2015

ANNUAL REPORT

REPORT ON OPERATIONS

EDISON

CONTENTS

2015 ANNUAL REPORT

GROUP PROFILE

The energy of the future becomes more sustainable: renewable sources, energy efficiency, new services for customers, digitalization. A whole new way to look at energy as an indispensable value for the quality of life and the competitiveness of companies. The key to this future is innovation. A challenge that Edison is glad to accept, keeping alive the pioneering spirit that guided up to now the development of Europe's oldest energy company.

Edison is one of the top energy companies in Italy and Europe, with operation in more than 10 countries around the globe and a staff of more than 3,000 people in its two main areas of business: electric power and hydrocarbons (natural gas and crude oil).

Thanks to a highly efficient and diversified portfolio of electric power generating facilities ranging from combined-cycle gas turbine (CCGT) plants to hydroelectric stations, wind farms, and solar and biomass systems, Edison produced 18.5 Terawatt/hour of electricity in 2015, accounting for 6.8% of Italy's electric power production.

In the hydrocarbons business, Edison operates in Italy, Europe, the Middle East, Africa and South America, where it holds over 100 concessions and permits for the exploration and production of natural gas and crude oil, with reserves of 257.5 million barrels of oil equivalent. In 2015, Edison imported 12.7 billion of cubic meters of gas, covering 21% of Italy's total gas imports and contributing to the safety of the national energy system.

Edison sells electric power and natural gas to end customers, together with innovative energy efficiency services and solutions. In Italy, about 1.2 million business and residential customers trust Edison with managing their energy needs.

The Group is also committed to developing new gas procurement infrastructures for Italy and Europe and, through its subsidiaries, manages the transmission, storage and distribution of natural gas. Edison also engages in trading activities in electric power, gas and commodities in general.

Since 2012, Edison has been part of the EDF (Electricité de France) Group. Edison is listed on the Italian Stock Exchange, limited to its saving shares.

A LETTER TO SHAREHOLDERS

Dear Shareholders,

my commitment is to unleash the great potential of Edison, despite a challenging market environment, defining a solid path of value creation for the long term. The deep changes that characterized energy markets in recent years require to look at the future with a new approach that should be reflected not only in our strategies, but also in the value of our assets. With this in mind, the positive operating and financial results achieved in 2015 confirm that Edison is in good shape, able to react to the external environment and ready to seize opportunities in a market that is still undergoing a major transformation.

Even though the Italian economy is showing feeble signs of improvement throughout the 2015, with an increase in GDP of about 0.7%, the energy markets confirmed their weakness, characterized by consumption stagnation, exceptionally low prices and strong pressure on margins. The increases marked in 2015 in the Italian electricity consumption (+1.5% compared with 2014) and gas (+9.1% compared with 2014) were almost entirely weather related, attributable to temperature and rainfall levels, while prices for power and gas reached the bottom. Moreover, oil price dropped: in just one year, the price per barrel halved compared to about 100 dollars during the previous four years, following a downward trend that brought it at 30 dollars at the beginning of 2016.

In this challenging environment, Edison will continue to work with the aim of anticipating market and regulatory changes, leveraging its competencies and strengthening its position both in the final market and the energy services market. All of the above keeping flexible and reactive and preserving the value of its existing investments.

In Italy, the power generation is affected by a severe overcapacity that will continue to characterize the market over the medium term. Many operators are struggling to extract value from this activity and the market is facing a deep restructuring phase. The future evolution is still not clear: there is the possible consolidation of the weakest operators, on one side, and a possible change in the regulatory framework, on the other side, with a revision of the market design and the introduction of the capacity market. In this context, Edison is continuing to rationalize its thermal plants, maximizing the value of the more flexible and efficient and looking for *ad hoc* solutions for the others. Hydroelectric generation is a key part of the portfolio, and the Company is committed to preserve and expand it. This is indeed the aim of the swap between minority stakes in Alto Adige and a new concession in Friuli, as well as the new mini-hydro projects along Adda river. The key challenge for the future is to be ready for the renewal of hydro concessions, thus the company is advocating a competitive and not distortive framework. The growth in other renewable energy sources is led by E2i, the new platform implemented in 2015.

The results reported in 2015 by the activity of power and gas sales to end customers benefited of the programs implemented in the previous years aimed at reducing overdue, optimizing operating costs and increasing the level of customer service, all bolstered by the introduction of innovative products and services. In addition, the development of energy efficiency services enables the Company to offer an integrated product range to customers, in a market where differentiation is the key to attract and retain new customers. Consistently with this approach, Edison Energy Solutions continues to operate successfully in the Italian market and, in 2015, performed over 200 energy audits. By continuing in this direction and broadening the offers and the customer base, even through M&A, the Company will succeed in rebalancing its portfolio and optimizing its risk profile. A further boost to the sales to end customers could be linked to the end of regulated market, expected for 2018. This should trigger all consumers to select a supplier in the free market, resulting in a more efficient competition.

In 2015 the gas supply successfully concluded the second difficult cycle of long-term gas contracts revisions, with the arbitral award obtained for the last of the four contracts. The Company thus fully demonstrated its ability to profitably manage this business and is in the process of embarking on a new cycle of contract revisions, this time at the request of its suppliers, in connection with the sharp drop in oil prices to which the contracts are indexed. In parallel Edison is engaged in the development of new infrastructural options for a competitive and reliable gas supply to Italy and Southern Europe, a growing concern not only for operators but also for the governments of countries that,

like Italy, are heavily dependent on imports. Interconnection projects, such as the fully approved IGI (Greece-Italy) and the Eastmed, in a feasibility study phase, offer new import routes from existing suppliers and the possibility to reach new gas discoveries in the Easter Mediterranean area (Egypt, Israel and Cyprus in particular). At the end of 2015, the decision to invest in the Greece-Bulgaria gas pipeline (IGB), supported by our partner and the Bulgarian government, confirms the Edison strategic positioning in Southern Europe and the Eastern Mediterranean.

The Eastern Mediterranean area became even more important in 2015, following the exceptionally large gas discoveries by Eni in the Egyptian offshore, nearby some Edison concessions that present similar geological profiles and offer new and important perspectives for exploration activities. The Company's position in Egypt is supported by local government, which considers Edison a strategic partner for the country's development. Edison has indeed shown reliability in Abu Qir operations, dynamism in the exploration area and the ability to bring innovation to the benefit of Egypt's energy sector, such as the new turbogas power plant project fueled with Abu Qir gas, that will alleviate the scarcity of electric power in Egypt. Having secured a minimum guaranteed price for gas produced in Abu Qir, largely unaffected by oil price, the Company is considering new options for the development of its activities. On the other hand, the drop in oil and gas prices had severe impacts on the profitability of other Edison fields, mainly located in Italy. Moreover, the result of an upcoming referendum could affect the future of Italian E&P activities within 12 miles from the coast, which account for a major portion of the Company's portfolio. In this challenging context, Edison is reviewing its portfolio of activities and development projects to optimize their profitability and value.

Despite the challenging market environment described above, Edison 2015 EBITDA rose to 1,261 million euros, up from 814 million euros in 2014, thanks to the successful arbitral award for the last gas contract and the program implemented to cut operating costs, which decreased by 12% in 2015 on a comparable scope of consolidation basis.

These results off-set the impact on margins caused by the collapse in crude oil prices, the contraction of thermoelectric generation margins and the lower hydropower production compared to the exceptional 2014 levels. The cash flow, which was positive by more than 600 million euros in 2015, benefited from the successful management of operating working capital during the year and contributed to the Group's financial strength (debt/EBITDA ratio close to 1). However, the future market scenario, regarding both oil and power & gas prices, made necessary a writedown up to 1,534 million euros to adjust the book values to the low profitability of the current energy markets. As a result , the bottomline registered a loss for 980 million euros.

