a year. These contracts have terms ranging from 1 to 16 years. The table below provides a breakdown of the timing for the supply of natural gas, based on minimum contractual deliveries:

		within 1 year	from 2 to 5 years	over 5 years	Total
Natural gas	Billions of m ³	12.8	40.0	87.0	139.8

The economic data are based on prospective pricing formulas.

With reference to these contracts Edison has undertaken discussions and commercial negotiations with some counterparties.

Furthermore, based on the outstanding contract in place with Terminale GNL Adriatico, Edison benefits from 80% of the terminal's regasification capacity until 2034, for an annual fee of about 100 million euros.

9.3 INTERCOMPANY AND RELATED-PARTY TRANSACTIONS

In line with the Group policies, the economic, balance sheet and financial transactions in place as at December 31, 2018 with related parties are shown below, in accordance with the disclosure required by IAS 24. These transactions are implemented under the scope of normal operations and regulated at contractual conditions established by the parties in line with ordinary market practices.

(in millions of euros)	Related parties pursuant to IAS 24			Total for related parties	Total for financial statement item	Impact %
	With unconsolidated Edison Group companies	With controlling companies	With other EDF Group companies			
Balance Sheet transactions:						
Investments in companies valued by equity method	68	-	3	71	71	100.0%
Investments at fair value through profit and loss and other investments	2	-	-	2	3	66.7%
Other non-current financial assets	52	-	-	52	66	78.8%
Trade receivables	-	-	92	92	1,654	5.6%
Current tax receivables	-	29	-	29	43	67.4%
Other current assets	3	6	25	34	387	8.8%
Current financial assets	3	-	-	3	3	100.0%
Cash and cash equivalents	-	28	1	29	149	19.5%
Non-current financial debt	-	60	-	60	353	17.0%
Trade payables	1	4	82	87	1,580	5.5%
Current tax payables	-	51	-	51	65	78.5%
Other current liabilities	1	2	12	15	222	6.8%
Current financial debt	13	15	-	28	218	12.8%
Income Statement transactions:						
Sales revenues	12	5	920	937	9,159	10.2%
Other revenues and income	2	1	5	8	154	5.2%
Commodity and logistic costs	(9)	-	(548)	(557)	(7,419)	7.5%
Other costs and services used	(3)	(18)	(35)	(56)	(651)	8.6%
Net financial income (expense) on debt	-	(2)	-	(2)	(5)	40.0%
Other net financial income (expense)	4	12	-	16	(3)	n.s.

A) Transactions with unconsolidated Edison Group companies

These outstanding transactions relating to unconsolidated Group companies, joint ventures and affiliated companies, primarily include:

- financial transactions, consisting in lending facilities;
- commercial transactions, mainly related to the electric power sector.

Relating to Investments and Other non-current financial assets please refer to the chapter 5. Fixed Assets and provisions.

B) Transactions with controlling companies

B.1 Transactions with Transalpina di Energia (TdE)

Consolidated Corporate Income Tax (IRES) Return Filed by Transalpina di Energia Spa

Please refer to the chapter 7. Taxation

Intercompany current account

Please note that at December 31, 2018, the current account established by Edison Spa with TdE had a debit balance of 5 million euros (4 million euros at December 31, 2017).

B.2 Transactions with EDF Sa

Cash pooling

Please note that at December 31, 2018, the Edison Spa current account dedicated to cash pooling with EDF Sa had a credit balance of 28 million euros (140 million euros at December 31, 2017).

Credit Lines

As at December 31, 2018, there are in place credit lines granted to Edison Spa:

- the revolving credit line provided in 2017 with a two-year duration for a nominal value of 600 million euros. This credit line is fully available at December 31, 2018.
- medium/long-term credit facility, granted in 2015 (for a maximum amount of 200 million euros), earmarked for investment projects and originating from a credit facility provided by EIB to EDF Sa. As at December 31, 2018, a total of 70 million euros had been drawn (60 million euros in non-current financial debt; 10 million euros in current financial debt).

For more details please refer to the chapter 6. Shareholders' equity, financial debt and cost of debt.

Other transactions

With regard to contracts for services rendered by EDF Sa (mainly financial and insurance) and other recharges of expenses, the costs for the year amounted to about 18 million euros, which include, *inter alia*, an annual brand fee for about 1 million euros. In the context of financial transactions, Edison entered into transactions to hedge the exchange rate risk that, affected by currency trends, generated net realized income for 12 million euros.

C) Transactions with other EDF Group companies

The main operating transactions with other EDF Group companies are provided below:

(in millions of euros)	EDF Trading Ltd	EDF EN Services Italia	Citelum	Others	Total
Balance Sheet transactions:					
Trade receivables	83	-	9	-	92
Other current assets	24	-	-	1	25
Trade payables	74	7	-	1	82
Other current liabilities	12	-	-	-	12
Income statement transactions:					
Sales revenues	895	1	23	1	920
Electric power and natural gas	886	-	23	-	909
Realized commodity derivatives	3	-	-	-	3
Margin on physical trading activities	6	-	-	-	6
Other revenues	-	1	-	1	2
Other revenues and income	2	-	-	3	5
Commodity and logistic costs	(548)	-	-	-	(548)
Electric power and natural gas	(610)	-	-	-	(610)
Realized commodity derivatives	64	-	-	-	64
Sundry items	(2)	-	-	-	(2)
Other costs and services used	-	(29)	-	(6)	(35)
Maintenance	-	(29)	-	-	(29)
Professional services	-	-	-	(6)	(6)

Referring to EDF Trading, it is worth mentioning that from the September 1st, 2017, is in force the MASA (Trading Joint Venture and Market Access Services Agreement); the so-called *profit sharing* (remuneration mechanism) is booked in "Other revenues and income". For more details please refer to the chapter 4. Market risk management.

Furthermore, note that during the year insurance reimbursement for about 3 million euros were obtained by Wagram Insurance Company.

The costs towards EDF EN Services Italia are referred to the maintenance of E2i power plants.

10. CRITERIA AND METHODS

10.1 COMPARABILITY

As described above in chapter 1. Introduction, in 2018 the new IFRS 15 and IFRS 9 accounting standards were adopted. Moreover, given the numerous projects that IASB is developing on the topic of “**Effective Communication**”, Edison decided to introduce a new mode of exposure in order to make the Financial Statements information more relevant, effective, and further in line with the expectations of its Stakeholders.

Thus, primary statements have been revised and supplemented and comparative data for 2017 have been appropriately restated.

For an understanding of the issues related to the application of the new standards, please refer to the comments in paragraph 1.1 Newly applied standards.

Instead, below are highlighted the primary changes introduced by the new exposure mode, which is aimed to provide a more immediate understanding of performance and events that took place during the year, also considering the concept of materiality and interest for readers of financial statements.

Based on the expectations of the Edison Group’s Stakeholders, it was decided to review in depth the notes, by aggregating them by homogeneous topics, divided into chapters, instead of detailing them for single item of Income Statement and Balance Sheet Statement; moreover, it was decided to highlight in a separate chapter (chapter 8. Non-Energy Activities) the amounts and events referred to the operations that are now in charge of Edison as universal successor of Montedison and that are outside current Group’s business.

All this involved also a review of the items shown in Income Statement and Balance Sheet Statement; find below the main changes introduced.

Consolidated Income Statement

- The detail of operating costs has been expanded
- Depreciation and amortization have been presented separately from writedowns
- Other income (expense) referred to Non-Energy Activities have been shown separately
- The detail of Financial income (expense) has been expanded

Consolidated Balance Sheet

- The detail of Other Assets and Other Liabilities has been expanded, highlighting also the Fair Value
- Investment property have been reclassified to Property, plant and equipment
- Hydrocarbon concessions and Other intangible assets have been reclassified in the single item Intangible assets
- The detail of Provisions for risks and charges has been expanded, highlighting also provisions for Non-Energy Activities

The following tables show the reconciliation between the values published in 2017 Consolidated Financial Statements and those now exposed for comparative purposes.

CONSOLIDATED INCOME STATEMENT

(in millions of euros)	2017 published	Exposure reclassifications	2017 with new exposure	Effect of new accounting standards: IFRS 15	2017 restated
Sales revenues	9,940	-	9,940	(1,157)	8,783
Other revenues and income	143	-	143	-	143
Total net revenues	10,083	-	10,083	(1,157)	8,926
Raw materials and services used (-)	(8,969)	8,969	-	-	-
Commodity and logistic costs (-)	-	(8,183)	(8,183)	1,157	(7,026)
Other costs and services used (-)	-	(572)	(572)	-	(572)
Labor costs (-)	(311)	-	(311)	-	(311)
Receivables (writedowns)/reversals	-	(61)	(61)	-	(61)
Other costs (-)	-	(153)	(153)	-	(153)
EBITDA	803	-	803	-	803
Net change in fair value of derivatives (commodity and exchange rate risk)	(221)	-	(221)	-	(221)
Depreciation, amortization and writedowns (-)	(655)	655	-	-	-
Depreciation and amortization (-)	-	(486)	(486)	-	(486)
(Writedowns) and reversals	-	(169)	(169)	-	(169)
Other income (expense) net	115	31	146	-	146
Other income (Expense) non Energy activities	-	(31)	(31)	-	(31)
EBIT	42	-	42	-	42
Net financial income (expense)	(52)	52	-	-	-
Net financial income (expense) on debt	-	(12)	(12)	-	(12)
Other net financial income (expense)	-	(33)	(33)	-	(33)
Net financial income (expense) on assigned trade receivables without recourse	-	(7)	(7)	-	(7)
Income from (Expense on) equity investments	(31)	-	(31)	-	(31)
Profit (Loss) before taxes	(41)	-	(41)	-	(41)
Income taxes	(122)	-	(122)	-	(122)
Profit (Loss) from continuing operations	(163)	-	(163)	-	(163)
Profit (Loss) from discontinued operations	-	-	-	-	-
Profit (Loss)	(163)	-	(163)	-	(163)
Broken down as follows:					
Minority interest in profit (loss)	13	-	13	-	13
Group interest in profit (loss)	(176)	-	(176)	-	(176)

