



Explanatory Report of the Board of Directors and Motion

SHAREHOLDERS' MEETING OF SEPTEMBER 23-24, 2014



Report of the Board of Directors of Edison SpA
to the Shareholders' Meeting of September 23 and 24, 2014

Dear Shareholders:

You have been called to a meeting to adopt resolutions to encumber a portion of the existing reserves, for a total amount of 236,673,228.01 euros, in connection with the option exercised by the Company to bring into alignment the carrying amounts and tax bases of some depreciable and amortizable assets, as allowed by Article 1, Section 147, of Law No. 147 of December 27, 2013, as amended (2014 Stability Law).

Legislative Framework

Pursuant to the provisions set forth in the abovementioned Section 147 of the 2014 Stability Law, companies are allowed to adjust the tax bases of their assets, raising them to their corresponding higher carrying amounts, which were not relevant for tax purposes (so-called "realignment"). The realignment process may be applied to the higher carrying amounts, compared with the corresponding tax bases, shown in the financial statements at December 31, 2012 for property, plant and equipment or non-current intangible assets, as well as investments in subsidiaries or associated companies that constitute non-current financial assets. These assets and the corresponding amount misalignment must exist at December 31, 2013; however, the recognition of the new tax base amounts is not immediate, starting instead on the third year after the reference year, i.e., in 2016. The realignment may be carried out also for individual assets, at the company's discretion, it being understood that the process must be carried out for the full amount of the difference in value attributable to the assets subject of the transaction. The annual depreciation and amortization will be based on the new asset values and, in the event of asset disposals, gains and losses will be determined based on the new values.

This option involves a cost, in that it entails the payment of a 16% substitute tax, payable in three installments, without interest, with the first installment payable on the date when the income taxes for 2013 are due (final deadline: July 16, 2014), the second installment due by September 16, 2014 and the third installment due by December 16, 2014. This substitute tax is in lieu of the corporate income tax (IRES), the IRES surcharge (Robin Hood tax) and the regional tax on production activities (IRAP).



The realignment option can be formally exercised vis-à-vis the Financial Administration only upon the filing of an income tax return for the reference year, i.e., for year 2013, the return for which must be filed by September 30, 2014.

The realignment option entails the obligation to recognize in the financial statements a special reserve to which the same tax law provisions as those used for the remeasurement balances will apply. If sufficient reserves are not available, the share capital may be encumbered. The total amount encumbered shall be equal to the sum of the realignments made, net of any substitute tax paid. The encumbrance is strictly of a tax nature and, consequently, the reserves encumbered pursuant to the abovementioned provisions retain their preexisting utilization option, but with suspended taxation status.

As a result, in the event of a distribution, the amount allocated to the shareholders, increased by the 16% substitute tax, is included in the company's taxable income, subject to IRES, with a right to deduct from the resulting tax liability, as a tax credit, the substitute tax originally paid.

Moreover, Article 1, Section 142 of the 2014 Stability Law provides the option of releasing the reserves encumbered pursuant to remeasurement and realignment through the payment of a 10% substitute tax in lieu of IRES, surcharge and IRAP, payable with the same modalities as the substitute tax. As specified by the Revenue Agency, in such a case, the amount of the reserves that are being released must be computed including the substitute tax. The release option must also be formally exercised upon the filing of an income tax return.

Once the substitute tax is paid, the reserve becomes freely distributable and no longer has suspended taxation status: the release is effective immediately and, consequently, the reserve can be used for other encumbrances required by the tax laws, such as the one required by Article 109, Section 4, Letter b), of the Uniform Tax Code to cover the non-accounting deduction of certain negative components.

Choices Made by Edison SpA for Realignment Purposes

Edison, acting in accordance with criteria aimed at maximizing economic and financial benefits, realigned amounts totaling 281,754,000 euros, including 238,457,000 euros attributable to assets in the thermoelectric sector and 43,297,000 euros attributable to the hydrocarbon sector, paying in July the first installment of the 16% substitute tax amounting to 15,027,000 euros (plus an additional 60,000 euros to avail itself of a 30-day extension past the original deadline of June 16).



The differences between the tax bases and carrying amounts of the assets that still existed at December 31, 2013 originated, for the most part, from the adjustment to fair value as the deemed cost of non-current assets that existed upon transition to the IFRSs and, for a small part, from non-accounting tax-deductible depreciation and amortization applied in 2006 and 2007 pursuant to Article 109 of the Uniform Tax Code, with the wording then in effect.

As for the economic effects of the realignment, considering the new tax bases, future taxes originally recognized on the asset value differences will be no longer owed and, consequently, there is no longer a requirement to show tax liabilities recognized on the preexisting asset value difference and indicative of future tax liabilities. In this respect, the payment of a substitute tax of 45,141,000 euros will make it possible to reverse 105,658,000 euros from the provision for deferred taxes (tax provision computed at the statutory rate of 37.5%), with a positive effect of 60,517,000 euros on the income statement for 2014.

Therefore, in order to complete the realignment transaction in accordance with the legislation outlined above, a tax encumbrance must be recognized in the financial statements on a portion of the shareholders' equity (already existing at December 31, 2013) for a total amount of 236.673.228 euros, which corresponds to the realigned amounts, net of the substitute tax; to that effect, considering the composition of the shareholders' equity of Edison SpA, the appropriate choice is to encumber part of the other reserves deriving from the adjustment to fair value as the deemed cost of non-current assets upon transition to the IFRSs.

Releasing through the payment of a 10% substitute tax the reserves that would be encumbered pursuant to the realignment provisions was deemed to be neither appropriate nor beneficial.

Please note that the reserves deriving from the adjustment to the fair value as the deemed cost of non-current assets that existed upon transition to the IFRSs can be used exclusively for capital increases and to cover losses, with replenishment required.