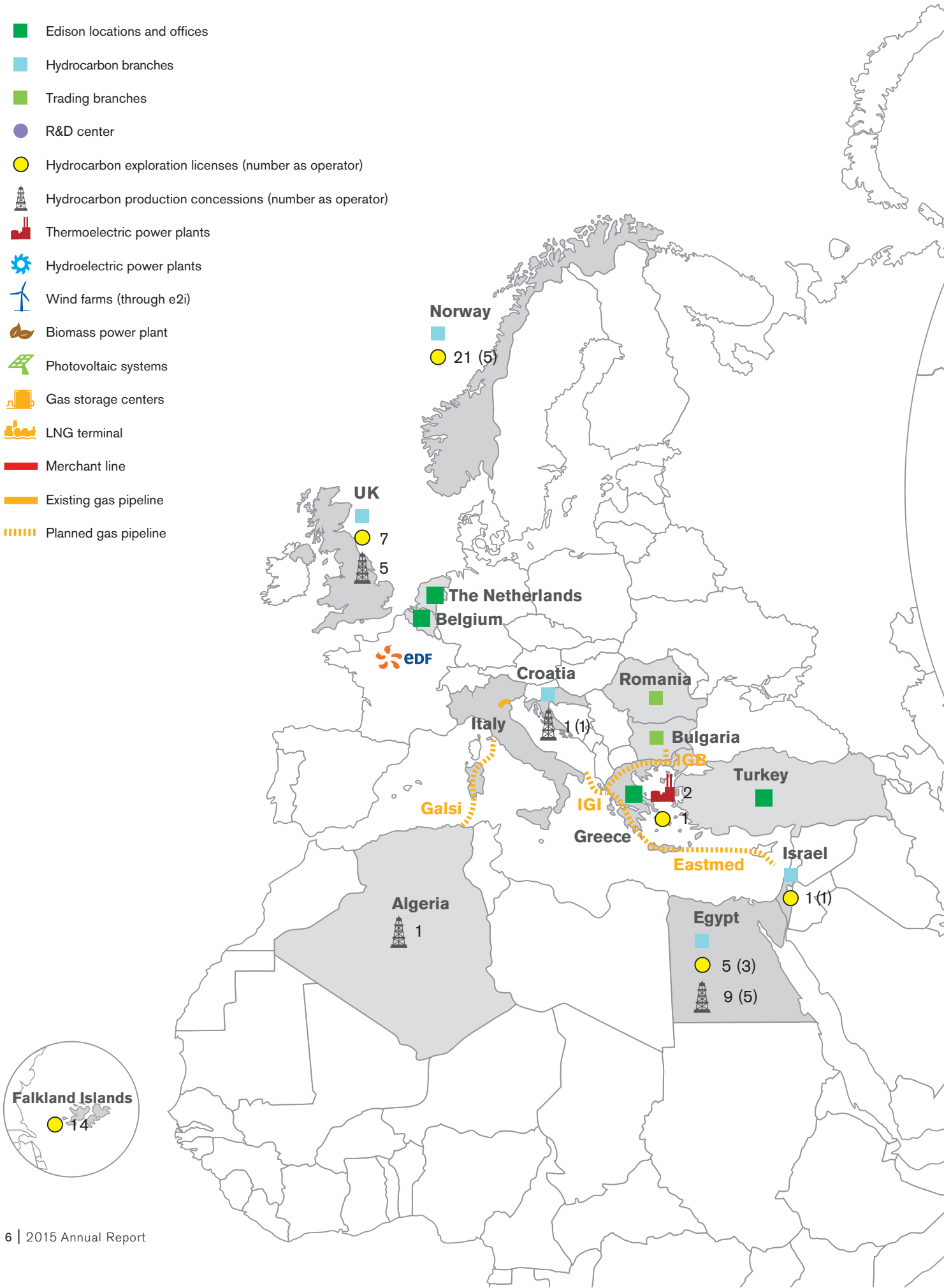
Given the deterioration affecting the Italian power market and the current level of oil prices, 2016 EBITDA is expected to be significantly lower than the 2015 one, on a comparable scope of consolidation, mainly because it will not benefit of extraordinary components. Nevertheless, Edison could leverage on the particularly low debt level to actively participate to the current market consolidation process. Thanks to this advantage and its distinctive internal competencies, Edison could be able to attract other players and thus increase its critical mass, thereby improving its competitive position, lowering its risk profile and increasing its operating efficiency.

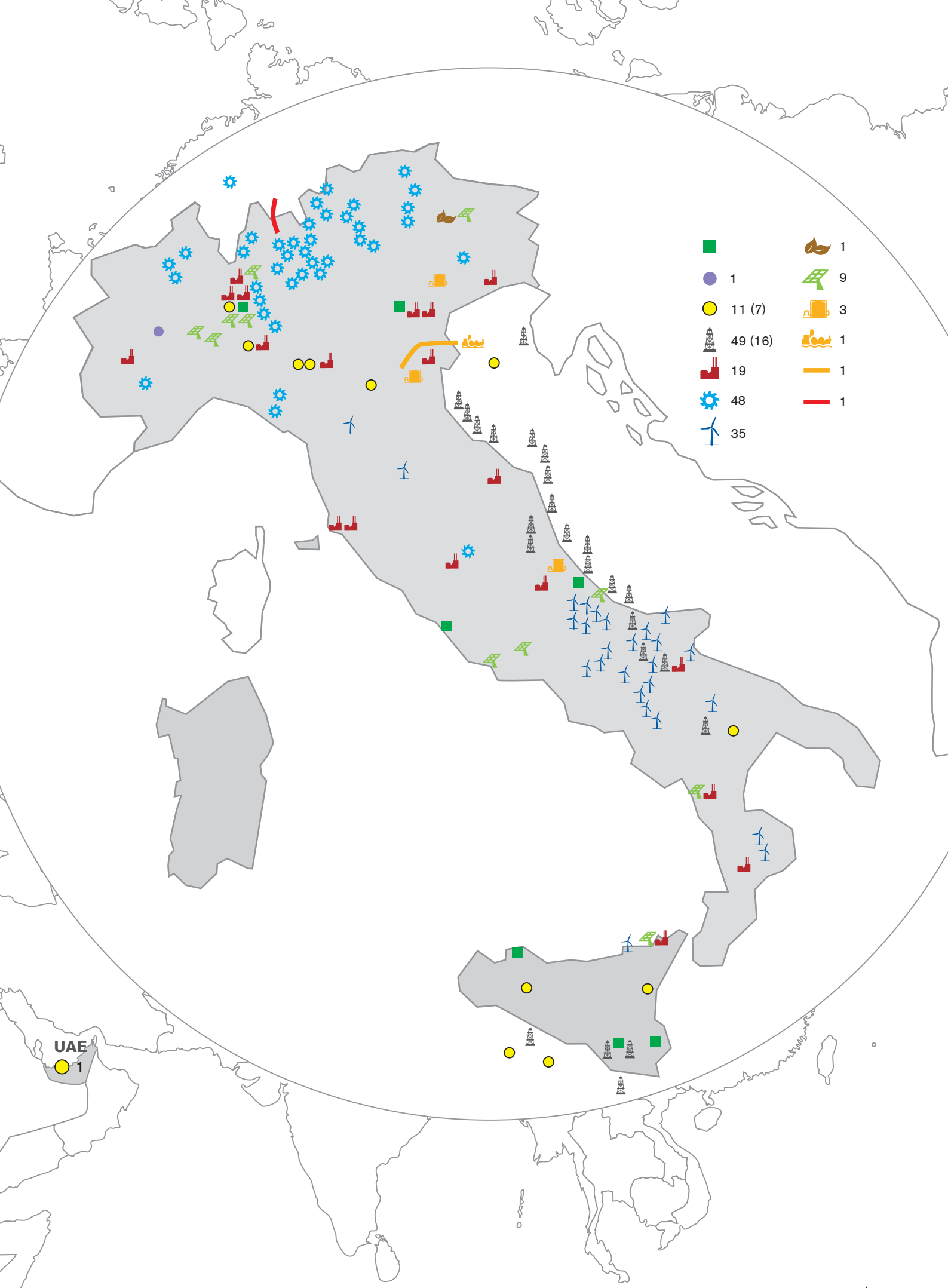
Lastly, Edison continues to look at the future, promoting innovation and development, for its own businesses and the community, as it did during its long pioneering history. Through the rich program of initiatives "Edison Open4Expo", together with the Milan Municipality, Edison has stimulated reflections – very followed by all stakeholders – on how to combine innovation with energy, sustainability and development, thus contributing to the ideas of EXPO 2015, also in preparation to the Paris climate negotiations (COP21).