CONSOLIDATED BALANCE SHEET

(in millions of euros)	12.31.2017 published	Exposure reclassifications	12.31.2017 with new exposure	Effect of new accounting standards: IFRS 9	12.31.2017 restated
ASSETS					
Property, plant and equipment	3,657	5	3,662	-	3,662
Investment property	5	(5)	-	-	-
Goodwill	2,313	-	2,313	-	2,313
Hydrocarbon concessions	322	(322)	-	-	-
Intangible assets	154	322	476	-	476
Investments in associates	67	(67)	-	-	-
Available-for-sale investments	1	-	1	(1)	-
Investments in companies valued by the equity method	-	64	64	-	64
Investments at fair value through profit and loss and other investments	-	3	3	1	4
Other non-current financial assets	80	-	80	-	80
Deferred-tax assets	467	-	467	-	467
Non-current tax receivables	-	34	34	-	34
Other non-current assets	302	(178)	124	-	124
Fair Value	-	144	144	-	144
Assets for financial leasing	-	-	-	-	-
Total non-current assets	7,368	-	7,368	-	7,368
Inventories	182	-	182	-	182
Trade receivables	1,656	-	1,656	-	1,656
Current tax receivables	8	17	25	-	25
Other current assets - other receivables	840	(333)	507	-	507
Fair Value	-	316	316	-	316
Current financial assets	6	-	6	-	6
Cash and cash equivalents	260	-	260	-	260
Total current assets	2,952	-	2,952	-	2,952
Total assets	10,320	-	10,320	-	10,320
LIABILITIES AND SHAREHOLDERS' EQUITY					
Share capital	5,377	-	5,377	-	5,377
Reserves and retained earnings (loss carryforward)	601	-	601	-	601
Reserve for other components of comprehensive income	113	-	113	-	113
Group interest in profit (loss)	(176)	-	(176)	-	(176)
Total shareholders' equity attributable to Parent Company shareholders	5,915	-	5,915	-	5,915
Shareholders' equity attributable to minority shareholders	288	-	288	-	288
Total shareholders' equity	6,203	-	6,203	-	6,203
Provisions for employee benefits	42	-	42	-	42
Provisions for risks and charges	1,249	(997)	252	-	252
Provisions for decommissioning and remediation of industrial sites	-	692	692	-	692
Provisions for income tax liabilities	-	58	58	-	58
Provisions for risks and charges for non Energy activities	-	247	247	-	247
Deferred-tax liabilities	76	-	76	-	76
Other non-current liabilities	65	(65)	-	-	-
Fair Value	-	65	65	-	65
Non-current financial debt	221	-	221	-	221
Total non-current liabilities	1,653	-	1,653	-	1,653
Trade payables	1,696	-	1,696	-	1,696
Current tax payables	19	33	52	-	52
Other current liabilities	588	(293)	295	-	295
Fair Value	-	260	260	-	260
Bonds	4	-	4	-	4
Current financial debt	157	-	157	-	157
Total current liabilities	2,464	-	2,464	-	2,464
Total liabilities and shareholders' equity	10,320	-	10,320	-	10,320

10.2 CRITERIA AND METHODS OF CONSOLIDATION

The financial statements used for consolidation purposes are the latest statutory or consolidated statements of the individual companies or business operations, approved by respective corporate governance bodies, with the adjustments required to make them consistent with Group accounting principles. In the event that the financial year does not coincide with the calendar year, situations approved by the respective Boards of Directors that reflect the Group's financial year have been considered.

Subsidiaries are consolidated using the global line-by-line method beginning from the date on which the Group effectively acquired control. On said date, the carrying amount of equity investments is eliminated by offsetting it against the underlying interest in the respective shareholders' equity, and the individual assets and liabilities and contingent liabilities are measured at their fair value. Any residual value, if positive, is recognised in the item "Goodwill". In particular, if the purchase is carried out in several phases, at the date on which control is acquired, the entire equity investment held is remeasured at fair value; thereafter, any additional acquisition or disposal (assuming that the control is maintained) of stakes in investments is managed as a transaction between shareholders recognised in equity. The acquisition costs incurred are always recorded immediately in the income statement; the changes in contingent consideration are recognised in income statement.

The portions of equity and profit or loss for the period attributable to minority shareholders are shown separately in the financial statements.

Investee companies cease to be consolidated from the date when control is transferred to a third party; the sale of an equity interest that causes loss of control results in the recognition in the income statement of (i) any gain or loss determined as the difference between the proceeds from the sale and the corresponding pro rata interest in the shareholders' equity of the investee sold to a third party; (ii) any result attributable to the divested company carried among the other components of comprehensive income that can be reclassified into profit or loss; and (iii) the result from the adjustment to fair value, measured on the date of the loss of control, of any minority interest retained by Edison.

Companies managed through contractual agreements, pursuant to which two or more parties who share control through unanimous consent have the power to direct relevant decisions and govern exposure to future variable returns, that qualify as joint operations are recognised by the proportional method directly in the separate financial statements of the entities that are parties to the agreements. In addition to recognizing the attributable share of assets and liabilities, expenses and revenues, the corresponding obligations must also be evaluated. Similarly, when a company participates in a joint operation through contractual agreements, even without sharing joint control, it recognizes in the individual financial statements its stake of assets, liabilities, costs and revenues as well as the obligations of which it is entitled under contract.

Other interests in joint ventures and affiliated companies over which a significant influence can be exercised, but which do not qualify as joint operations, are valued by the equity method.

Subsidiaries that are in liquidation or are parties to composition with creditors proceedings are not consolidated and are carried at their estimated realizable value; their impact on the Group's total assets and liabilities and net financial debt is not significant.

Significant assumptions in determining control in accordance with IFRS 12

IFRS 10 provides the definition of control: an entity controls an investee when it is exposed, or has rights, to its returns from its involvement and has the ability to affect those returns through its power over the investee.

With regard to this principle, it's worth to mentioning that the Edison Group consolidates line by line some companies even though it does not hold the majority stake; including:

- a company in the hydroelectric area Dolomiti Edison Energy (owned at 49%). The purpose of this company and the manner in which it was established ensure that the voting rights are not the dominant factor in determining control, as they mainly concern current activities of a residual nature. Significant activities are governed through contractual agreements. These agreements expose Edison to a majority of the variable returns and give it the power to influence the returns through the management of significant activities (more specifically, the management, withdrawal at predetermined prices and dispatching of electric power).
- In the renewable energy area, the company E2i, owned at 30% through Edison Partecipazioni Energie Rinnovabili Srl. In this entity, a portion of the relevant activities is managed through contracts executed in 2014, mainly off-take and development (handled by Edison) and O&M (activity assigned to EDF EN Services Italia Srl), and the residual variability is mainly related to investment decisions on repowering and development projects. Furthermore thanks to the governance established, which provides *inter alia* for the right to exercise a call option in the event of a deadlock, the voting rights are not the dominant factor in determining control. Therefore Edison controls the entity as it has the power to manage the residual variability with regard to investment decisions on repowering and development projects, because it has the power, within certain thresholds and with an unlevered IRR that may not be lower than the one defined by shareholders from time to time, to unilaterally carry out repowering and development projects through decisions made by the Chairman, whom Edison appoints (special right of Edison under the Bylaws). On the other hand, no such rights are provided to the other investor. The effective exercise of this power is verified from time to time.

IFRS 10 specifies that in determining control attention should be paid to the purpose and objectives of the investee, the risks that are transmitted to the parties involved and the level of involvement that the party exercising control had in defining the structure of the investee. In this regard, Edison's full involvement demonstrated from the start its power to significantly affect and influence the relevant activities; moreover Edison, thanks to the signing of the offtake contract, continues to manage the energy produced by the plants operated by E2i; specifically, the delivery of the electric power at predetermined prices and its dispatching are handled by Edison under a contract for its own benefit. Thus, Edison has exposure to variable returns and has the ability to affect those returns through its powers under the Bylaws. Edison is indeed relevant with regard to any decisions and no majority on significant matters can exist without Edison. Moreover, the adoption of any significant resolution by the Shareholders' Meeting regarding changes in the governance system, as reflected in the Bylaws and the existing contracts, and its implementation requires a qualified majority and, in the event of a deadlock, Edison can exercise a call option; these rights provided under the Bylaws can be deemed to be substantive and, consequently, relevant in determining control over E2i.

Consolidation of foreign companies and criteria used to translate items denominated in foreign currencies

Assets and liabilities of foreign companies that are denominated in currencies other than the euro are translated at the exchange rates in force at the end of the reporting period. Income and expenses are translated at the average rates for the year. Any resulting gains or losses are recognized in equity, more specifically in the "Reserve for other components of comprehensive income", until the corresponding equity investment is sold.

Upon first-time adoption of the IFRS principles, cumulative translation differences generated by the consolidation of foreign companies were written off and, consequently, the reserve recognized in the consolidated financial statements reflects only cumulative translation differences that arose after January 1, 2004.

Transactions in foreign currencies are recognized at the exchange rate in force on the transaction date. Monetary assets and liabilities are translated at the exchange rates in force at the end of the reporting period. Any resulting foreign exchange translation differences and those realized when the positions are closed are recognized as financial income or expense.

10.3 VALUATION CRITERIA

10.3.1 Use of estimated values

The preparation of the consolidated financial statements and the accompanying notes requires the use of estimates and assumptions both in the measurement of certain assets and liabilities and the valuation of contingent liabilities. The actual results that will arise upon the occurrence of the relevant events could differ from those estimates.

The estimates and assumptions used are revised on an ongoing basis, and the impact of any such revision is immediately recognized in the financial statements.

The use of estimates is particularly significant for the following topics:

- the evaluation that property, plant and equipment and intangible assets, including goodwill, are recognised in the financial statements for a value no higher than their recoverable amount ("impairment testing"). First and foremost, the impairment testing process calls for testing the sustainability of the value of the individual assets broken down into Cash Generating Units (CGUs) and, subsequently, a test on goodwill with reference to the aggregates of the CGUs to which it was allocated ("Electric Power Operations" and "Hydrocarbons Operations"). Finally, due to the presence of general expenses that aren't allocated and couldn't be objectively related to the abovementioned CGUs, the test is performed on the Group as a whole (so-called "second level" impairment test).

The CGUs, which have been identified in a way that is consistent with the Group's organizational and business structure, are assets that generate cash inflows independently, through their continued use and have a two-fold dimension related, on one hand, to the source of production and relative technology and, on the other, the current outlet market, further distinguished by the reference country.

At each reporting date, Edison verifies whether there is any indication that an asset may have suffered a loss in value (impairment indicator), with the exception of goodwill, which is annually subjected to mandatory impairment testing.

IAS 36 defines the recoverable amount as the higher of the fair value of an asset or cash generating unit, less costs to sell, and its value in use. Thus, the recoverability of the value of fixed assets is verified by comparing the carrying amount recorded in financial statements with the related recoverable value, after deducting from both the values of any risk provision recognised for costs to decommission and remediate sites.

The recoverable amount is calculated as the value in use through the discounting of cash flows expected from the use of the asset or a CGU as well as the amount expected from its disposal at the end of its useful life. This process entails the use of estimates and assumptions to determine both the amount of future cash flows and the corresponding discounting rates. Future cash flows are based on the most recent economic-financial plans developed by the management with reference to the functioning of productive assets (production, operating and capital expenses, useful life of the assets), the market environment (sales, prices of reference commodities, margins) and the evolution of the regulatory and legislative framework. In particular, in developing future cash flows, reference was made to:

- the 2019 budget approved by the Board of Directors on December 7, 2018;
- the 2020-2022 Medium-Term Plan presented to the Board;
- the long-term plan drawn up by senior management.

When the valuation entails estimate beyond the forecast period included in the economic-financial plans developed every year by the management, projections based on conservative growth assumptions are used.

The valuation of assets entailed an estimation of cash flows until the end of the useful life of the fixed assets including, if present, a residual value when activities are completed.

Specifically, to determine the recoverable amount of goodwill, a terminal value was calculated that is consistent with the long-term plan based on business continuity assumptions. In detail were valued: the investment costs necessary for the renewal of the expiring hydroelectric

concessions, the repowering of thermoelectric assets, the useful life's extension of renewable power plants and the reconstitution of hydrocarbon reserves in the long term.

These assumptions and the corresponding financials were deemed to be suitable for impairment test purposes by the Board of Directors of February 14, 2019, which approved the results.

With reference to the businesses in which the company operates, the factors with the greatest importance in estimating future cash flows are:

- for activities related to Electric Power Operations: the PUN and Spark Spread scenarios, developments in Italian sector regulation in terms of rules and incentives for producers (e.g., capacity payment), and the trend in domestic demand;
- for the Hydrocarbons Operations CGUs: the price of oil commodities, natural gas and EUR/USD exchange rate scenarios;
- for the goodwill, the growth rate used to assess the terminal value.