In light of the above, in order to comply with the requirements of Article 1, Section 470, of Law No. 147/2013 and other supplemental and related provisions, it is hereby recommended to encumber a portion of the reserves, for a total amount of 236,673,228.01 euros, and specifically the corresponding portion of the reserves listed in the financial statements as "Other reserves" and deriving from the adjustment to fair value as the deemed cost of non-current assets upon transition to the IFRSs. These items will be listed with the disclosure "encumbered pursuant to Article 1, Section 470, of Law No. 147/2013."



Encumbered reserves may be allocated to share capital, but in the event of reduction in share capital and distribution to shareholders, as is the case for other remeasurement reserves already allocated to capital, they will be deemed to have distribution priority and, consequently, will be taxable.

The reserves may be used to cover losses, with no replenishment required, provided the Shareholders' Meeting adopts a resolution to that effect.

A schedule showing the changes in shareholders' equity is annexed to this Report.

The Shareholders' Meeting is thus being asked to adopt the following resolution:

Proposed resolution

“The Shareholders' Meeting:

- in view of the provisions of Article 1, Section 147, of Law No. 147 of December 27, 2013 (2014 Stability Law), pursuant to which companies are allowed to adjust the tax bases of their depreciable and amortizable non-current assets, raising them to their corresponding higher carrying amounts, as shown in the financial statements at December 31, 2012 and still in existence at December 31, 2013, which were not relevant for tax purposes (so-called “realignment”), effective as of January 1, 2016;
- being aware that Edison, acting in accordance with criteria aimed at maximizing economic and financial benefits, realigned amounts totaling 281,754,000 euros, against payment of a substitute tax for a total of 45,141,000 euros, payable in three installments, the first two installments having been already paid in July and September, with the third one due in December 2014;
- being aware of the fact that the realignment option entails the obligation to recognize in the financial statements a special reserve and that the same rules as those applicable to the remeasurement balances shall apply to the encumbered items;
- being aware of the fact that the total amount encumbered shall be equal to the sum of the realignments made, net of any substitute tax paid.
- considering that, in order to complete the realignment transaction in accordance with the legislation outlined above, a tax encumbrance must be recognized in the financial statements of Edison S.p.A. on a portion of the shareholders' equity for a total amount of 236.673.228.01 euros, which corresponds to the realigned amounts, net of the substitute tax paid, and to that effect encumber part of the existing available reserves;



- being aware of the composition of the shareholders' equity of Edison SpA, as shown in the financial statements at December 31, 2013 approved by the Shareholders' Meeting on March 28, 2014;
- taking into account the changes that occurred in the composition of the shareholders' equity due to the resolutions adopted by the abovementioned Shareholders' Meeting on March 28, 2014 concerning additions to the statutory reserve, distribution of reserves and appropriation of earnings;
- in view of the statement of financial position at June 30, 2014, which shows that the available reserves that existed at December 31, 2013, net of the changes listed in the preceding paragraph, are still in existence and that the result for the period was positive;
- being aware of the fact that the subscribed and paid-in share capital existing on the date of this Shareholders' Meeting amounts to 5,291,700,671.00 euros.

resolves

to encumber the available reserves for a total of 236,673,228.01 euros, using for that purpose the corresponding portion of the reserves listed in the financial statements as "Other reserves" and deriving from the adjustment to fair value as the deemed cost of non-current assets upon transition to the IFRSs.

With regard to the abovementioned amounts, the affected items shall be listed with the disclosure "encumbered pursuant to Article 1, Section 470, of Law No. 147/2013" and, in the event of a distribution, will be included in the company's taxable income, subject to IRES, increased by the 16% substitute tax, without prejudice to the right to claim a tax credit for the 16% substitute tax paid on any distribution to the shareholders.

Encumbered reserves may be allocated to share capital, but in the event of a reduction in share capital and distribution to shareholders, as is the case for other remeasurement reserves already allocated to capital and to the capital already encumbered by today's Shareholders' Meeting, they will be deemed to have distribution priority and, consequently, will be taxable.

The reserves may be used to cover losses, with no replenishment required, provided the Shareholders' Meeting adopts a resolution to that effect.

Milan, July 30, 2014

The Board of Directors
by: Bruno Lescoeur
Chief Executive Officer

EDISON SPA
SHAREHOLDERS' EQUITY AT DECEMBER 31, 2013
taking into account the resolution adopted on March 28, 2014

	12/31/13	CHANGES	Post Shareholders' Meeting March 2014	Capital/Reserves already encumbered	Encumberable capital/reserves	Items encumberable per Law 147/13	Reserved released per Law 147/13	Items encumbered per Section 470 Law 147/23013
SHARE CAPITAL	5.291.700.671,00		5.291.700.671,00	192.082.000,00	5.099.618.671,00			
Additional paid-in capital		0,00	0,00					
Statutory reserve	128.090.152,71	3.880.738,47	131.970.891,18	17.552.676,35	114.418.214,83			
Other reserves:								
- Reserve from remeasurement at fair value	382.362.099,36		382.362.099,36		382.362.099,36	236.673.228,01		236.673.228,01
- Sundry reserve	83.068.071,59		83.068.071,59					
	465.430.170,95		465.430.170,95					
Retained earnings (Loss carryforward)	36.663.870,07		36.663.870,07					
Earnings brought forward		11.229.284,50	11.229.284,50		11.229.284,50			
Profit (Loss) for the year	77.614.769,38	-77.614.769,38	0,00					
Total shareholders' equity	5.999.499.634,11		5.936.994.887,70			236.673.228,01		236.673.228,01

The Board of Directors
 by: *Bruno Lescoeur*
Chief Executive Officer