In conclusion, financial strength, distinctive competencies and ability to innovate are the elements that I intend to develop, in order to continue writing Edison's history of successes.

Marc Benayoun
Chief Executive Officer

OPERATIONAL PRESENCE

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VALUE CHAIN

ACTIVITY

Upstream

Midstream

ELECTRIC POWER

Power assets

Management and development of generating electric facilities in Italy and abroad

7.0 GW
Net installed capacity

1 HV
Merchant power line (150 MW)

18.5 TWh
Net production

48 hydroelectric power plants
21 thermoelectric power plants
35 wind farms
9 photovoltaic systems
1 biomass power plant

Energy Management

Dispatching, portfolio optimization and energy trading

89.4 TWh
Volumes handled

GAS

257.5 MBoe
Hydrocarbon reserves

16.7 MBoe
Hydrocarbon production
4,7 MBoe Italy
12,0 MBoe abroad

126 Concessions, permits and licenses
60 in Italy
66 abroad

17.6 bn m^3

Hydrocarbon exploration, development and production in Italy and abroad

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

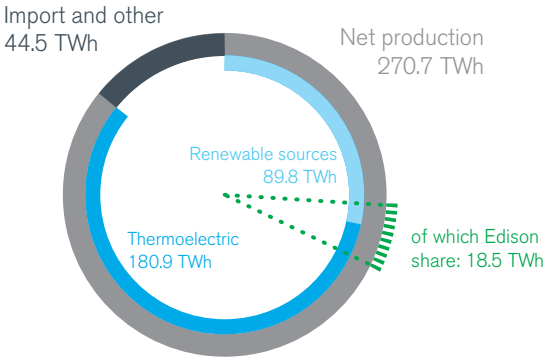
Exploration & Production

Gas Midstream, energy management & optimization

ITALIAN MARKET

Electric power

2015 - Total gross Italian demand 315.2 TWh



6.8%
Edison's share of total Italian production

Downstream

17.1 TWh
Electric power sold to end customers

1,153,000
sites served

Marketing Sales & Energy services

4 Gas pipeline projects

3 Storage centers

80 km of high pressure gas pipelines

1 LNG terminal (8 bn m^3/year, 6.4 bn of which used by Edison)

3,580 km of low and medium pressure gas pipelines

6 bn m^3
Gas sold for residential and industrial uses

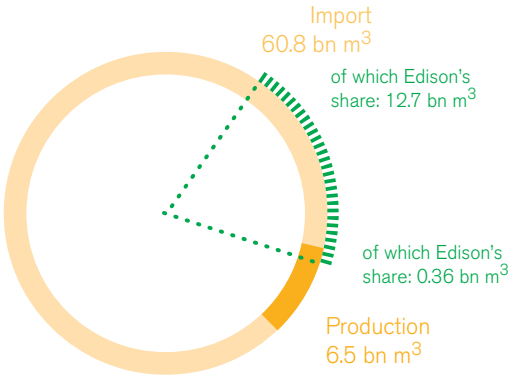
Development of gas transmission infrastructures in Italy and abroad

Storage management, gas transmission and distribution in Italy

(Gas regulated assets)

Gas

2015 - Total Italian demand 66.9 bn m^3



21%
Edison's share of total Italian imports

6%
Edison's share of total Italian production

HIGHLIGHTS OF THE GROUP

MAIN FINANCIAL, OPERATING AND NON-FINANCIAL HIGHLIGHTS

In order to help the reader obtain a better understanding of the Group's operating and financial performance, the tables below contain alternative performance indicators that are not included among those provided in the IFRS-EU accounting principles. The methods used to compute these indicators, consistent with the guidelines of the Committee of European Securities Regulators (CESR), are described in the footnotes to the tables.

Income Statement Highlights (m euros)	2015	%	2014	%	% change
Sales revenues	11,313		12,325		(8.2%)
EBITDA	1,261	11.1%	814	6.6%	54.9%
EBIT	(795)	n.m.	292	2.4%	n.m.
Profit (loss) attributable to Parent Company shareholders	(980)		40		n.m.

Balance Sheet Highlight (m euros)	12/31/2015	12/31/2014	% change
Capital expenditures	389	320	21.6%
Investments in exploration	139	67	n.m.
Net invested capital (A + B)	7,023	8,903	(21.1%)
Net financial debt (A) [1]	1,147	1,766	(35.1%)
Total shareholders' equity (B)	5,876	7,137	(17.7%)
Shareholders' equity attributable to Parent Company shareholders	5,439	6,627	(17.9%)

Rating	12/31/2015	12/31/2014
Standard & Poor's		
Medium/Long-term rating	BBB+	BBB+
Medium/long-term outlook	Negative	Stable
Short-term rating	A-2	A-2
Moody's		
Rating	Baa3	Baa3
Medium/long-term outlook	Stable	Stable

Key Indicators	2015	2014	% change
ROI [2]	n.m.	3.25%	
ROE [3]	n.m.	0.58%	
Debt/Equity ratio (A/B)	0.20	0.25	
Gearing (A/A+B)	16%	20%	
Number of employees [4]	3,066	3,101	(1.1%)

(1) A breakdown of this item is provided in the "Net Financial Debt" section of the Notes to the Consolidated Financial Statements.
(2) EBIT/Average net invested capital of continuing operations. Net invested capital of continuing operations does not include the value of equity investments held as non-current assets and is computed as the arithmetic average of net invested capital at the end of the year and at the end of the previous year.
(3) Result attributable to Parent Company shareholders/Average shareholders' equity attributable to Parent Company shareholders.
Average shareholders' equity is the arithmetic average of the Group interest in shareholders' equity at the end of the period and at the end of the previous year.
(4) Year-end data for companies consolidated line by line.

Operational data	2015	2014	% change
Net production of electric power (TWh)	18.5	17.6	4.9%
Sales of electric power to end users (TWh)	17.1	20.4	(16.2%)
Gas imports (Bn m^3)	12.7	9.9	28.3%
Total net gas sales in Italy (Bn m^3)	17.6	13.2	32.7%
Locations served power and gas (in thousands)	1,153	1,345	(14.3%)
Hydrocarbon reserves (MBoe)	257.5	283.5	(9.2%)
Hydrocarbon production in Italy and abroad (MBoe)	16.7	17.5	(4.6%)

Other operating results	2015	2014	% change
CO_2 emissions (t)	6,083,394	5,412,030	12.4%
Specific CO_2 emissions (g/Kwh gross)	319.0	295.5	8.0%
Injury incidence rate for the Group and External companies	2.1	1.8	16.7%
Lost workday incidence rate for the Group and External companies	0.11	0.13	(15.4%)
Investments and expenditures for health and safety (thousands of euros)	10,495	10,575	(0.8%)
Total employee training hours	97,106	101,734	(4.5%)

INFORMATION ABOUT THE EDISON SHARES AND CORPORATE GOVERNANCE BODIES

INFORMATION ABOUT THE EDISON SHARES

Shares at December 31, 2015	Number	Price
Common shares	5,181,545,824	(*)
Savings shares	110,154,847	0.7269

Shareholders with Significant Holdings at December 31, 2015	% of voting rights	% interest held
Transalpina di Energia Spa [1]	99.476%	97.405%