The discount rates are calculated through the determination of the weighted average cost of capital (WACC), considering the specific risks of the activities and countries in which the Group operates and are based on data observable in the financial markets.

The Company relies on an independent expert to determine the recoverable amount and, through statistical simulation techniques (Montecarlo method), weights the cash flows linked to variables with the greatest risk of volatility (capacity payment remuneration rates, parameters of discount rates and growth rates, the level of non-discretionary investments to maintain normal business operating conditions).

For the results of the test conducted in 2018, please refer to the paragraph 5.1 - section 5.1.4 Impairment test pursuant to IAS 36.

- The valuation of certain provisions for risks and charges, such as:
 - **Provisions for decommissioning and remediation of industrial sites.** The assessment of the future liabilities arising from the obligation of decommissioning and remediation of industrial sites is a complex process based on technical and financial estimates performed by the Management and supported, when necessary, by independent experts' appraisals. These liabilities reflect the estimated costs of dismantling, removal and restoration that the Group will incur at the end of the production and functioning of a industrial site to restore the environmental conditions according to the standards required by national legislation and/or specific contractual clauses.

The initial evaluation of the remediation costs, deducted the estimated revenues arising from the sale of any recoverable part, is assessed considering the forecasted inflation at the time of the decommissioning and calculating the present value at a free-risk rate. The evaluation is made on prudential assumptions considering the market conditions and the legal and technological framework at the time of the assessment. The initial amount is then recorded with the carrying amount of the industrial asset to be remediate and it is subject to depreciation; as counter-item is booked a provision for decommissioning for the same amount. Considering the time component of the provision, the amount is yearly updated by its financial component and the charge is booked at income statement in financial expenses.

At the end of any reporting period, the evaluations are updated with the aim to guarantee that the amounts recognized are the best estimate of the potential future cost and, in case of material adjustment, the amounts are revised. The main drivers potentially determining a revision are: a change in the useful life of the production site, market scenarios, technological progress, changes in the environmental rules, fluctuations of discount and inflation rates.

In this context, it is worth mentioning the specificity of the hydrocarbons Exploration & Production sector which is impacted by the oil market scenario, the estimates of reserves, the technological complexity and the dedicated legislation. These activities are usually performed in joint ventures and are disciplined by specific contractual clauses which may include the decommissioning phase.

- **Provisions for legal and tax disputes**, among which the types requiring a greater use of Management assumptions and estimates are **the provisions related to legal proceedings substantially for environmental damage** (Non-Energy Activities), related to legal and arbitral disputes ranging in different types and involving the Group as a party via Edison Spa as universal successor of Montedison Spa, merged in it. In detail, the provisions recognized in relation to disputes arising from events over the time, related to the management of chemical production plants already held by Montedison Group – that were object, from 1990s to 2010, of a wide-range divestment policy in accordance with the Group choice to convert its activity to the energy sector - the present quantification of the provisions was determined as residual amount of the original accrual referred to the specific dispute, considering the juridical complexity, the type of proceeding and also the uncertainty about the evolution of every proceeding in terms of duration and thus of the outcomes. The quantification and the review of these provisions are part of a recurring process of assessment based on what stated above; likewise, and in general, the periodical assessment also includes the quantification and updating of the other provisions for risk related to legal and arbitral disputes.

For the purposes enounced in paragraphs 1.2 Presentation formats of the Financial Statements adopted by the Group and 10.1 Comparability, because the impact at Income Statement and Balance Sheet of the abovementioned disputes are outside the current Group's business, it is isolated in the financial statements as Non-Energy Activities and its disclosure is included in chapter 8. Non-Energy Activities.

- Measurement of certain sales revenues, specifically sales revenues of electric power and natural gas to end customers. These revenues are booked considering the invoiced sales of the year - based on the periodic readings of meter devices – and an estimation of the supplied commodity not yet invoiced at the end of the reporting period.

The estimation is calculated with specific algorithms taking into account the nature of the commodity (electricity and natural gas) and the typology of customer supplied and considering:

- 1) volumes distributed (on the basis of information provided by third parties in charge of transportation and distribution);
- 2) end consumers historical consumption profiles;
- 3) network losses and adjustments depending on atmospheric conditions or other drivers which may affect the consumption profiles

Concerning the first point, the existing regulatory framework encompass the possibility to volumes adjustments up to five years after the consumption period and this is the main source of uncertainty in the natural gas sale estimation. The second point, on the other hand, is the main driver in the electricity consumption estimate notably for residential customers.

At the end of any reporting period, the revenues from natural gas and electricity sales to residential and end customers include an estimation on the consumption of the last two months.

10.3.2 Focus on new accounting principles

Below it is reported the integration to what was already written in short in paragraph 1.1 Newly applied standards.

10.3.2.1 IFRS 15 “Revenue from contracts with customers”

According with this new accounting standard, the recognition of revenue from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the contractual commitments to transfer goods and/or services to a customer (so-called performance obligation); (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified; (v) recognition of the revenue only when the associated performance obligation is satisfied, i.e. after the transfer to the customer of goods and/or services agreed. The transfer is considered fulfilled when the customer has the control of the good and/or the service, which can occur at a precise moment (at a point in time) or during a period (over time).

At the moment of first-time adoption, Edison chose to apply the new standard retrospectively with the restatement of the comparative financial statements of 2017 with the following exemptions: (i) concerning contracts yet fulfilled, starting and ending in the same reporting period, revenues were not restated; (ii) concerning contracts agreed, which include a variable income, it was maintained the price of the operation at the date in which the contract was fulfilled, without estimating the amounts of the variable income for the comparative reporting periods; (iii) for all the reporting periods disclosed before the first-time adoption date were not re-determined the prices referring at the remaining performance obligations.

In detail, following the review performed on the contracts, two are the rules whom application required the restatement of 2017 financial statements, which led to an offset between revenues and costs with no impact on the EBITDA:

- a. **“principal versus agent”**, on the basis of which, in relation to specific contracts, the qualification of Edison as “agent” requires a presentation which highlights only the Agent margin;
- b. **“combination of contracts”** concerning the **identification of the performance obligation**. IFRS 15 establishes that a separate performance obligation may be (i) a “distinct” good or service or (ii) a series of distinct goods or services which are substantially the same and which have the same pattern of transfer to the customer. If the goods or services promised, even if included in several contracts, are not distinct, an entity must combine those goods or services with other goods or services promised so as to identify a single and distinct performance obligation. In this regard, concerning certain sales and purchases of electricity, 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.

10.3.2.2 IFRS 9 “Financial instruments”

The rules of IFRS 9 were applied prospectively upon transition, starting from January 1, 2018, without restatement of the previous year's figures. Concerning the description of the accounting standards applied to previous year's figures, please refer to the Consolidated Financial Statements 2017.

To complete the information already reported in paragraph 1.1 Newly applied standards, in this section more disclosure is provided about the choices taken in applying (i) the classification of financial assets, (ii) the new methodology of impairment of financial assets, which include receivables and (iii) the new standards concerning hedge accounting:

- a. **classification of financial assets:** in the determination of the classification of financial assets the business model adopted by the Group and the characteristics of cash inflows were taken into account. In particular, the trade receivables were classified as held-to-collect and sell; the other receivables as held-to-collect and the minor shareholdings and the other financial investments as investments at fair value through profit and loss;
- b. **expected credit losses model:** the new methodology is based on a predictive approach, based on the probability of default of the counterparty and the recovery capacity in the event in which the default event is verified (so-called loss given default). In estimating the impairment of receivables (i) were used official ratings, when available, or internal ratings already used in making decisions about granting credit to customers, to determine the probability of default of the counterparties; (ii) for retail customers, without specific internal ratings, a simplified cluster-based approach was implemented, breaking customers down on the basis of homogeneous risks; (iii) was identified the recovery capacity in the case of counterparty default based on previous experiences and different recovery methods than can be employed;
- c. **hedge accounting: the new guidelines include**, with reference to the previous standard IAS 39 applied till December 31, 2017, **changes of the rules regulating the hedge**

accounting relationships, aligning their assessment logics to those used by the Group's risk management activity. The new principle allows, indeed, to apply the hedge accounting on a prospective basis from January 1, 2018, also to group of items and to risk components of non-financial items (e.g. items included in commodities' price formula) only in case the hedged item could be reliably measured.

In transition, the existing hedge relationships were analysed with regard to the new principle and, in some cases, the previous hedge relationships were reviewed and extended in line with the risk management objectives; specifically:

- the hedge relationships so designated under IAS 39 and which were equally defined under IFRS 9 weren't impacted in the transition;
- on the contrary, if the previously designed hedge relationship ceased and a new relationship was designed to reflect the risk management objectives, the newly designed hedge relationship was applied only prospectively from the transition date while the fair value previously booked - if any - remained, waiting for the realization of the positions, in the income statement or in the cash flow hedge reserve.

10.3.2.3 IFRS 16 "Leases"

Applicable from January 1, 2019, it will replace IAS 17 and will amend the method of accounting for operating leases for lessees.

The rules of IFRS 16 will be applied prospectively upon transition, starting from January 1, 2019, adopting some practical expedients allowed, for which the contracts lasting less than 12 months and some contracts of negligible value will be excluded from the transition. Based on this new standard, a lease is defined as a contract for which the lessee is entitled to control the use of an identified asset, for a determined period, in exchange for a consideration. The application of the new principle to the identified contracts will determine:

- in the balance sheet: the initial recognition (i) of an asset, which represents the right of use pursuant to IFRS 16 that will be subject to systematic amortization over the shortest of the technical and financial useful life and the residual term of the contract and (ii) of a financial liability equal to the present value of future minimum compulsory lease payments that the lessees will have to pay starting from January 1, 2019 and that will be reduced over time as the lease fees are paid.
- In profit and loss: an improvement of the EBITDA for the derecognition of the lease fees and the booking of (i) the amortization of the right of use and (ii) the financial expenses on the liability recorded.

10.3.3 Other valuation criteria

10.3.3.1 Net Working Capital

Inventories

Inventories attributable to the Industrial Activities are valued at purchase or production cost, including incidental expenses, determined primarily by the FIFO method, or at estimated realizable value, based on market conditions, whichever is lower. They may include environmental securities purchased for resell.

Trade receivables, Other assets, Trade payables, Other liabilities

They are defined financial instruments. Their initial amount is recognized at fair value; concerning trade receivables which don't include a material financial component, the value of initial recognition is the price of the transaction. The assessment of their recoverability is performed using the Expected Credit Losses model disciplined by IFRS 9; please refer to paragraph 1.1 Newly applied standards and the previous section 10.3.2 Focus on new accounting principles.

The full amount of operating grants is recognized in the income statement when the conditions for recognition can be met. Items that qualify as operating grants include the incentives provided for the production of electric power with facilities that use renewable sources which are measured at fair value in accordance with IAS 20.

Exchanges between goods or services of a similar nature and value do not determine the recording of revenues as they are not representative of sales transactions.

About the conditions for derecognizing of receivables and payables from the balance sheet, please refer to the comments below concerning other financial assets and liabilities.

