



PRESS RELEASE

S&P UPGRADES EDISON'S LONG TERM RATING TO BBB- FROM BB+ AND CONFIRMS THE STABLE OUTLOOK. THE COMPANY IS INVESTMENT GRADE.

The rating agency has also raised its short term credit rating to "A-3" from "B".

Milan, 19 June 2018 – Edison informs that today its rating has been upgraded to investment grade by Standard&Poor's. The agency raised the long-term credit rating on Edison to "BBB-" from "BB+" and the short-term credit rating to "A-3" from "B". The outlook is Stable.

S&P explains that the upgrade of Edison's long-term credit rating reflects the company's strong operating performance and the strengthening of its financial profile in 2017. The international agency also views favorably Edison strategic focus on renewable energy and downstream operations (sales to final customers and energy efficiency services).

The recent acquisition of Gas Natural's Italian retail assets and the binding agreement to acquire a majority stake in Zephyro, are concrete demonstration of this repositioning towards the final market and pave the way to the development of synergies with Edison's gas midstream activities.

S&P's rating on Edison is supported by its leading market position in power and gas, diversified power generation fleet, critical size and diversification in gas sourcing and its full integration into EDF Group. These strengths are partly offset by Edison's average size, below average and relatively volatile profitability, diversification in E&P, considered to be more risky, as well as uncertain regulatory and market conditions in Italy.

Edison's "BBB-" rating is attributed on the basis of the stand alone creditworthiness of the company, with no rating upside deriving from its parent EDF.

The Stable outlook reflects S&P's expectation that Edison will continue benefitting from sustainable operating cash flows, stemming from gas supply contracts more aligned to the market, an efficient generation fleet and increasing contribution from renewables. According to Standard&Poor's, Edison has flexibility for its strategic development both through acquisitions and through organic growth.

Here below the full text of S&P's press release circulated on June 19, 2018.

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

Edison's External Relations Department

<http://www.edison.it/it/contatti-2>

<http://www.edison.it/it/media>

Edison Spa

Foro Buonaparte, 31
20121 Milano
Tel. +39 02 6222.7331
Fax +39 02 6222.7379
ufficiostampa@edison.it

www.edison.it



T 02 6222 7331 E ufficiostampa@edison.it

Investor Relations Edison:

Valeria Minazzi, 0262227889, valeria.minazzi@edison.it; E investor.relations@edison.it

RatingsDirect®

Research Update:

Italian Integrated Utility Edison SpA Upgraded To 'BBB-/A-3'; Outlook Stable

Primary Credit Analyst:

Claire Mauduit-Le Clercq, Paris + 33 14 420 7201; claire.mauduit@spglobal.com

Secondary Contact:

Massimo Schiavo, Paris + 33 14 420 6718; Massimo.Schiavo@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

Research Update:

Italian Integrated Utility Edison SpA Upgraded To 'BBB-/A-3'; Outlook Stable

Overview

- Edison's financial strength improved over 2017 on strong operating performance, although we anticipate acquisitions and heavy capital spending will temporarily hamper debt reduction in 2018.
- We expect Edison's credit metrics should continue to be comfortable for 'BBB-' rating in the coming years as Edison transitions its business model toward less volatile revenue streams with a combination of organic investments and external growth.
- We are therefore raising our ratings on Edison to 'BBB-/A-3' from 'BB+/B'.
- The stable outlook reflects our expectation that Edison will be able to generate sustainable operating cash flows, stemming from more balanced gas supply contracts, an efficient generation fleet, and increasing contribution from renewables. We believe the group has flexibility for acquisitions to pursue its strategic priorities.

Rating Action

On June 19, 2018, S&P Global Ratings raised its long- and short-term issuer credit ratings on Edison SpA to 'BBB-/A-3' from 'BB+/B'. The outlook is stable.

Rationale

Edison is an Italian integrated utility, focused on production, supply, and selling of electric power and hydrocarbons. The upgrade reflects Edison's solid operating performance in 2017 and resulting improved financial strength. We also view favorably management's strategic focus on long-term contracted renewables generation and on downstream operations. The recent acquisition of Gas Natural's Italian retail assets and the shortly expected acquisition of the energy services company Zephyro highlight the ongoing execution of its downstream strategic move.