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

CORPORATE GOVERNANCE BODIES

Board of Directors	Chairman	Jean-Bernard Lévy [1]	
	Chief Executive Officer	Marc Benayoun [2]	
	Directors	Béatrice Bigois [3] [4]	
		Paolo Di Benedetto [3] [5]	Independent Director
		Philippe Esper [3]	
		Gian Maria Gros-Pietro [3] [6]	Independent Director
		Bruno Lescoeur [3] [7]	
		Thomas Piquemal [3] [8]	
		Nathalie Tocci [3] [9]	Independent Director
		Nicole Verdier-Naves [3] [10]	
	Secretary to the Board of Directors	Lucrezia Geraci	
Board of Statutory Auditors [11]	Chairperson	Serenella Rossi	
	Statutory Auditors	Giuseppe Cagliero	
		Leonello Schinasi	
Independent Auditors [12]		Deloitte & Touche Spa	

(1) Coopted and appointed Chairman by the Board of Directors on December 12, 2014 and confirmed by the Shareholders' Meeting on March 26, 2015. His term of office ends with the Shareholders' Meeting convened to approve the 2015 annual financial statements.
(2) Coopted by the Board of Directors on December 8, 2015 to replace the Director Denis Lépée, who resigned, Appointed Chief Executive Officer from January 1, 2016, His term of office ends with the next Shareholders' Meeting.
(3) Elected by the Shareholders' Meeting of March 22, 2013 for a three-year period ending with the Shareholders' Meeting convened to approve the 2015 annual financial statements.
(4) Chairman of the Control and Risk Committee.
(5) Chairman of the Compensation Committee and member of the Control and Risk Committee, the Committee of Independent Directors and the Oversight Board.
(6) Chairman of the Committee of Independent Directors, Lead Independent Director and member of the Control and Risk Committee, the Compensation Committee and the Oversight Board.
(7) Chief Executive Officer until December 31, 2015.
(8) Member of the Control and Risk Committee.
(9) Member of the Compensation Committee and the Committee of Independent Directors.
(10) Member of the Compensation Committee.
(11) Elected by the Shareholders' Meeting of March 28, 2014 for a three-year period ending with the Shareholders' Meeting convened to approve the 2016 annual financial statements.
(12) Audit engagement awarded by the Shareholders' Meeting on April 26, 2011 for the nine-year period from 2011 to 2019.

REPORT ON OPERATIONS

KEY EVENTS

Edison Grows in the UK with the Acquisition of the Scott & Telford Fields in the North Sea

On January 13, 2015, Edison executed a Put & Call option to acquire from Apache Beryl I (a subsidiary of Apache Corporation) its interests in the Scott and Telford oil fields (10.5% and 15.7%, respectively) located in the P185 15/22 concession in the North Sea (UK). This acquisition, which closed on April 30, 2015 for a total consideration of 38 million euros, net of September 2015 price adjustment, increased Edison's reserves by 8.7 million barrels of oil equivalent (85% oil and 15% gas).

Edison Inaugurates Its New Research and Development Center

On June 16, 2015, Edison inaugurated a new Hydrocarbon Laboratory at its Research, Innovation and Development Center in Trofarello (Turin), an Italian center of excellence for the development of innovative solutions in the areas of energy efficiency and environmental safety for the growth of the Group's businesses. The Hydrocarbon Laboratory is comprised of the Geochemistry, Geomechanics and Petrophysics sections, all equipped with cutting-edge tools for the development of special sponges capable of cleaning the sea and increasingly effective algorithms to study gas and oil bearing rock formations and for acquisition of 3D images.
With the Hydrocarbon Laboratory, Edison broadened and rounded out its spectrum of research activities in the various energy sectors: from oil and gas prospecting and exploration to self-production of electric power, from storage systems to the monitoring of electric power and gas consumption.

Edison and EGPC, Egypt's National Oil Company, Finalize an Agreement to Revise the Price of Natural Gas

On July 24, 2015, Edison and Egypt's national oil company EGPC (Egyptian General Petroleum Corporation) officially finalized an agreement to revise the price for the supply of natural gas based on a new indexing formula, the positive effects of which were already reflected in the results for 2015.

Edison Refocuses on Developing Hydroelectric Production with the Pizzighettone and Maleo Power Plants

In July 2015, Edison acquired from the AGS Group (Alto Garda Servizi) 100% of the share capital of Shen Spa, a company that operates a run-of-the-river hydroelectric power plant in Maleo (Lodi) on the Adda River. The Maleo power plant, which was commissioned in 2003 and has an installed capacity of 3 MW, produces about 15 GWh a year and, having been built entirely below ground, it is fully integrated into the surrounding landscape. Subsequently, the merger by absorption of Shen Spa into Edison Spa was approved in December.
In addition, in June 2015, Edison began construction of a 4.5 MW new power plant in Pizzighettone (Cremona) that is expected to go on stream in 2016, producing 17.5 GWh of electric power. This facility is also being built below ground and will thus be fully integrated into the surrounding landscape.
These two power plants will strengthen the Company's operations in the historically strategic hydroelectric sector and round out Edison's current portfolio of production facilities.

Edison Brings to a Successful Conclusion the Arbitration with ENI to Revise the Price of the Long-term Contract for Gas from Libya

On November 27, 2015, the International Court of Arbitration notified its award in the arbitration between Edison and ENI for a revision of the price charged under a long-term contract for the supply of natural gas from Libya, granting the price revision request put forth by Edison in 2012, for a retroactive value of about 1 billion euros.

The total impact of the arbitration award on Edison's 2015 EBITDA, for some contractual options tied to the take-or-pay clause exercised during the year, amounted to about 850 million euros.

The Court reserved the right to hand down a decision regarding interest, legal expenses and the exact amount owed by ENI based on the new contract price.

Edison Strengthens Its Position in Hydroelectric Generation with the Acquisition of 90 MW in the Friuli Venezia Giulia Region (Cellina)

On December 29, 2015, Edison and Società Elettrica Altoatesina (SEL) signed an agreement to swap Edison's equity interests in Hydros and Sel Edison in the Bolzano province for the hydroelectric facilities owned by SEL in Cellina, Pordenone province.

The Cellina hydroelectric hub, the concessions for which will expire in 2029, includes 23 generating facilities, counting both large and mini-hydro plants, for a total installed capacity of 90 MW.

Under this transaction, valued at a total of about 190 million euros, Edison will acquire from SEL the Cellina hydroelectric hub in exchange for equity investments consisting of a 40% interest in Hydros and a 42% interest in SelEdison.

Thanks to this agreement, Edison, which was expected to deconsolidate also Hydros' equity investments in 2016, will instead consolidate the company that owns the Cellina hub, with a positive impact on EBITDA of about 30 million euros a year.

This transaction is expected to close in the first quarter of 2016.

Significant Events Occurring After December 31, 2015

Information about events occurring after the end of the reporting year subject of this Report is provided in the section of the Consolidated Financial Statements entitled "Significant Events Occurring After December 31, 2015".

EXTERNAL CONTEXT

Economic Framework

In 2015, the global economy struggled to keep its recovery on track, with performance levels varying among different areas: the ability of global GDP to hold relatively steady was the net result of strength in the United States and a widespread, but slow, recovery in the Eurozone, countered by a deceleration in the emerging countries and a renewed recession in Japan.

Confidence that the American economy will continue to strengthen drove a historical decision by the Federal Reserve: after seven years, the U.S. benchmark rate moved from the minimum level where it had been held in response to the great financial crisis, rising by one-quarter of a point. Considerable improvements in the labor market and inflationary expectations contributed to the unanimous decision to tighten monetary policy.