Valuation of long-term take or pay contracts

Under the terms of medium/long-term contracts for the importation of natural gas, the Group is required to take delivery of a minimum annual quantity of natural gas. If delivery of the minimum annual quantity is not achieved, the Group is required to pay the consideration attributable to the undelivered quantity. This payment can be treated either as an advance on future deliveries or as a penalty for the failure to take delivery. The first situation (advance on future deliveries) occurs in the case of undelivered quantities at the end of the reporting period for which there is a reasonable certainty that, over the remaining term of the contract, the shortfall will be made up in future years by means of increased deliveries of natural gas, in excess of minimum annual contract quantities. The second situation (penalty for failure to take delivery) occurs in the case of undelivered quantities for which there is no expectation that the shortfall can be made up in the future. The portion of the payment that qualifies as an advance on future deliveries is initially recognized in "Other non current assets" pursuant to IAS 38. The recognized amount is maintained after periodical ascertaining that: i) over the residual duration of the contract, the Group estimates that it will be able to recover the volumes below the contractual minimum (quantitative valuation); ii) it is believed that the contracts entail, over their entire residual lives, expected positive net cash flows based on approved Company plans (economic valuation). These recoverability assessments are also applied to quantities that, while scheduled for delivery, were still undelivered and unpaid at the end of the reporting period, the payment for which will occur in the following period. The corresponding amount is recognized as a commitment.

Advances are reclassified to inventory only when the Company actually takes delivery of the gas or are recognized in profit or loss as penalties when it is unable to take delivery of the gas. In the evaluation of the expected realizable value of the gas inventory may be taken into account, as a price adjustment, if applicable, any contractual renegotiations on a threeyear basis of the price of delivered natural gas.

10.3.3.2 Derivatives

Financial derivatives, including embedded derivatives which are separated from the primary contract, are assets and liabilities measured at fair value.

In the context of the risk management strategy and purposes, the classification of derivatives as hedges requires: (i) to check the presence of an economic relationship between the derivative and the hedged item which could offset the related fluctuation in value without being affected by counterpart's credit risk; (ii) to define an hedge ratio coherent with the risk management objectives in the context of the risk management strategy defined by the Group. The change of risk management objectives, the end of the conditions stated above for the classification of derivatives as hedges or the start of rebalancing operations will determine the prospective end, complete or partial, of the hedging relationship.

The Group applies extensively the hedge accounting, specifically:

- a) when derivatives hedge the risk of changes in the fair value of the hedged items (Fair Value Hedge), derivatives are measured at fair value with changes recognized directly in the income statement; accordingly, the hedged items are adjusted to reflect, in the income statement, changes in fair value associated with the hedged risk;
- b) when derivatives hedge the risk of fluctuations in the cash flow of the hedged items (Cash Flow Hedge), any change in the fair value of the derivatives considered effective is in a first time recognized in equity reserve and in other components of comprehensive income and, later, transferred to the income statement in conjunction with the gains or losses generated by the hedged item.

It should be noted that the economic effect of the trades related to the purchase or sell of commodities made for the Group's needs for the ordinary course of business and for which it is expected the settlement through the physical delivery of the related goods, are recognized on an accrual basis (so-called own use exemption).

The fair value of financial instruments that are traded on an active market is based on their market price at the end of the reporting period. The fair value of financial instruments that are not traded on an active market is determined using appropriate valuation techniques.

10.3.3.3 Tangible, intangible assets and goodwill

Property, plants and equipment

In the financial statements, these assets are shown at purchase or production cost, or at their conveyance value, including any attributable incidental costs and direct costs deemed necessary to make them operable, net of any capital grants.

After the acquisition property, plants and equipment are booked using the cost model.

Costs incurred for maintenance performed at regular intervals, in particular in thermoelectric (so-called major maintenance and/or revamping) and wind power (so-called refitting) sectors, are added to the respective assets and are written off over the remaining useful lives of the assets. The estimated realizable value that the Group expects to recover at the end of an asset's useful life is not depreciated. Property, plant and equipment are depreciated each year on a straight-line basis at rates based on technical and financial estimates of the assets' remaining useful lives.

The table that follows shows the ranges of the depreciation rates applied by the Group:

	Electric Power Operations		Hydrocarbons Operations		Corporate	
	min.	max.	min.	max.	min.	max.
Buildings	1.0%	15.0%	2.0%	3.0%	3.0%	5.0%
Plant and machinery	1.0%	17.0%	5.0%	27.0%	4.0%	14.0%
Other assets	3.0%	25.0%	10.0%	37.0%	1.0%	20.0%

The depreciation of the portion of assets that is transferable at no cost is taken on a straight-line basis over the remaining term of the respective contracts (taking into account any renewals/ extensions) or their estimated useful lives, whichever is shorter.

Upon first-time adoption of the IFRS principles, the Group used fair value as deemed cost. As a result, accumulated depreciation and amortization and the provision for writedowns booked through January 1, 2004 were derecognized.

Beginning on January 1, 2009, borrowing costs directly attributable to the acquisition, construction or production of an asset with a significant useful life are capitalized, when the investment amount exceeds a predetermined threshold. Until December 31, 2008, financial expense was not capitalized.

Intangible assets and Goodwill

Intangible assets are shown at purchase cost. After the acquisition they are booked using the cost model and are depreciated on a straight-line base on the base of the expected useful life. The intangible assets recorded have a finite useful life.

Goodwill is not amortized, but the recoverability of their carrying amounts is tested at least once a year (impairment test); eventual writedowns cannot be reversed in subsequent periods.

Hydrocarbons sector's property, plants and equipment and intangible assets

A relevant part of the property, plant and equipment and intangible assets of the hydrocarbon sector is depreciated in accordance with the **unit of production (UOP) method**; according to this method the depreciation rate is determined as the ratio between the quantities produced during the year and the estimated remaining available reserves at the beginning of the year; the value of the initial reserves is based on the best and most recently updated estimates available at the end of each period.

Using the UOP method are depreciated the plants appurtenant to hydrocarbon production concessions and the related costs incurred to close mineral wells, clear the drill site and dismantle or remove structures recognized as assets as well as the concessions.

Hydrocarbon concessions, exploration activities and measurement of mineral resources

The costs incurred to **acquire mineral leases** or extend the duration of existing concessions are recognized as "Intangible assets" and amortized on a straight-line basis over the length of the lease in the exploration phase. If an exploration project is later abandoned, the residual cost is immediately recognized in the income statement.

Exploration costs and costs incurred in connection with geological surveys, exploratory testing, geological and geophysical mapping and exploratory drilling are recognized as "Intangible assets" but their full amount is amortized in the year they are incurred.

Development costs related to successful mineral wells and **production costs incurred to build facilities to extract and store hydrocarbons** are recognized as "Property, plant and equipment", in accordance with the nature of the asset, and are depreciated by the UOP method.

The costs incurred to shut down wells, abandon the drill site and dismantle or remove the equipment (**decommissioning costs**) are capitalized and amortized in accordance with the UOP method.

Hydrocarbon production concessions are amortized in accordance with the UOP method.

In addition, a test is conducted each year to make sure that the carrying amounts of these assets are not greater than their realizable value, computed by discounting future cash flows which are estimated based on future production programs, or their market value if higher.

Environmental Securities

The Group secures a supply primarily of CO₂ emissions rights to meet its own requirements in the exercise of its industrial activities.

Specifically, "Intangible assets" can include emissions rights, which are recognized at the cost incurred to acquire them, provided that the rights carried by the Group at the end of the reporting period represent a surplus over its requirements of such instruments, based on the emissions released during the year. Emissions rights allocated free of charge and utilized for the compliance purpose are recognized at a zero carrying value. Since these assets are designed for instantaneous use, they are tested for impairment and cannot be amortized. Their recoverable value is their value in use or their market value, whichever is greater. On the other hand, if, at the end of the reporting period, the volume of the emissions actually generated is greater than the volume of allocated emissions and any purchased emissions, a special provision for risks is recognized to account for the difference. Any emissions rights that are surrendered each year, based on the volume of polluting emissions released into the atmosphere each year or the production generated, will be deleted (so-called compliance) using any reserves for risks set aside the previous year.

The costs attributable to the period are recorded as “Commodity and logistic costs” (this item includes, if any, those referred to facilities divested during the period attributable to the seller). During the year, the expected costs are calculated valuing at market prices the difference between the emissions of the period and the rights owned; in the case of which there are hedging derivatives related to the purchases of rights (typically futures with physical delivery at the end of the year), their fair value is recorded as an adjustment of the expected cost.

10.3.3.4 Provisions for risks and employee benefits

Employee Benefits

The Group provides short-term benefits to employees (e.g. leave, production bonus, flexible benefits related to welfare services and performances), whose costs are accrued in the period during which the employee works for the Group.

Concerning the provision for employee severance indemnities, it should be noted that, in accordance with Budget Law No. 296 of December 27, 2006, only the liability for vested employee severance benefits that remained at the Company was valued for IAS 19 purposes, since the portion applicable to future vesting benefits is being paid to separate entities (supplemental pension funds or INPS funds). Following the enforcement of this law and as a result of these payments, the Company has no further obligations with regard to the work that employees will perform in the future. So, the Group considers the portion accrued before the abovementioned reform as a “defined-benefits plan”, while the portion accrued after the reform a “defined-contribution plan”.

Provisions for risks and charges

Provisions for risks and charges are recognized when there is an obligation at the date of financial statements and are evaluated at the best estimation of the charges required to fulfill the above stated obligations. The estimation is assessed at any financial statements date and, when necessary, a new quantification is reflected. For further information, please see the previous section 10.3.1 Use of estimated values.

10.3.3.5 Shareholders’ equity, financial debt and cost of debt

Dividends are recognized when the shareholders are awarded the rights to collect them, which generally occurs in the year when the disbursing investee company holds a Shareholders’ Meeting that approves a distribution of earnings or reserves.

Financial assets are initially recognized at fair value; after the initial recognition, financial assets that generates contractual cash flows consisting only in capital repayment and interests are evaluated at amortized cost.

The recoverability assessment of financial assets not evaluated at fair value with effects on income statement is performed using the expected credit losses model envisaged by IFRS 9; please see paragraph 1.1 Newly applied standards and the previous section 10.3.2 Focus on new accounting principles.

Financial liabilities, except for derivatives, are initially recognized at fair value of the consideration received, net of transaction costs directly attributable and, then, are evaluated at amortized cost.

Financial income and **expense** is recognized when accrued.

Derecognition of financial assets and liabilities

Financial assets are derecognized when they no longer convey the right to receive the related cash flows and substantially all of the risks and benefits conveyed by the ownership of the assets have been transferred or when an asset is deemed to be totally non-recoverable after all necessary recovery procedures have been carried out.

Financial liabilities are derecognized when the corresponding contractual obligations are extinguished. Changes to existing contract terms can qualify as an extinguishing event if the new terms materially alter the original stipulations and, in any case, when the present value of the cash flows that will be generated under the revised agreements differs by more than 10% from the value of the discounted cash flows of the original liability.

Financial assets and liabilities are offset in the balance sheet when there is a legal right to offset, currently exercisable, and there is the intention to settle the obligation on a net basis (i.e. to recover the asset and settle the liability simultaneously).

10.3.3.6 Taxation

Current tax liabilities and assets are evaluated at the amount that is expected to be paid at Tax Authorities, calculated applying the tax rates in force or substantially in force at the date of financial statements.

Deferred-tax assets are recognized only when their future recovery is probable. The valuation of deferred-tax assets must be carried out taking into account the Company's planning horizon, based on available approved Company plans.