Cash flow generation significantly improved in 2017, thanks to stronger-than-expected EBITDA, exceptional real-estate and nonstrategic asset disposals (about €490 million), and working capital inflows (about €200 million). Edison consequently reduced its adjusted debt to €1.2 billion as of year-end 2017 (less than €400 million as reported gross debt), from €2.1 billion in 2016. The company increased its reported EBITDA by about €150

million over the same period to €800 million, on the back of stronger exploration and production (E&P) earnings (related to a relatively more favorable commodities environment) and improved thermal generation margins, which offset the low hydro production. As a result, our adjusted funds from operations (FFO) to debt at year-end 2017 was 54% versus 26% in 2016. We expect operating performance in 2018 to be less strong, however, notably due to expected pressure on spark spreads (the difference between the price received by a generator for electricity produced and the cost of fuel needed to produce that electricity) and more importantly lower gas supply and sales margins. Nevertheless, gas supply and sales margins will remain at reasonable levels, confirming the effect of the renegotiation of long-term gas contracts, which will now be aligned with market prices. For 2019 and 2020, we expect EBITDA growth to be supported by increasing renewables generation capacity, the development of energy services business, the full integration of Gas Natural's activities, and a slight recovery of gas supply and earnings from sales.

Our ratings on Edison are supported by its leading and solidly entrenched market positions in power and gas in Italy, diversified power generation fleet, critical size and diversification in gas sourcing, and its integration into the Electricite de France (EDF) group. These strengths are partly offset by Edison's below-average and relatively volatile profitability, average size, diversification in upstream operations, and limited vertical integration, as well as adverse market conditions in Italy.

With the recent acquisition of Gas Natural's gas supply clients, Edison has increased its downstream integration, even if it still lacks a large and more stable residential retail portfolio. However, once Gas Natural's clients are fully integrated into Edison's perimeter, which we expect will occur in 2019, Edison will become the second-largest player in Italy in gas supply (after ENI) with significant critical mass and synergy potential with its gas midstream activities. At year-end 2017, Edison had about 1.1 million residential and business contracts, with a strong bias toward businesses, for which attrition rates and competition are much higher.

We see Edison's upstream division as weakening the group's business risk profile, given the inherently higher risks and capital intensity, despite providing a degree of business diversification. The relatively small size of the portfolio and its geographic positioning in the North Sea and Mediterranean areas do not provide the group a significant competitive advantage. Yet we understand that EDF group's strategy is to reduce exposure to hydrocarbon E&P, so that investments will remain contained, after the sharp reduction it initiated in 2016. In 2018, we still expect E&P activities to contribute about 35% of the group's EBITDA, owing to additional available capacity in Egypt, while decreasing to about 25% in 2019-2020.

Our assessment of Edison's financial risk profile reflects the group's relatively low leverage, with FFO to debt remaining at 30%-45% and debt to EBITDA at 1.5x-2.5x in the next two to three years.

We understand the group will be transitioning its business model in 2018 and 2019 and this transformation entails both organic growth and certain levels of external growth. Specifically in 2018, we expect Edison to participate in Italy's wind generation restructuring process with potential extra debt consolidation on its balance sheet. This comes on top of its already closed acquisitions of about €400 million to bolster its downstream exposure.

Owing to the manageable investment plan and our anticipation of low dividend payments over the coming two years, we expect that Edison will resume the reduction of its financial debt using discretionary cash flows from 2019. Over the coming years, therefore, we expect Edison will be able to maintain its FFO to debt at 30%-45% and use its extra flexibility to accelerate the reshuffling of its portfolio of renewables and downstream.

We note that our adjusted debt figure comprises significant nonfinancial debt elements, including asset-retirement obligations from the E&P activities (about €525 million), consolidation of trade receivables sold (about €395 million), and operating leases (about €110 million) at year-end 2017. We no longer include the capitalization of operating leases from liquefied natural gas terminal Rovigo (about €800 million in 2016) and we have restated our adjusted debt for 2016 to allow for comparison.

With the repayment in November 2017 of its €600 million senior unsecured bond, Edison's sources of funding rely mainly on loans from EDF and the European Investment Bank, which provides financing for specific industrial projects.

In our base case for Edison, we assume:

- Real GDP growth in Italy of 1.5% in 2018, 1.3% in 2019, and 1.2% in 2020, coupled with Italian consumer price inflation of about 1.2% over 2018, 1.3% in 2019, and 1.6% in 2020.
- EBITDA margins stable at about 8.0%-8.5% over 2018-2020, mainly impacted by lower commodity prices and lower spark spreads driving generation margins down and offset by the synergies between gas midstream and its increased retail customer base, as well as the development of energy services.
- Power prices in Italy of €43 per megawatt hour over 2018-2019.
- Annual investments averaging about €500 million over 2018-2020.
- Dividend payment of €70 million per year over 2018-2020.
- Aggregated acquisitions of about €400 million in 2018, including the already closed acquisitions of Gas Natural's Italian supply business for €273 million and a majority stake in energy services-focused company Zephyro expected for about €100 million.
- Participation in the wind generation restructuring in Italy, with potential impact on debt consolidation.
- Absence of large, debt-financed acquisitions over 2019-2020.