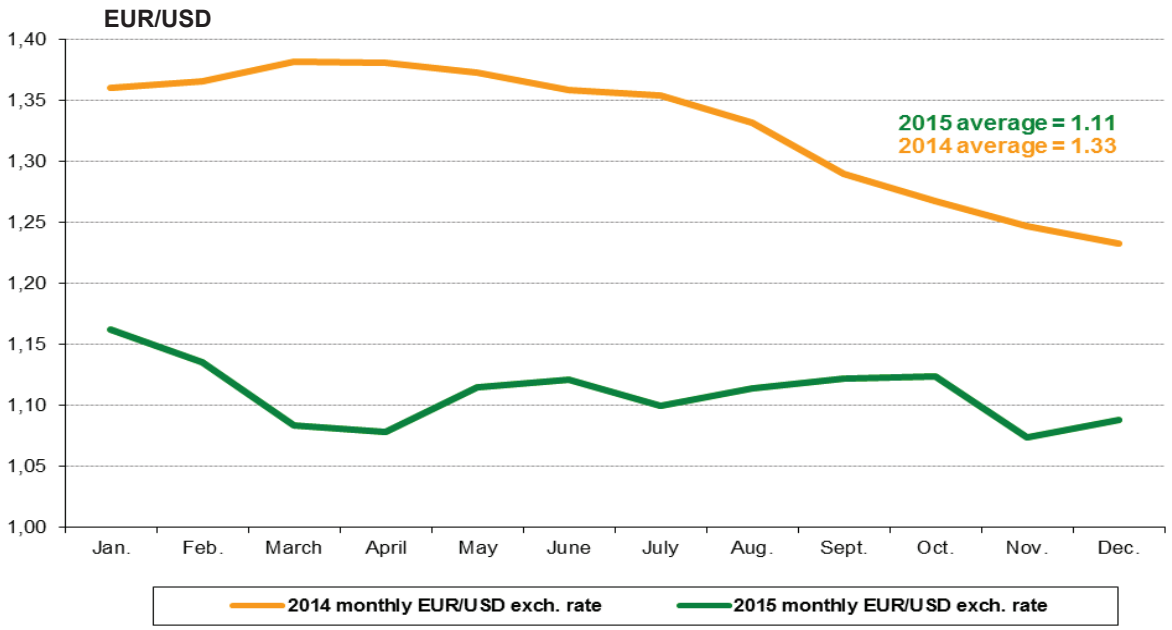
Among the emerging countries, Brazil and Russia, penalized by the slide in the prices of oil and other raw materials, which reduced disposable income, provided a negative contribution to global GDP dynamics, as did China's transition to a new growth model, which continues to have a strong impact on weakening its imports.

In the closing months of the year, in addition to the pullback in the emerging countries, which lowered estimates for international trade already adversely affected by a slowdown, other negative factors came to the fore in the global economic scenario, including the fear generated by terrorist attacks that fuels an already high feeling of uncertainty, the military escalation in Syria and, last but not least, the tension between Russia and Turkey. All of these factors could generate unknown developments also in terms of potential repercussions on Europe's economic recovery, as well as on trade relations between the European countries and those in North Africa and the Middle East. An economic recovery that, in the second half of the year, was essentially based on internal demand, as exports to the emerging countries crawled to a halt. Specifically, a glance at the GDP of the Eurozone's three largest economies - Germany, France and Italy - shows that none of them benefitted from a positive contribution from net foreign demand in the third quarter of 2015. More specifically, the German economy, despite slower industrial activity during the summer months and the Volkswagen scandal, showed better than expected GDP growth, thanks mainly to a dynamic trend in consumption by households, supported by rising employment and low inflation.

As for Italy, which in the latter part of 2014 and the early months of 2015 enjoyed healthy consumption dynamics and an upturn in investments, spawned by the enactment of a new Sabatini law, there is confidence that growth could strengthen in 2016, thanks to the new provisions regarding depreciation and amortization inserted in the Stability Law, which will provide tax benefits for businesses, encouraging investments in machinery and durable goods. It is precisely investments that represent the weak spot in the Italian economy, because their irregular trend prevents the recovery from gaining the momentum it needs to consolidate its gains, while household spending continues to increase, owing in part to an improvement in employment driven mainly by the services sector.

In 2015, the EUR/USD exchange rate averaged 1.11 USD for one euro, or about 16.5% less than the average for 2014. The fluctuations recorded during the year primarily reflect the different monetary policies adopted by the ECB and the Fed in response to the economic conditions that characterized the United States and Europe in 2015.

In March, the ECB, in addition to the interest rate cuts implemented in previous months, launched a quantitative easing program, the duration of which, tied to the achievement of an inflation target set at about 2%, was extended by six months (from the original deadline of September 2016) in order to increase the momentum of the European economy. On the other hand, the Fed, which completed its economic stimulus plan in October 2014, bid its time in 2015 waiting for durable signs of economic growth before raising interest rates from the lows reached during the 2008 crisis. During the third quarter, concerns about the slowing of the Chinese economy led to a more in-depth analysis of the effects of such an increase on the economies of the emerging countries, which are heavily indebted in U.S. dollars. It was precisely because of these concerns that the Fed waited until December 16 before taking action on the Federal Funds rate, raising it to the interval between 0.25% and 0.50%. Despite this increase, the euro appreciated slightly against the U.S. dollar in December because, presumably, the market had overdiscounted rate increase expectations. This trend reversal was also attributable to the publication of U.S. macroeconomic data that were worse than expected and encouraging results for the German economy.



Insofar as the oil markets are concerned, a downward trend characterized 2015. The average price for the year decreased to 53.7 USD/barrel, or 46.1% less than in 2014, with the low for the year (38.9 USD/barrel) reached in December 2015. Oil prices in euros mirror the annual trend for prices in U.S. dollars. However, the loss in value of the euro mitigated in part the slide in prices, which averaged 48.4 EUR/barrel, or 35.4% less than the average for 2014.

The price slump, which began in June 2014, reflects the oversupply condition of the market, with supply growth showing no sign of abating, while demand seems to be unable to take off, despite the low prices.

On the supply side, the OPEC countries, whose production reached the highest level of the past three years (about 31.7 million barrels a day) in November, continue to pursue a policy aimed at maintaining market share, leaving to each member the option of self-regulating its production. This strategy reflects in part a concern about the possibility of an evolution, compared with the consolidated situation of recent years, of market

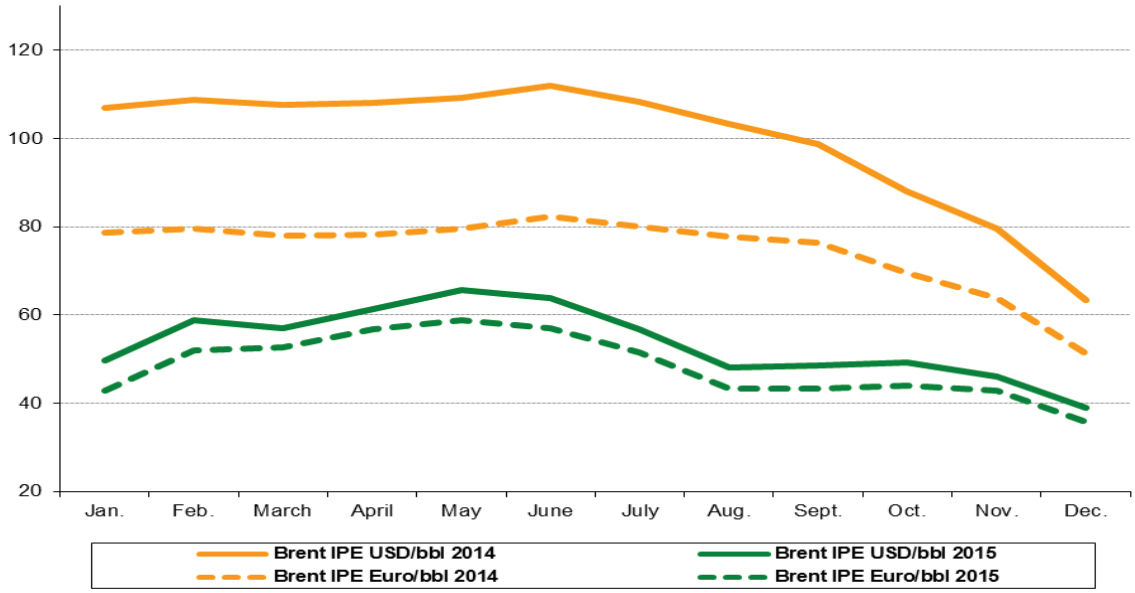
shares over the short and medium term. Specifically, with the agreement reached this past July in Vienna, the P5+1 group of countries (United States, Russia, China, United Kingdom, France and Germany) reached an understanding about Iran's nuclear production, which would enable Iran to reenter the market as early as 2016. In addition, in the United States, a law under which only petroleum derivative products may be exported was repealed in part allowing the marketing of crude oil beyond the national borders. At the same time, increased crude oil stockpiles in the United States, which specifically because this recent legislative change could hit the international markets, further depressed prices.