The deferred-tax liability on retained earnings of Group companies is recognized only if there is truly an intent to distribute those earnings and provided that the tax liability is not cancelled when a consolidated tax return is filed.

The tax treatments for which there is uncertainty about their application are evaluated separately or in conjunction with other situations of tax ruling uncertainty depending on the approach which better represents the resolution. The Group records the uncertain tax treatments on the basis of the probability that the Tax Authority will accept this treatment. The assessment of the uncertain tax treatment can be performed using one between the two methods that represent better the uncertain tax treatment: i) the most probable amount, ii) the expected value. Please refer also to what stated at the previous section 10.3.1 Use of estimated values.

11. OTHER INFORMATION

11.1 ADDITIONAL DISCLOSURE ABOUT NATURAL GAS AND OIL (unaudited)

11.1.1 Reserves of natural gas and oil

“Proven” reserves of gas and oil (P1) are estimated quantities of natural gas and crude oil that it is believed, with reasonable certainty and based on the evidence of available geological and engineering data, can be extracted in future years from known deposits at current economic and operating conditions and at the prices and costs on the date the estimate is made.

“Developed proven” reserves are the quantities of hydrocarbons that it is estimated can be recovered from existing wells with the existing equipment and operating methods.

“Undeveloped proven” reserves are the estimated quantities of hydrocarbons that may be recovered in future years from known deposits with new development investments to drill new wells and build the required production facilities.

“Probable” gas and oil reserves (P2) are estimated quantities of natural gas and crude oil that it is estimated could be recovered by drilling new wells, reworking existing wells to develop untapped formations and benefits resulting from a lowering of the operating pressure. These reserves are not classified as “proven” due to lack of evidence and/or conclusive evidence and are based on known formations, assuming larger on-site volumes, by extending mineralization to hypothetical, unconfirmed contacts. Probable reserves should be viewed as having a lower degree of certainty than proven reserves.

“Possible” gas and oil reserves (P3) are estimated quantities of natural gas and crude oil that it is estimated could be produced from known formations, the volume of which is estimated at the spill point, absent certain contacts. The assumption is to extend the mineralization to the maximum allowable depth, which, usually, coincides with the structural spill point. Obviously, the development of these reserves presupposes the drilling of appraisal wells and the reserves are clearly more uncertain than probable reserves.

Estimates of proven and probable reserves of natural gas and crude oil at December 31, 2018 were certified at the end of January 2019 by Studio di Ingegneria Mineraria (SIM).

The methods applied to estimate reserves, make production projections and determine the timing of development investments entail a margin of uncertainty. The accuracy of any estimate of reserves is a function of the quality of available information and engineering and geological valuations. Compared with estimates made, subsequent results of drilling programs and production tests could require upward or downward adjustments of the initial estimates. Changes in the price of natural gas and crude oil could also have an effect on the quantity of reserves, in that reserve estimates are based on prices and expected costs in effect on the date the estimates are made.

The table below shows the changes that occurred during 2018 to estimated proven reserves, developed and undeveloped, of natural gas and crude oil.

Developed and undeveloped proven reserves of natural gas and oil (*)	Italy		Egypt		Other countries		Total	
	Gas	Oil	Gas	Oil	Gas	Oil	Gas	Oil
Reserves at 12.31.2017 (A)	6.10	30.55	9.82	9.85	4.69	10.17	20.61	50.57
Changes in 2018:								
- revision of previous estimates	0.45	(1.14)	0.16	0.03	0.28	1.10	0.90	(0.01)
- purchases or sales of mineral rights	-	-	-	-	-	-	-	-
- extensions, discoveries and other increases	-	-	-	-	-	-	-	-
- production	(0.37)	(1.67)	(1.64)	(1.69)	(0.28)	(0.63)	(2.30)	(3.99)
Total changes (B)	0.08	(2.81)	(1.48)	(1.66)	0.00	0.47	(1.40)	(4.00)
Reserves at 12.31.2018 (A+B)	6.18	27.74	8.34	8.19	4.69	10.64	19.21	46.57

(*) Reserves of natural gas are stated in billion of cubic meters; reserves of crude oil are stated in millions of barrels.

In addition to the proven reserves described above, the Edison Group has probable reserves totaling 14.4 billion cubic meters equivalent, of which about 35% is located in Italy.

11.1.2 Capitalized costs relating to hydrocarbon assets in production

Capitalized costs represent the total cost of property, plant and equipment and concessions relating to reserves and of other ancillary non-current assets used in the production of hydrocarbons with details of accumulated depreciation, amortization and writedowns.

Capitalized costs at December 31, 2018 relating to hydrocarbon production assets (in millions of euros)	Italy	Egypt	Other	Total
Gross capitalized costs	1,524	1,985	766	4,275
Accum. depreciation, amortization and writedowns	(1,253)	(1,409)	(430)	(3,092)
Total net capitalized costs	271	576	336	1,183

11.1.3 Costs incurred in 2018 to acquire, explore and develop natural gas and crude oil deposits

The costs incurred represent costs capitalized during the year to the extent they were incurred in connection with the acquisition, exploration of hydrocarbon and deposit development.

Costs incurred in 2018 for acquisition, exploration and development (in millions of euros)	Italy	Egypt	Norway	UK	Algeria	Other	Total
Acquisitions	-	-	-	-	-	-	-
Exploration costs	-	7	4	16	-	2	29
Development costs	20	45	52	8	14	-	139
Total incurred costs	20	52	56	24	14	2	168

11.2 SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

In accordance with CONSOB Communication No. DEM/6064293 of July 28, 2006, we note that in the year were not occurred significant non-recurrent transactions.

11.3 TRANSACTIONS RESULTING FROM ATYPICAL AND/OR UNUSUAL ACTIVITIES

The Edison Group declares that it did not execute atypical and/or unusual transactions in 2018 as defined in the CONSOB Communication No. DEM/6064293 of July 28, 2006.

11.4 INFORMATION PURSUANT TO ARTICLE 1, SECTIONS 125-129, LAW NO. 124 OF 2017

Please note that the following table does not include cash inflows of 2018 deriving from green certificates, feed-in tariff, white certificates and "conto energia" incentives, as they represent a consideration for supplies and services provided.

Idroelettrica Brusson S.r.l.

(Values in euros, presented according to a "cash criterion")

Description of the contribution received (if higher than 10,000 euros each)	Lender of the contribution	Amount
Contribution on leasing interests	Regione Autonoma Valle D'Aosta through Confidi Valle D'Aosta S.c.	23,983.72
Total contributions received in 2018		23,983.72

It should also be noted that Edison Stoccaggio Spa has a debt related to the financing contributions related to Legislative Decree no. 164/2000, granted by the Emilia Romagna Region, for the fields of S. Potito and Cotignola in relation to the work program for the assessment of the suitability for their conversion to storage of natural gas. These incentives amount to about 1,728 thousand of euros for S. Potito and 1,888 thousand of euros for Cotignola (both 50% in capital account and 50% in the form of a loan to be repaid in 5 years at a rate of 0.5% per year). This debt as at December 31, 2018 is equal to 917 thousand of euros (1,278 thousand of euros in 2017).

SIGNIFICANT EVENTS OCCURRING AFTER DECEMBER 31, 2018

January 2019 - Edison Exploration & Production Spa, company controlled by Edison, made a significant discovery in the North Sea off Britain, in the Glengorm prospect. The drilling of the well, situated at a depth of 5,056 meters, confirmed the presence of the high quality Upper Jurassic reservoir, meeting a column of 37 m of high quality gas / condensate and confirming the field's significant potential. Further drilling and tests will be conducted to assess the field's resources and productivity. Edison Exploration & Production participates in Glengorm through its subsidiary Euroil with a share of 25% in partnership with Total (25%) and CNOOC International (operator which holds 50%).

Milan, February 14, 2019

The Board of Directors
By Marc Benayoun
Chief Executive Officer

SCOPE OF CONSOLIDATION AT DECEMBER 31, 2018

LIST OF EQUITY INVESTMENTS

Company name	Head office	Currency	Share capital	Consolidated Group interest (a)		Interest held in share capital		Type of investment relationship (c)	Notes (c)
				12.31.2018	12.31.2017	% (b)	by		

A) Investments in companies included in the scope of consolidation

Companies consolidated line by line

Group Parent Company									
Edison Spa	Milan (IT)	EUR	5,377,000,671						
Electric Power Operations									
Assistenza Casa Spa - Electric Power Activities	Milan (IT)	EUR	50,000	51.00	51.00	51.00	Edison Energia Spa (single shareholder)	S	(i)
Bargenergia Srl (single shareholder)	Milan (IT)	EUR	10,000	51.00	-	100.00	Comat Energia Srl	S	(i)
Cellina Energy Srl (single shareholder)	Milan (IT)	EUR	5,000,000	100.00	100.00	100.00	Edison Spa	S	(i)
Comat Energia Srl	Milan (IT)	EUR	120,000	51.00	51.00	51.00	Edison Energy Solutions Spa (single shareholder)	S	(i)
Compagnia Energetica Bellunese CEB Spa (single shareholder)	Milan (IT)	EUR	1,200,000	88.28	86.12	100.00	Sistemi di Energia Spa	S	(i)
Conef Solutions Slu	Madrid (E)	EUR	3,001	100.00	100.00	100.00	EDF Fenice Iberica Slu	S	-
Consorzio Esco Energy	Milan (IT)	EUR	10,000	50.51	-	51.00	Zephyro Spa	S	-
Consorzio SST Scarl	Trento (IT)	EUR	10,000	51.00	51.00	51.00	Edison Facility Solutions Spa (single shareholder) ex Energon Facility Solutions Spa (single shareholder)	S	-
Dolomiti Edison Energy Srl	Trento (IT)	EUR	5,000,000	49.00	49.00	49.00	Edison Spa	S	-
E2i Energie Speciali Srl	Milan (IT)	EUR	4,200,000	24.99	24.99	30.00	Edison Partecipazioni Energie Rinnovabili Srl	S	-
Ecologica Marche Srl	Monsano (AN) (IT)	EUR	20,000	75.00	51.00	75.00	Sersys Ambiente Srl (single shareholder)	S	(v)
EDF Fenice Iberica Slu	Madrid (E)	EUR	12,000,000	100.00	100.00	100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	-
Edf Fenice Maroc	Casablanca (MA)	MAD	300,000	100.00	100.00	99.97 0.03	EDF Fenice Iberica Slu Fenice Qualità per l'Ambiente Spa (single shareholder)	S	-
EDF Fenice Services Iberica Sl	Madrid (E)	EUR	6,010	100.00	100.00	100.00	EDF Fenice Iberica Slu	S	-
Edison Energia Spa (single shareholder) - Electric Power Activities	Milan (IT)	EUR	40,000,000	100.00	100.00	100.00	Edison Spa	S	(i)
Edison Energy Solutions Spa (single shareholder) - Electric Power Activities	Milan (IT)	EUR	5,000,000	100.00	100.00	100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)
Edison Engineering Sa	Athens (GR)	EUR	260,001	100.00	100.00	100.00	Edison Spa	S	-
Edison Facility Solutions Spa (single shareholder) ex Energon Facility Solutions Spa (single shareholder)	Trento (IT)	EUR	5,650,000	100.00	100.00	100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)
Edison Partecipazioni Energie Rinnovabili Srl	Milan (IT)	EUR	20,000,000	83.30	83.30	83.30	Edison Spa	S	(i)
Energy Solutions 1 Srl (single shareholder) ex Modularis Group Srl	Rivoli (TO) (IT)	EUR	10,000	100.00	51.00	100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)
Eolo Energia Srl	Milan (IT)	EUR	10,000	54.73	54.73	49.00 51.00	E2i Energie Speciali Srl Edison Partecipazioni Energie Rinnovabili Srl	S	(i)
Fenice Poland Sp.z.o.o.	Bielsko Biala (PL)	PLZ	30,000,000	100.00	100.00	100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)
Fenice Qualità per l'Ambiente Spa (single shareholder)	Rivoli (TO) (IT)	EUR	330,500,000	100.00	100.00	100.00	Edison Spa	S	(i)
Fenice Services Polska	Bielsko Biala (PL)	PLZ	600,000	100.00	100.00	100.00	Fenice Poland Sp.z.o.o.	S	-
Fompedraza Cogeneracion Sa	Fompedraza (Valladolid) (E)	EUR	113,400	90.00	90.00	90.00	EDF Fenice Iberica Slu	S	-
Frendy Energy Spa	Milan (IT)	EUR	14,829,312	72.93	71.25	72.93	Edison Spa	S	(i)
Idroblu Srl	Milan (IT)	EUR	100,000	37.19	36.34	51.00	Frendy Energy Spa	S	(vi)
Idrocarrù Srl	Milan (IT)	EUR	20,410	37.20	36.34	51.00	Frendy Energy Spa	S	(vi)
Idroelettrica Brusson Srl (single shareholder)	Courmayeur (AO) (IT)	EUR	20,000	100.00	-	100.00	Edison Spa	S	(i)
Idroelettrica Cervino Srl (single shareholder)	Courmayeur (AO) (IT)	EUR	100,000	100.00	-	100.00	Edison Spa	S	(i)
Interecogon Srl (single shareholder)	Rivoli (TO) (IT)	EUR	110,000	100.00	100.00	100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)
Jesi Energia Spa	Milan (IT)	EUR	5,350,000	70.00	70.00	70.00	Edison Spa	S	(i)
Magnoli & Partners Srl	Cremona (IT)	EUR	10,000	60.00	-	60.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)