Based on these assumptions, we arrive at the following credit measures over 2018-2020:

- Adjusted FFO to debt of about 35% in 2018, increasing steadily into the 40%-55% range over 2019-2020.
- Adjusted debt to EBITDA of about 2.4x in 2018, decreasing into the 1.5x-2.0x range over 2019-2020.
- Adjusted EBITDA at €750 million-€850 million in 2018, depending on the EBITDA contribution of potential acquisitions.

Our assessment of Edison as highly strategic to EDF reflects our view that Italy is a key market for EDF and Edison will act as a core platform to develop that market. Edison is fully integrated into the group, and depends on EDF strategically, managerially, and financially. Under its current stand-alone credit profile (SACP) of 'bbb-', Edison does not benefit from any rating upside from its parent. Alternatively, the long-term rating on Edison is not capped by our assessment of EDF's SACP at 'bbb-', but rather by our 'A-' long-term rating on EDF.

Liquidity

We assess Edison's liquidity as strong. Projected sources of funds exceed projected uses by 1.5x over the next 12 months and by 1.0x over the following 24 months. Furthermore, we base our assessment on the full integration of Edison's treasury and funding management into that of the EDF group. Edison's cash is pooled with that of its parent, EDF, which also covers Edison's potential refinancing needs through intragroup loans. EDF's liquidity position is strong, in our opinion (see "Energy Co. Electricite de France 'A-/A-2' Ratings Affirmed Despite Still Unfavorable Market Design; Outlook Negative," published May 14, 2018, on RatingsDirect).

As of April 1, 2018, the principal sources of liquidity are:

- About €90 million in available cash.
- Projected cash FFO of about €745 million.
- About €1.12 billion in available aggregated committed and undrawn credit lines maturing beyond 12 months. They include primarily: a €600 million revolving credit facility (RCF) granted by EDF and renewed in April 2017 with a tenor of two years; and a €300 million RCF with the same tenor granted by a pool of Italian banks on a club deal basis.

Principal liquidity uses as of the same date are:

- About €250 million of debt maturities.
- Some working capital outflows of about €50 million in the next 12 months.
- About €550 million-€575 million of capital expenditures (capex).
- About €400 million of acquisitions, including for the bulk of Gas Natural's Italian assets and the Zephyro energy services company.

- About €70 million of dividends.

Edison is not exposed to financial covenants on most of its remaining debt, which is mainly composed of bilateral facilities. Minor (by size) financing facilities contain maintenance financial covenants, for which the group is fully compliant, as of Dec. 31, 2017.

Outlook

The stable outlook reflects our expectation that Edison will continue benefitting from sustainable operating cash flows, stemming from more balanced gas supply contracts, an efficient generation fleet, and increasing contribution from renewables.

In our base case, we estimate that Edison's net financial debt will increase in 2018 from the low level reported in 2017 on the back of debt-funded acquisitions and a heavy capex program. However, we expect Edison's FFO to debt will remain sustainably in the 30%-45% range over 2018-2020.

Downside scenario

We could take a negative rating action if Edison embarked on significant debt-funded acquisitions while transitioning its business model away from E&P activities. We would reassess the group's financial policy once we gain clarity on its ultimate operational focus and revenue streams. Specifically, we could see some downward rating pressure if Edison fails to sustain its FFO to debt comfortably above 30%.

Upside scenario

Rating upside is remote at this stage. Still it could be possible in the coming years if Edison improves its business mix toward more stable or more regulated activities while maintaining low leverage. We could raise the rating once the group has transitioned its business model if it shows a firmer commitment to financial discipline.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Stable/A-3

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable Rating Analysis : Neutral (no impact)

Stand-alone credit profile: bbb-

- Unsupported group credit profile: bbb- (of EDF)
- Entity status within group: Highly strategic

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Oil And Gas Exploration And Production Industry, Dec. 12, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded

	To	From
Edison SpA Issuer Credit Rating	BBB-/Stable/A-3	BB+/Stable/B

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.