On the demand side, expectations of a recovery have been partially revised down, due to slower growth in China, a major oil importer, and a potential domino effect on the economies of the emerging countries, which are expected to show a stronger increase in demand. In the United States, production showed resilience in the face of a downward trend in oil prices, even though it declined slightly in the third quarter of the year.

The table and chart that follow show the average data for the year and the monthly trends for 2015 and 2014:

	2015	2014	% change
Oil price in USD/bbl[(1)]	53.7	99.5	*(46.1%)*
USD/EUR exchange rate	1.11	1.33	*(16.5%)*
Oil price in EUR/bbl	48.4	74.9	*(35.4%)*

(1) Brent IPE



The trend in oil prices had an impact also on distilled products: the price of gasoil decreased by about 40%, falling to USD 840.7 per metric ton, while that of fuel oils contracted by about 52.8% and 51.3%, respectively, for low sulfur and high sulfur products.

On the Atlantic market, coal prices were also down during the year, falling to an average of USD 56.8 per ton, or about 25% less than in 2014. In general, the decline in coal prices is the result of low market prices for energy commodities (oil and gas) and of increasingly strict environmental policies. In addition, the market

continues to be affected by situation of excess supply, mainly caused by weak demand from Asia, China in particular.

Gas prices were down on the main European hubs, with the price of natural gas on the TTF (Europe's main hub) contracting by about 5% compared with the average for 2014. This decrease is in line with the trends at other hubs, which experienced positive and smaller changes in second and third quarter (between 5.8% and 12.3%), followed by a sharp decline in the last quarter (-24% on average), due to weather that was warmer than the seasonal average.

In the market for CO_2 emissions rights, which bucked the trend in the other markets for energy commodities, prices increased, raising to EUR 7.7 per ton, for a gain of almost 30% compared with the average for 2014. A period of price volatility in the first quarter of 2015 was followed by a phase of steady growth that reflected expectations of a rebalanced market over the medium term. This past September, the European Council approved the introduction, in 2019, of the market stability reserve, a mechanisms through which the excess supply that developed in the market can be reabsorbed.

The Italian Energy Market

Demand for Electric Power in Italy and Market Environment

TWh	2015	2014	% change
Net production:	270.7	269.1	*0.6%*
- Thermoelectric	*180.9*	167.1	*8.3%*
- Hydroelectric	*44.8*	59.6	*(24.9%)*
- Photovoltaic	*24.7*	21.8	*13.0%*
- Wind power	*14.6*	15.1	*(3.3%)*
- Geothermal	*5.8*	5.6	*4.5%*
Net imports	46.4	43.7	*6.1%*
Pumping consumption	(1.9)	(2.3)	*(20.6%)*
Total demand	**315.2**	**310.5**	***1.5%***

Source: Analysis of 2014 official data and pre-closing 2015 Terna data, before line losses.

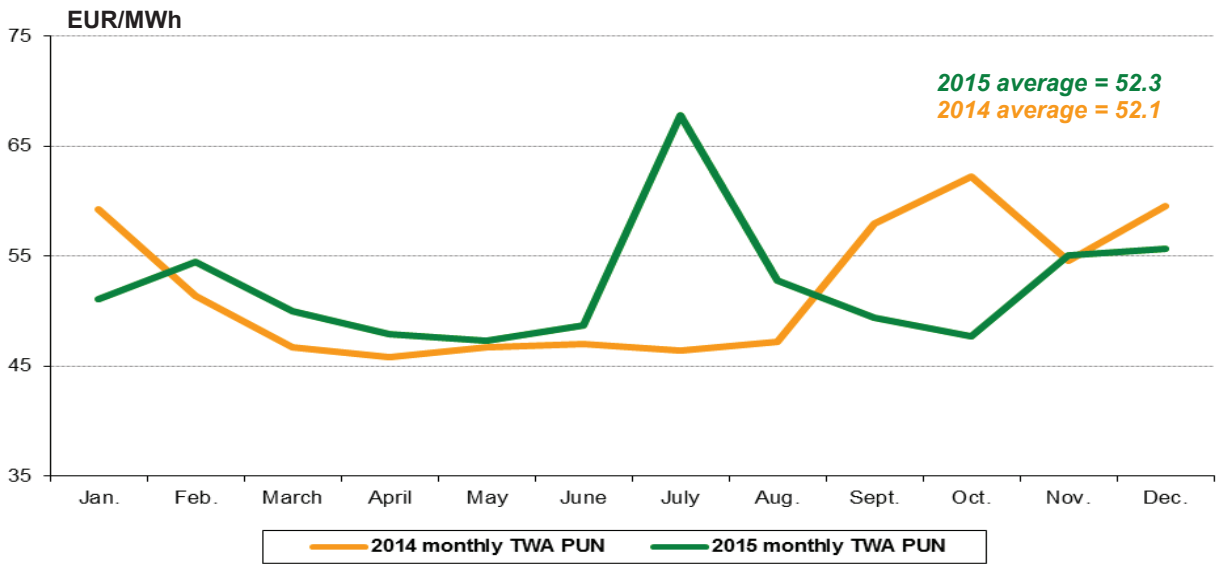
In 2015, gross total demand for electric power from the Italian grid totaled 315.2 TWh (TWh = 1 billion kWh), for a gain of 4.7 TWh (+1.5%) compared with the previous year. On a seasonally adjusted basis (i.e., eliminating the impact of changes in the number of business days), demand was up by 1.3%.

Net of pumping consumption, domestic production covered 85% of demand, down slightly (-0.6%) compared with 2014. National production increased by a total of 1.6 TWh, as the impact of a sharp reduction in hydroelectric output, which decreased by 14.8 TWh (-24.9%) compared with 2014, a year characterized by record levels in availability of water resources, was offset by an increase of 13.8 TWh (+8.3%) in thermoelectric production.

As for other renewable sources, the positive trend of recent years continued with a gain of 2.6 TWh (+6.1%). More specifically, increased production by photovoltaic (+2.8 TWh, +13% compared with 2014) and geothermal (+0.3 TWh, +4.5%) systems offset a decrease in the output of wind power facilities (-0.5 TWh, -3.3%).
Net imports also increased, rising by 2.7 TWh (+6.1%), while pumping consumption contracted by 0.5 TWh (-20.6%).

A development worth mentioning in the area of infrastructures was the commissioning of the Malta-Sicily interconnecting power line (200 MW) in April.

Insofar as the price scenario at December 31, 2015 is concerned, the time-weighted average (TWA) for the Single National Price (abbreviated as PUN in Italian) settled at 52.3 euros per MWh, little changed compared with the previous year (52.1 euros per MWh), despite a slight increase in demand.
As mentioned above, demand for electric power was met by increased thermoelectric production, as the output from renewable sources decreased, due mainly to a reduced availability of water resources. However, a contraction in thermoelectric generation costs resulting from lower prices for raw materials, both gas (spot) and coal, made it possible to hold the price of electric power steady on the national market compared with 2014.
As for zone pricing, in 2015, the CCT (difference between the zone price and the PUN) for Sicily was down sharply (-82%), falling to 5.2 euros per MWh. This reduction is attributable to the introduction of the rules governing facilities classified as essential pursuant to which, starting on January 1, 2015 and until the commissioning of the Sorgente-Rizziconi power line that connects Sicily with the mainland, programmable Sicilian power plants qualify as essential resources for the system's reliability and, consequently, are required to offer power on the Day Ahead Market at a price determined based on the technology employed.
An analysis of the monthly trend for the PUN shows that the most significant changes occurred in July (+46% compared with the same month the previous year), due to the exceptionally hot weather that drove demand to record levels and a reduction in the production from renewable sources, and in October (-23% compared with the same month the previous year), due to the combined impact of lower demand for electric power, increased production from renewable sources and declining thermoelectric generation costs.
In 2015, the F1 hourly time period held relatively steady, but there was a decrease in the F2 hourly time period (-3.4%), which, however, showed values higher on average than those of F1 in April and August, due to growing production from renewable sources, which contributed to lowering prices during the central hours of the day, shifting peak prices to the early evening hours. The F3 hourly time period also showed an increase (+3.1%).
The chart that follows shows the monthly trend compared with the previous year:



As for prices in foreign countries, Germany, while benefitting from a decrease in the price of raw materials, showed only a limited reduction compared with 2014 (-3.4%), ending the year at 31.7 euros per MWh, due to an increase in exports to neighboring countries, which showed positive price changes.