LIST OF EQUITY INVESTMENTS (continued)

Company name	Head office	Currency	Share capital	Consolidated Group interest (a)		Interest held in share capital		Type of investment relationship (c)	Notes (d)
				12.31.2018	12.31.2017	% (b)	by		
Pavoni Rossano Srl	Filottrano (AN) (IT)	EUR	100,000	60.00	60.00	60.00	Sersys Ambiente Srl (single shareholder)	S	(v)
Prima Aviv Energy Technologies Ltd	Ramat Gan (IL)	ILS	1,000	99.04	-	100.00	Zephyro Spa	S	-
PVB Suisse Sa	Ascona (CH)	CHF	120,000	100.00	100.00	100.00	Edison Facility Solutions Spa (Socio Unico) ex Energon Facility Solutions Spa (single shareholder)	S	-
Rendina Ambiente Srl (single shareholder)	Rivoli (TO) (IT)	EUR	50,000	100.00	100.00	100.00	Sersys Ambiente Srl (single shareholder)	S	(v)
Sersys Ambiente Srl (single shareholder)	Rivoli (TO) (IT)	EUR	1,000,000	100.00	100.00	100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)
Sistemi di Energia Spa	Milan (IT)	EUR	10,083,205	88.28	86.12	88.28	Edison Spa	S	(i)
Società Idroelettrica Calabrese Srl (single shareholder)	Milan (IT)	EUR	10,000	100.00	100.00	100.00	Edison Spa	S	(i)
Tabacchi Srl (single shareholder)	Milan (IT)	EUR	500,000	99.04	-	100.00	Zephyro Spa	S	(viii)
Termica Cologno Srl	Milan (IT)	EUR	1,000,000	65.00	65.00	65.00	Edison Spa	S	(i)
West Tide Srl (single shareholder)	Modena (IT)	EUR	20,000	100.00	100.00	100.00	Edison Facility Solutions Spa (Socio Unico) ex Energon Facility Solutions Spa (single shareholder)	S	(v)
Zephyro Spa	Milan (IT)	EUR	1,263,704	99.04	-	99.04	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)
Hydrocarbons Operations									
Amg Gas Srl	Palermo (IT)	EUR	100,000	80.00	80.00	80.00	Edison Energia Spa (single shareholder)	S	(i)
Assistenza Casa Spa - Hydrocarbons Activities	Milan (IT)	EUR	50,000	51.00	51.00	51.00	Edison Energia Spa (single shareholder)	S	(i)
Attiva Spa (single shareholder)	Milan (IT)	EUR	200,000	100.00	-	100.00	Edison Energia Spa (single shareholder)	S	(i)
Edison E&P UK Ltd	London (GB)	GBP	81,867,411	100.00	100.00	100.00	Edison Exploration & Production Spa (single shareholder)	S	-
Edison Egypt-Energy Service J.s.c.	New Cairo (ET)	EGP	20,000,000	100.00	100.00	1.00	Edison International Holding Nv	S	-
						98.00	Edison International Spa (single shareholder)		
						1.00	Edison Exploration & Production Spa (single shareholder)		
Edison Energia Spa (single shareholder) - Hydrocarbons Activities	Milan (IT)	EUR	40,000,000	100.00	100.00	100.00	Edison Spa	S	(i)
Edison Energie Spa (single shareholder) ex Gas Natural Vendite Italia Spa (single shareholder)	Milan (IT)	EUR	2,100,000	100.00	-	100.00	Edison Spa	S	(i)
Edison Exploration & Production Spa (single shareholder)	Milan (IT)	EUR	500,000,000	100.00	-	100.00	Edison Spa	S	(i)
Edison Energy Solutions Spa (single shareholder) - Hydrocarbons Activities	Milan (IT)	EUR	5,000,000	100.00	100.00	100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	S	(v)
Edison Idrocarburi Sicilia Srl (single shareholder)	Ragusa (IT)	EUR	1,000,000	100.00	100.00	100.00	Edison Exploration & Production Spa (single shareholder)	S	(i)
Edison International Spa (single shareholder)	Milan (IT)	EUR	75,000,000	100.00	100.00	100.00	Edison Exploration & Production Spa (single shareholder)	S	(i)
Edison Norge As	Stavanger (N)	NOK	3,000,000	100.00	100.00	100.00	Edison International Spa (single shareholder)	S	-
Edison North Sea Ltd	London (GB)	GBP	2	100.00	100.00	100.00	Edison E&P UK Ltd	S	-
Edison Stocaggio Spa (single shareholder)	Milan (IT)	EUR	90,000,000	100.00	100.00	100.00	Edison Spa	S	(i)
Euroil Exploration Ltd	London (GB)	GBP	9,250,000	100.00	100.00	100.00	Edison Exploration & Production Spa (single shareholder)	S	-
Infrastrutture Distribuzione Gas Spa (single shareholder)	Selvazzano Dentro (PD) (IT)	EUR	460,000	100.00	100.00	100.00	Edison Spa	S	(i)
Corporate Activities									
Atema Dac	Dublin 2 (IRL)	EUR	1,500,000	100.00	100.00	100.00	Edison Spa	S	-
Edison Hellas Sa	Athens (GR)	EUR	263,700	100.00	100.00	100.00	Edison Spa	S	-
Edison International Development Bv	Amsterdam (NL)	EUR	18,018,000	100.00	100.00	100.00	Edison International Holding Nv	S	-
Edison International Holding Nv	Amsterdam (NL)	EUR	123,500,000	100.00	100.00	100.00	Edison Spa	S	-
Nuova Alba Srl (single shareholder)	Milan (IT)	EUR	2,016,457	100.00	100.00	100.00	Edison Spa	S	(i)
Tremonti Srl (single shareholder)	Milan (IT)	EUR	100,000	100.00	-	100.00	Edison Spa	S	-

LIST OF EQUITY INVESTMENTS (continued)

Company name	Head office	Currency	Share capital	Consolidated Group interest (a) 12.31.2017	Interest held in share capital		Carrying value (in millions of euros) (d)	Type of investment relationship (c)	Notes
					% (b)	by			
Abu Qir Petroleum Company	Alexandria (ET)	EGP	20,000	50.00	Edison International Spa (single shareholder)	-	JV	(iii)(iv)	
Ed-Ina D.o.o.	Zagreb (HR)	HRK	20,000	50.00	Edison International Spa (single shareholder)	-	JV	(iii)	
Elpedison Bv (*)	Amsterdam (NL)	EUR	1,000,000	50.00	Edison International Holding Nv	-	JV	(iii)	
Fayoum Petroleum Co - Petrofayoum	Cairo (ET)	EGP	20,000	30.00	Edison International Spa (single shareholder)	-	JV	(iii)(iv)	
Ibiritermo Sa	Ibirité - Estado de Minas Gerais (BR)	BRL	7,651,814	50.00	Edison Spa	14	JV	(iii)	
IGI Poseidon Sa-Nat. Gas Subm. Interc. Gre-Ita-Poseidon (**)	Herakleio Attiki (GR)	EUR	52,650,000	50.00	Edison International Holding Nv	17	JV	(iii)	
North Amryia Petroleum Company	Cairo (ET)	EGP	20,000	50.00	Edison International Spa (single shareholder)	-	JV	(iv)	
North Idku Petroleum Company	Cairo (ET)	EGP	20,000	50.00	Edison International Spa (single shareholder)	-	JV	(iv)	
Consorzio Barchetta	Jesi (AN) (IT)	EUR	2,100	47.62	Jesi Energia Spa	-	AC	-	
Depositi Italiani GNL Spa	Ravenna (IT)	EUR	20,000,000	49.00	Edison Spa	4	AC	-	
EDF EN Services Italia Srl	Bologna (IT)	EUR	10,000	30.00	Edison Spa	3	AC	-	
EL.IT.E Spa	Milan (IT)	EUR	3,888,500	48.45	Edison Spa	3	AC	-	
Fenice Assets Iberica Sl	Madrid (E)	EUR	10,000	40.00	EDF Fenice Iberica Slu	1	AC	-	
Iniziativa Universitaria 1991 Spa	Varese (IT)	EUR	16,120,000	32.26	Edison Spa	4	AC	-	
Italia Servizi Integrati Spa	Milan (IT)	EUR	1,000,000	40.00	Zephyro Spa	-	AC	-	
Kraftwerke Hinterrhein Ag	Thusis (CH)	CHF	100,000,000	20.00	Edison Spa	22	AC	-	
Palmanova Servizi Energetici Scarl	Zola Predosa (BO) (IT)	EUR	10,000	40.00	Edison Facility Solutions Spa (single shareholder) ex Energon Facility Solutions Spa (single shareholder)	-	AC	-	
Prometeo Spa	Osimo (AN) (IT)	EUR	2,826,285	20.91	Edison Spa	2	AC	(vii)	
San Gerardo Servizi Scarl	Zola Predosa (BO) (IT)	EUR	10,000	40.00	Zephyro Spa	-	AC	-	
Soc. Svil. Rea. Gest. Gasdot. Alg-ITA V. Sardeg. Galsi Spa	Milan (IT)	EUR	37,419,179	23.53	Edison Spa	-	AC	-	
Syremont Spa	Rose (CS) (IT)	EUR	1,325,000	22.64	Edison Spa	-	AC	(ii)	
T.E.S.I. Engineering Srl	Trento (IT)	EUR	104,000	24.00	Energon Facility Solutions Spa (single shareholder) ex Energon Facility Solutions Spa (single shareholder)	-	AC	-	
Total investments in companies valued by the equity method							71		

(*) The carrying value includes the valuation of Elpedison Sa.