France, on the other hand, ended the year at the 38.6 euros per MWh level, for a year-over-year increase of 11.2%: higher demand, coupled with scheduled and extraordinary maintenance at nuclear power plants, contributed to this increase.

As a result, the Italy-France differential contracted from 17.4 euros per MWh to 13.7 euros per MWh, while the Italy-Germany differential widened from 19.3 euros per MWh to 20.6 euros per MWh.

Demand for Natural Gas in Italy and Market Environment

in billions of cubic meter	2015	2014	% change
Services and residential customers	28.4	25.5	*11.6%*
Industrial users	16.0	16.5	*(3.0%)*
Thermoelectric power plants	20.7	17.8	*16.6%*
System usage and leaks	1.8	1.6	*8.3%*
Total demand	**66.9**	**61.4**	***9.1%***

Source: 2014 final data and 2015 preliminary data from Snam Rete Gas and the Ministry of Economic Development and Edison estimates.

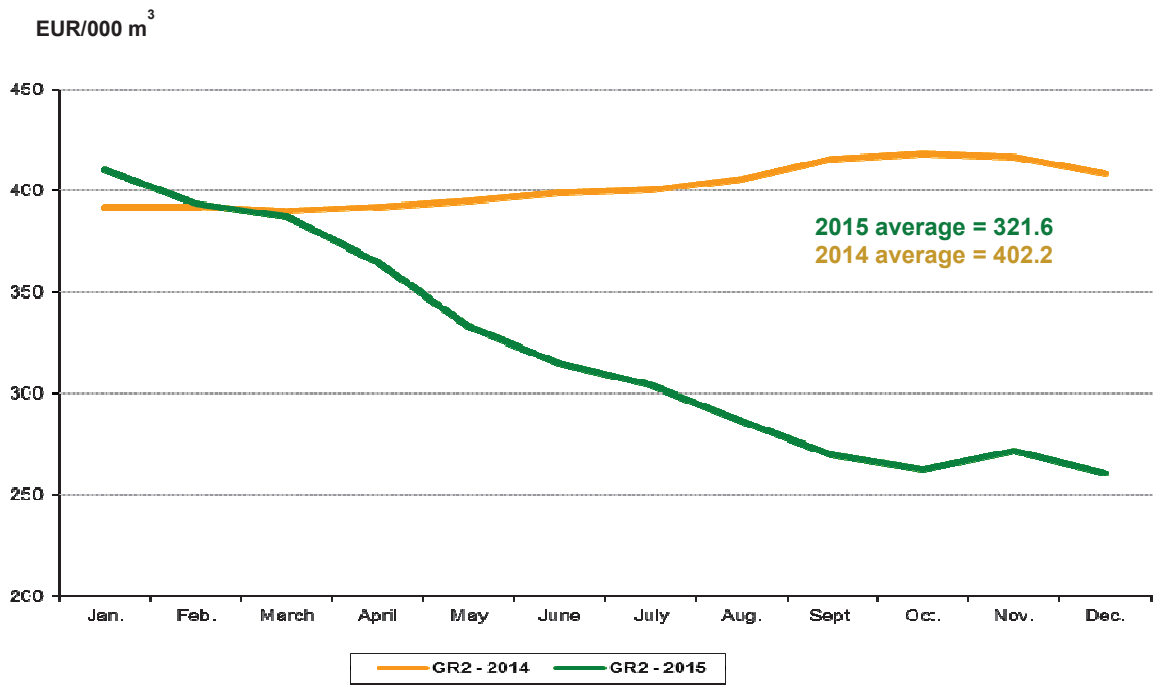
In 2015, Italian demand for natural gas grew by 9.1% compared with the previous year to a total of about 66.9 billion cubic meters, for an overall increase of about 5.6 billion cubic meters.

This improvement is chiefly the result of an upturn in demand from residential customers (+2.9 billion cubic meters; +11.6%), which was particularly low in 2014 due to unusually mild weather during the winter months. Gas consumption by thermoelectric power plants was also up (+2.9 billion cubic meters; +16.6% compared with 2014) due mainly to high demand for electric power in the summer months and a hydroelectric output that was slightly below average.

Demand from industrial users (-0.5 billion cubic meters; -3% compared with 2014) was down slightly.
As for supply sources, the following developments characterized 2015:

- lower domestic production (-0.4 billion cubic meters; -6% compared with 2014);
- higher gas imports (+5.4 billion cubic meters; +10% compared with 2014);
- a net balance of about 0.3 billion cubic meters in the volumes added to the stored gas inventory.

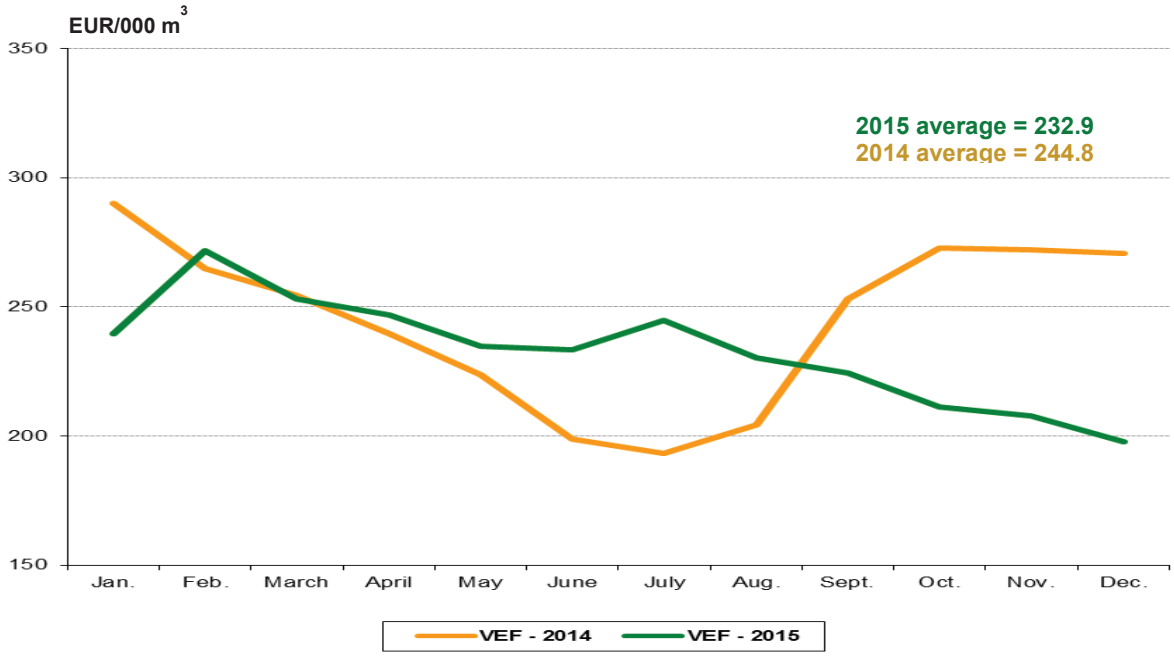
In 2015, consistent with the trends described above for the main energy commodities, the price for indexed gas (shown in the chart that follows, which uses the Gas Release 2 formula as a benchmark) decreased by 20% compared with 2014 averaging 321.6 EUR/000 cubic meters. In the first quarter of the year, prices increased compared with 2014 levels, due to the weakness of the euro versus the U.S. dollar and the time lag with which a decline in the price of Brent crude and derivative products is reflected in the formula. However, in the remaining nine months, despite the upward bias caused by the weakness of the euro, a strong downward trend prevailed.