Company name	Head office	Currency	Share capital	Consolidated Group interest (a) 12.31.2017	Interest held in share capital		Type of investment relationship (c)	Notes
					% (b)	by		
Elpedison Sa	Marousi Attiki (GR)	EUR	99,633,600	75.78	Elpedison Bv	-	JV	-

(**) The carrying value includes the valuation of ICGB AD.

Company name	Head office	Currency	Share capital	Consolidated Group interest (a) 12.31.2017	Interest held in share capital		Type of investment relationship (c)	Notes
					% (b)	by		
ICGB AD	Sofia (BG)	BGL	33,053,560	50.00	IGI Poseidon Sa - Nat. Gas Subm. Interc. Gre-Ita-Poseidon	-	JV	-

LIST OF EQUITY INVESTMENTS (continued)

Company name	Head office	Currency	Share capital	Consolidated Group interest (a) 12.31.2017	Interest held in share capital		Carrying value (in millions of euros) (d)	Type of investment relationship (c)	Notes (c)
					% (b)	by			
C) Investments in companies in liquidation or subject to permanent restrictions									
Auto Gas Company S.A.E. (in liquidation)	Cairo (ET)	EGP	1,700,000		30.00	Edison International Spa (single shareholder)	-	AC	-
E.E.S.CO. Srl (in liquidation)	Marcallo con Casone (MI) (IT)	EUR	150,000		30.17	Edison Facility Solutions Spa (single shareholder) ex Energon Facility Solutions Spa (single shareholder)	-	AC	-
Interenergoeffect LLC (in liquidation)	Moscow (RUS)	RUR	8,000,000		50.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	-	AC	-
Nuova C.I.S.A. Spa (in liquidation) (single shareholder)	Milan (IT)	EUR	1,549,350		100.00	Edison Spa	2.4	S	(i)
Nuova I.S.I. Impianti Selez. Inerti Srl (in bankruptcy)	Vazia (RI) (IT)	LIT in Euros	150,000,000 77,468.53		33.33	Edison Spa	-	AC	-
Poggio Mondello Srl (single shareholder)	Palermo (IT)	EUR	364,000		100.00	Nuova C.I.S.A. Spa (in liquidation) (single shareholder)	-	S	(i)
Sinergia Srl (single shareholder) (in liquidation)	Rivoli (TO) (IT)	EUR	99,000		100.00	Fenice Qualità per l'Ambiente Spa (single shareholder)	-	S	(v)
Sistema Permanente di Servizi Spa (in bankruptcy)	Rome (IT)	EUR	154,950		12.60	Edison Spa	-	NG	-
Soc. Gen. per Progr. Cons. e Part. Spa (in receivership)	Rome (IT)	LIT in Euros	300,000,000 154,937.07		59.33	Edison Spa	-	S	-
Total investments in companies in liquidation or subject to permanent restrictions							2.4		
D) Investments in other companies valued at fair value through profit and loss									
Amsc-American Superconductor	Devens (MA) (USA)	USD	212,281		0.08	Edison Spa	-	NG	-
Città Salute Ricerca Milano Spa	Milan (IT)	EUR	5,000,000		10.00	Zephyro Spa	-	NG	-
European Energy Exchange Ag - Eex	Lipsia (D)	EUR	60,075,000		0.50	Edison Spa	0.7	NG	-
Rashid Petroleum Company - Rashpetco	Cairo (ET)	EGP	20,000		10.00	Edison International Spa (single shareholder)	-	NG	-
Renit Group Srl	Giulianova (TE) (IT)	EUR	300,000		19.49	West Tide Srl	-	NG	-
Synchron Nuovo San Gerardo Spa	Zola Pedrosa (BO) (IT)	EUR	8,160,000		6.85	Zephyro Spa	-	NG	-
Total investments in other companies valued at fair value through profit and loss							0.7		
Total equity investments							74.1		

LIST OF EQUITY INVESTMENTS (continued)

Companies added to the scope of consolidation in the year ended 12.31.2018

Company name	Head office	Currency	Share capital at 12.31.2018	Consolidated Group interest
Acquired companies				
Attiva Spa (single shareholder)	Milan (MI) (IT)	EUR	200,000	100.00
Bargenergia Srl (single shareholder)	Milan (MI) (IT)	EUR	10,000	51.00
Consorzio Esco Energy	Milan (MI) (IT)	EUR	10,000	35.84
Edison Energie Spa (single shareholder)	Milan (MI) (IT)	EUR	2,100,000	100.00
Idroelettrica Brusson Srl (single shareholder)	Courmayeur (AO) (IT)	EUR	20,000	100.00
Idroelettrica Cervino Srl (single shareholder)	Courmayeur (AO) (IT)	EUR	100,000	100.00
Magnoli & Partners Srl	Cremona (CR) (IT)	EUR	10,000	60.00
Prima Aviv Energy Technologies Ltd	Ramat Gan (IL)	ILS	1,000	70.28
Tabacchi Srl (single shareholder)	Milan (MI) (IT)	EUR	500,000	70.28
Zephyro Spa	Milan (MI) (IT)	EUR	1,263,704	70.28
Established companies				
Edison Exploration & Production Spa (single shareholder)	Milan (MI) (IT)	EUR	500,000,000	100.00
Tremonti Srl (single shareholder)	Milan (MI) (IT)	EUR	100,000	100.00

LIST OF EQUITY INVESTMENTS (continued)

Companies removed from the scope of consolidation in the year ended 12.31.2018

Company name	Head office	Currency	Share capital at 12.31.2017	Consolidated Group interest at 2018	Consolidated Group interest at 12.31.2017
Sold companies					
Cryptima Luxembourg Sarl	Luxembourg (L)	EUR	12,500	51.00	51.00
Cryptima Polska Sp Zoo	Warsaw (PI)	PLZ	50,000	51.00	51.00
Cryptima Sas	Decines (F)	EUR	100,000	51.00	51.00
Modularis Sas	Decines (F)	EUR	2,000	51.00	51.00
Novaction Energies Sas	Decines (F)	EUR	150,000	51.00	51.00
Ooo Cryptima Rus	Moscow (RUS)	RUR	120,000	51.00	51.00
Merged Companies					
Alfa Idro Srl (single shareholder)	Costigliole D'Asti (AT) (IT)	EUR	20,360	72.93	71.25
C.C.S. Blu Srl (single shareholder)	Costigliole D'Asti (AT) (IT)	EUR	183,674	72.93	71.25

Notes

- (a) The consolidated Group interest is computed on the basis of the interest held in the respective share capital by the Parent Company or subsidiaries consolidated on a line-by-line basis, and by jointly controlled companies consolidated by the proportional method.
- (b) The interest in the share capital is equivalent to the ratio between the aggregate par value of all equity securities held directly and the total share capital. In this computation, the denominator (total share capital) is net of any treasury shares held.
- (c) S = subsidiary; JO = joint operation; JV = joint venture; AC = affiliated company; NG = non-Group company.
- (d) The carrying value is shown only for companies valued by the equity method or at cost, owned directly by the Parent Company. For other companies consolidated on a line-by-line basis or by the proportional method, it is shown only if it is equal to or greater than one million euros.
- (i) Company subject to the oversight and coordination of Edison Spa.
- (ii) On 1/30/07 Edison exercised the option to sell its equity investment, with respect to which the counterparty is now in default.
- (iii) From January 1, 2014, company valued with equity method according to IFRS 11.
- (iv) Operating Company acting as Agent of Edison International Spa, it should be noted that the relationships regaled on behalf of it in the execution of the Concession Agreement continue to be consolidated line by line through the separated financial statements of the company.
- (v) Company subject to the oversight and coordination of Fenice Qualità per l'Ambiente Spa (single shareholder).
- (vi) Company subject to the oversight and coordination of Frendy Energy Spa.
- (vii) Of which n. 183.699 of common shares and n. 407.136 of common share cat. A.
- (viii) Company subject to the oversight and coordination of Zephiro Spa.

The currency codes used in this report are those of the ISO 4217 International Standard.

BGL Bulgarian lev	EGP Egyptian pound	HRK Croatian kuna	PLZ Polish zloty	MAD Moroccan dirham
BRL Brazilian real	EUR Euro	ILS Israel	RUR Russian ruble	
CHF Swiss franc	GBP British pound	NOK Norwegian krone	USD U.S. dollar	

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

1. We, the undersigned Marc Benayoun, in my capacity as "Chief Executive Officer," Didier Calvez and Roberto Buccelli, in our capacity as "Dirigenti Preposti alla redazione dei documenti contabili societari", employees of Edison Spa, taking into account the provisions of Article 154-*bis*, Sections 3 and 4, of Legislative Decree No. 58 of February 24, 1998, certify that the administrative and accounting procedures applied to prepare the Consolidated Financial Statements at December 31, 2018:

- were adequate in light of the Company's characteristics; and
- were properly applied.

2. We further certify that:

2.1. the Consolidated Financial Statements:

- a) were prepared in accordance with applicable international accounting principles recognized by the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002;
- b) are consistent with the data in the accounting records and other corporate documents;
- c) provide a truthful and fair presentation of the balance sheet, income statement and financial position of the issuer and of all of the companies included in the scope of consolidation;

2.2. the report on operations includes a reliable analysis of the developments and results from operations, as well as of the position of the issuer and all of the companies included in the scope of consolidation, together with a description of the main risks and contingencies to which they are exposed.

Milan, February 14, 2019

Chief Executive Officer

Marc Benayoun

I Dirigenti Preposti alla redazione dei documenti contabili societari

Didier Calvez
Roberto Buccelli

REPORT OF THE INDEPENDENT AUDITORS



Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

INDEPENDENT AUDITORS' REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
EDISON S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Edison S.p.A. and its subsidiaries ("Edison Group"), which comprise the balance sheet as at December 31, 2018, the income statement, the other components of the comprehensive income statement, the cash flow statement and changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the balance sheet of the Edison Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA Italia"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Edison S.p.A. in accordance with the ethical requirements applicable under Italian Law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; therefore, we do not provide a separate opinion on these matters.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona
Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 09049560166 - R.E.A. Milano n. 1720239 | Partita IVA: IT 03049560166

Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"); le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informativa completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo www.deloitte.com/about.

© Deloitte & Touche S.p.A.



Impairment test on goodwill, intangible assets and property, plant and equipment

Description of the key audit matter

The Edison Group accounts for goodwill, for euros 2.403 million (23% of total assets in the consolidated financial statements at December 31, 2018), intangible assets, for euros 617 million and property, plant and equipment, for euros 3.647 million. Considering the strategic and organizational choices taken by the Edison Group, goodwill was allocated to two different groups of cash generating units (from now on "CGU"): "Electric Power Operations", for euros 1.623 million, and "Hydrocarbons Operations", for euros 780 million. The impairment test first requires verification that the carrying amounts of the CGUs, excluding goodwill, do not exceed the recoverable amounts and, subsequently, an analysis that the carrying amounts, including the goodwill allocated to the Electric Power Operations and to the Hydrocarbons Operations. Finally, the Edison Group analyses the carrying amount of assets as a whole (second level impairment test). The preparation of impairment test is carried out with the aid of an external appraiser, who estimates the recoverable amount as "value in use". Such evaluation is based on the asset's capability of generating future cash flows.

At the end of the impairment test the Edison Group recognized write-downs for euros 99 million, mainly attributable to Hydrocarbons Operations.

The impairment process carried out by the Management is complex since it includes several assumptions regarding the forecasted future cash flows from CGUs, the definition of an appropriate discount rate (WACC) and of a long-term growth rate (g-rate). In order to determine the recoverable amounts, the Edison Group took into account cash flows as reported in:

- the 2019 Budget, approved by the Board of Directors on December 7, 2018;
- the medium-term forecasts, 2020-2022, presented to the Board of Directors during the meeting mentioned above;
- the long-term forecasts elaborated by Management.

Such assumptions are affected by future expectations on market conditions. The most relevant of these variables in determining cash flows are:

- the different scenarios with reference to electricity prices (PUN) and the resulting margins (Spark spread), the evolution of Italian sectorial legislation, with specific regard to the regulation and incentivisation for electricity producers (capacity payment) and the trends of national demand for electricity, for the activities related to Electric Power Operations;
- the scenarios regarding oil commodities, natural gas and Euro/USD exchange rate for the activities related to Hydrocarbons Operations;
- the long-term discount and growth rates.



Considering the relevant value of assets accounted for within the financial statements, and the subjectivity of estimates used to determine future cash flows, as well as the key variables described above, we considered the impairment test to be a key audit matter for Edison Group consolidated financial statements.

The paragraphs "10.3.1 Use of estimated values" and "5.1.4 Impairment test in accordance with IAS 36" within the consolidated financial statements report information on the impairment test, including the effects of variations of the key variables used in implementing the impairment test.

Audit procedures performed

We first examined how the Management determined the value in use of the CGUs, taking into account procedures and assumptions on which the impairment test is based.

In particular, we carried out the following procedures, with assistance of experts:

- understanding of relevant controls carried out by Edison Group on the implementation of the impairment test on goodwill, intangible assets and property, plant and equipment;
- assessment of the reasonableness of main assumptions used to forecast cash flows, also through analysis of sector-based data (for example national demand, estimates on Gross Domestic Product growth, national energetic strategy) and collection of other relevant information for us obtained by the Management;
- analysis of actual values, compared with the original plans, in order to understand the nature of variations and the reliability of the budgeting process;
- assessment of the reasonableness of the discount rate (WACC) and the growth rate (g-rate);
- assessment of mathematical accuracy of the model used to determine the value in use of CGUs;
- verification of the correct determination of the carrying amount of CGUs, of the groups of CGUs related to Electric Power Operations and Hydrocarbons Operations, of the assets as a whole and comparison with the recoverable amount emerging from the impairment test;
- assessment of the sensitivity analysis implemented by Management;
- assessment of compliance with applicable accounting standards over the procedures implemented by Management for the impairment test;
- assessment of compliance with IAS 36 over the information disclosed by the Edison Group with reference to the impairment test.

Revenue recognition- commodities supplied between the last metering and the reporting date

Description of the key audit matter

Revenues arising from the sale of electricity and gas, amounting to euros 7.468 million, are recognized and accounted for at the moment in which the service is delivered. At the end of the fiscal year, they include the estimated revenues related to commodities supplied between the date of last metering of actual consumption and the reporting date. Such revenues are determined through the estimate of the daily consumption of each customer, taking into account historical trends as well as the atmospheric conditions and other factors that may affect consumption.



We concluded that the process of determining such revenues constitutes a key audit matter for the Edison Group’s consolidated financial statements at December 31, 2018 considering: i) discretion embedded in the nature of the recognitions; ii) relevance of these accounts; iii) high number of transactions concerning final clients; iv) effort necessary to implement the related audit procedures, which require the cooperation of expert and specialized personnel.

The paragraph “10.3.1 Use of estimated values” within the consolidated financial statements, reports the information of the revenue recognition principles implemented by the Edison Group.

Audit procedures performed

The audit procedures on revenue estimates related to the services delivered between the date of last inspection and the reporting date included:

- analysis of IT procedures, implemented by Edison Group in order to determine the amount of commodities supplied, and of the related algorithm, with the support of our IT specialists ;
- understanding of the main controls implemented by Edison Group to mitigate the risk of incorrect recognition and verification of the operating effectiveness of such controls. Also these procedures were carried out with the support of our IT specialists;
- sample based verifications aimed to ensure the completeness and accuracy of the data used by Management to determine the above mentioned estimates;
- assessment, on a sample basis, of the process through which consumption is estimated. Verification of the application of correct tariffs;
- analysis of the main parameters, related to consumptions, used to estimate the revenues;
- analysis of actual data and comparison with estimated data in order to understand the nature of differences and the reliability of the process through which recognitions are determined;
- assessment of compliance with accounting standards on revenue recognition of the information disclosed.

Estimates of provisions for decommissioning and remediation of industrial sites, provisions for risks and charges, provisions for income tax liabilities and provisions for risks and charges for non Energy activities

Description of the key audit matter

The provisions accounted for in the consolidated financial statements at December 31, 2018 include provisions for decommissioning and remediation of industrial sites amounting to euros 716 million, provisions for risks and charges amounting to euros 211 million, provisions for income tax liabilities amounting to euros 29 million and provisions for risks and charges for non Energy activities amounting to euros 250 million.

Within the account, provisions for decommissioning and remediation of industrial sites (from now on also “decommissioning”) are included. The valuation of future liabilities for decommissioning and remediation of industrial sites obligations is a complex process, based on technical and financial hypothesis of Management, using, if necessary, an evaluation issued by external specialists as a support. Such liabilities represent estimated costs for decommissioning and remediation for industrial sites



that Edison Group will have to pay when the production activities cease in order to restore the environmental conditions as required by the applicable regulation. Among decommissioning of Edison Group, those related to exploration and productions of hydrocarbons are affected by fluctuations in the oil market, estimates on reserves, technological complexity and sector specific environmental issues.

Provisions for risks and charges refer to provisions of a purely industrial nature for the various areas in which the Group operates, and also include some provisions related to the sale of equity investments and tax disputes related to property taxes.

With regard to provisions for legal and tax litigations, as mentioned in the notes, Edison Group has been involved in certain judicial procedures. Estimates produced by Management are accounted for in the accounts - "Provisions for risks and charges", "Provisions for income tax liabilities" and "Provisions for risks and charges for non Energy activities". Among the different types of procedures, those related to environmental issues are characterized by highly complex estimates on liabilities and on uncertainties deriving from Edison Group being part of several types of judicial procedures as successor of Montedison S.p.A., which was incorporated within Edison S.p.A. itself. With specific reference to provisions related to the chemical production sites which were part of the Montedison group and were included in the large disposal program that brought to the reconversion of Edison's activities in the energy sector, the current accruals are determined as a residual part of the amount initially recognized for each controversy, taking into account the complexity and diversity of the judicial cases, as well as the uncertainty regarding the final outcomes. The amount and adjournment of these provisions are periodically tested with reference to the aspects that have been mentioned; the same procedure is generally implemented for all the other legal risk provisions.

Considering the complexity of the ongoing procedures, the uncertainties regarding the estimation and magnitude of possible effects on the balance sheet, as well as on the income and cash flow statements, this topic was considered as a key audit matter.

The paragraphs "10.3.1 Use of estimated values", "5.3 Provisions for risks and employee benefits", "5.4 Contingent assets and liabilities", "7.3.3. Provisions for income tax liabilities" and chapter "8. Non-Energy activities" within the consolidated financial statements deal with all the information about provisions and uncertain tax positions.

Audit procedures performed

Our audit procedures included:

- understanding the relevant controls implemented by Edison Group in order to identify, initially evaluate and monitor proceedings and investigations at different organizational levels;
- understanding the relevant controls implemented by Edison Group in order to identify, initially evaluate and update the provisions;
- assessment of the compliance of the Management's estimates with the applicable accounting standards;
- analysis of criteria and assumptions used by Management in estimating the provisions;



- assessment of the accuracy and completeness of data used for the estimates;
- information collection from Edison Group's external legal and fiscal consultants, as well as from the internal legal office;
- analysis of external evaluations used by Management to determine decommissioning provisions, with the aid of our specialists;
- analysis of relevant documentation, including the minutes of the Board of Directors meetings, the arrangements with third parties and the monitoring schedules issued by Edison Group;
- analysis of subsequent events up to the date of our report;
- assessment of adequacy about the information disclosed in the notes with reference to such procedures in compliance with accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree n° 38/05, and, within the terms established by Law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Edison Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Edison S.p.A. or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by Law, the Edison Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. Moreover:

- we identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Edison Group's internal control.
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- We concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Edison Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Edison Group to cease to continue as a going concern.
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Edison Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group Edison's audit. We remain solely responsible for our audit opinion.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and we informed them about any relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Edison S.p.A. has appointed us on April 26, 2011 as auditors of the Edison Group for the years from December 31, 2011 to December 31, 2019.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.



REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Edison S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Edison Group as at December 31, 2018, including its consistency with the related consolidated financial statements and its compliance with the Law.

We have carried out the procedures set forth in the Auditing Standard (ISA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Edison Group as at December 31, 2018 and on its compliance with the Law, as well as to make a statement about any eventual material misstatements.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Edison Group as at December 31, 2018 and are prepared in accordance with the Law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the company and of the related context acquired during the audit, we have nothing to report.

Statement in accordance with art. 4 of CONSOB regulation in application of Legislative Decree n. 254 of December 30, 2016

The Directors of Edison S.p.A. are responsible for the preparation of the non-financial statements in accordance to Legislative Decree n. 254 of December 30, 2016.

We verified the approval of the non-financial statements by the Board of Directors.

According to art. 3, par. 10, Legislative Decree n. 254 of December 30, 2016, we perform a separate audit analysis on such statements.

DELOITTE & TOUCHE S.p.A.

Signed by
Matteo Ogliari
Partner

Milan, Italy
February 20, 2019

This report has been translated into the English language solely for the convenience of international readers.

Edison Spa

31 Foro Buonaparte
20121 Milan, Italy

Capital stock 5,377,000,671,00 euros, fully paid
in Milan - Monza - Brianza - Lodi Company Register
and Tax I.D. No. 06722600019
VAT No. 08263330014
REA Milan No. 1698754
edison@pec.edison.it

This document is also available on the
Company website: www.edison.it

Editorial coordination
External Relations and Communications Department

Art direction by
In Pagina, Saronno (Italy)

Photographs by
www.edisonmediacenter.edison.it

Cover and internal pages photos
Conceived by Stefano Boeri Architetti for Edison,
Lighthenge is an urban installation that shows the scenic
and shareable idea of energy and its wide implications
on contemporary culture and society.

Printed by
Faenza Printing Industries Srl, Milan (Italy)

Milan, March 2019

This publication was printed on environmentally friendly paper with low impact on the environment.





SV QUESTE PORTE
FATTE INDESSA EN' NOMI DELL' E VITTORE
DASSE I GIOVANI ACCORSI VOLONTARI A COMATTERE
DUCE GARIBOLDI
INAVEGHRARONO NEL MDCCLXIX LA SECONDA BISSOZZA
IL POPOLO MILANESE
RESALVATA DOPO XLI ANNI L' ERDE INCANVITTO NON DOMO
AHO QUEL SALVTO FU L' ULTIMO
MA LO ETERNA NEI CUORI E' V CHE NEL BRONZO
LA RICORDANZA DELLA PATRIA