The monthly trend for gas prices on the spot market depicted in the chart on the following page, which uses the price on the Virtual Exchange Facility (VEF) as a benchmark, shows that, in 2015, prices in Italy followed the downward trend of the other European hubs and of energy commodities in general, averaging 232.9 EUR/000 cubic meters, for a year-over-year decrease of 4.8%.
This decrease is inconsistent with the seasonal trend, according to which prices decline during the summer months and rebound later ahead of the start of the new thermal year. Specifically, even though in the first quarter prices were in line with those of 2014, except for January, between June and July prices rose by 4.9% reaching about 245 EUR/000 cubic meters. This was because exceptionally hot weather in July drove up the demand for gas, with significant changes recorded for the thermoelectric sector, both on a current and forward

looking basis (+63.9% and +51.1%), respectively. Subsequent to the price spikes of the summer months, prices resumed their slide posting a fourth-quarter decrease of about 24.4% compared with the same period in 2014. Once again, these developments reflect anomalous weather conditions compared with the seasonal average, except for a brief cold snap that, on some days toward the end of November produced a short market, mitigating the price slide.

Also worth mentioning is a slight contraction on an annual basis of the VEF-TTF spread, which settled at 23 EUR/000 cubic meters. Towards the end of the year, a widening of the spread, which reached 31 EUR/000 cubic meters in December, produced a significant increase in the volumes imported through Griespass (+40% compared with the third quarter of 2015).



Legislative and Regulatory Framework

The main legislative and regulatory measures enacted in 2015 that concerned the Group's various businesses are reviewed below, without commenting on their impacts on the Group, which, if material, are discussed in detail in the sections of this Report that deals with results and risks.

Electric Power

Environment

Law No. 68 of May 22, 2015 "Provisions concerning **crimes against the environment"** (published on May 28, 2015 in Issue No. 122 of the *Official Gazette of the Italian Republic*) added to the Italian Criminal Code a new Title VI-*bis* on "Crimes against the environment", which covers the following crimes: environmental pollution, death or injuries caused by the crime of environmental pollution, environmental disaster, trafficking in and dumping highly radioactive materials, preventing controls and failure of remediation.

Incorporation of the "Seveso III" Directive into the Italian legal system: Legislative Decree No. 105 of June 26, 2015, which incorporates into the Italian legal system Directive 2012/18/EU on controlling the dangers of accidents related to certain hazardous substances, was published in Ordinary Supplement No. 38 to Issue No. 161 of July 14, 2015 of the *Official Gazette of the Italian Republic.* The decree went into effect on July 29, 2015.

Wholesale Market

Market Coupling Approval: On February 12, 2015, the Electric Power, Gas and Water System Authority (the Authority) published Resolution No. 45/2014/R/eel, which de facto began the implementation of market coupling on Italy's borders with Austria, France and Slovenia, starting on February 24.

The market coupling mechanism makes it possible to determine the value of electric power in the affected European market zones and, at the same time, allocate the available transmission capacity between the zones, optimizing its use. Consequently, the allocation of rights to use the transmission capacity takes place concurrently with the determination of the price for each zone, instead of using a separate process, as was the case before.

Subsequently, on February 17, 2015, the Authority issued Resolution No. 52/2015/R/eel approving the Electric Market Operator-Terna and Equalization Fund for the Electric Power Sector (CCSE) contract guidelines for managing economic and financial issues in connection with the implementation of market coupling at Italy's borders with Austria, France and Slovenia.

Moreover, by Resolution No. 45/15, the Authority began a process aimed at the publication of resolutions to complete the revision of the regulatory framework for implementation of the market coupling mechanism. As part of this process, an initial consultation document (DCO No. 605/15) was published, setting forth remarks and preliminary guidelines by the Authority regarding the introduction of negative price limits in the Italian market.

Remuneration of production capacity: By Resolution No. 95/2015/I/eel the Authority recommended that the Ministry of Economic Development (the Ministry) anticipate to 2017 the effects of the capacity market, with

the initial auctions taking place in the fall of 2015. However, the Ministry has not yet responded to the Authority's recommendation, waiting for the outcome of the pre-notification process to the European Commission regarding the capacity market mechanism.

Rules governing actual imbalances: In March 2015, the Council of State voided Resolutions No. 342/2012/R/eel, No. 239/2013/R/eel and No. 285/2013/R/eel governing the determination of the debit or credit designation and the prices for actual imbalances, reinstating the original system. In July 2015, by Resolution No. 333/2015/R/eel, the Authority began a process for the adoption of specific regulatory rules for the 2012-2014 period capable of "protecting users who, during that period, relied, without fault of their own, on the implementation of rules governing actual imbalances consistent with the purposes and functions of the dispatching service [..] without pursuing speculative conducts". As part of this process, the Authority published two consultation documents: DCO No. 445/15 in September 2015 and DCO No. 623/15 in December 2015. The latter of the two specifically recommends the implementation of rules calling for a recomputation of electric imbalances during the July 2012-September 2014 period basically in accordance with the methods that had been applied by the Authority during the abovementioned period and later voided by the Council of State's decision.

Facilities that are essential for the reliability of the electrical system: In 2015, due to the effect of Decree Law No. 91/14, all Sicilian power plants with a capacity of more than 50 MW are qualified as essential until the new power line with Calabria is commissioned and are thus be entitled to be specifically reimbursed for their variable and fixed costs of an operational nature, in addition to an adequate return on invested capital: the reference resolutions are Resolution No. 521/2014/R/eel and Resolution No. 667/2014/R/eel. For Edison, the facility affected is the Milazzo power plant.
Subsequently, by Resolution No. 615/2015/R/eel of December 15, 2015, the Authority paid Edison an advance on the reimbursement amount owed for the first half of 2015; the Company will request payment of the balance, which will be disbursed between the end of 2016 and the beginning of 2017. In addition, based on the latest information provided by Terna, the power line is expected to go into service in the first half of 2016 and, consequently, the essential facility system will continue in Sicily during the first months of the year. Lastly, in 2015, Edison submitted the final computation of the 2014 cost reimbursement for the San Quirico power plant. The Authority, by Resolution No. 612/15/R/eel of December 11, 2015, awarded Edison an advance equal to 90% of the requested amount, while the remaining 10% will be disbursed in the first half of 2016 after appropriate verifications are completed.

Retail Market

Delinquent customers: Resolution No. 258/2015/R/com setting forth initial provisions concerning delinquent customers in the retail markets for electric power and natural gas was published on May 29, 2015. The following measures were introduced:

- greater responsibility on the part of distributors (for example, through the use of automatic indemnification and suspension of payment for distribution services in the event of a failure to suspend and/or interrupt service for delinquent customers within the required deadline);

- adoption of the Indemnity System also for customers in the gas market;
- requirement that distributors make available additional information about consumers that, when electric power and gas customer switch supplier, enable a newly entering seller to better assess the related credit risk.

Network Code for the electric power transmission services: By Resolutions No. 268/2015/R/eel of June 4, 2015 and No. 609/2015/R/eel of December 11, 2015, the Authority implemented the initial chapters of the Network Code for the electric power transmission services, in effect as of January 1, 2016. Specifically, the Authority:

- established provisions concerning the contractual guarantees allowed for the purpose of executing contracts for transmission services on the distribution network and the corresponding management criteria, introducing the requirement of an annual payment to the Electric Power Sector Equalization Fund of an amount ranging between 0.20% and 1% for companies that adopt the Parent Company or the rating type of guarantee;
- defined the billing timing and due dates for each type of distribution invoice, extending payment terms compared with those currently used.

Protection 2.0: By Resolution No. 271/2015/R/com of June 4, 2015, the Authority began a process aimed at defining a pathway for reforming price protection mechanisms in the electric power and natural gas sectors (Protection 2.0). Subsequently, by Resolution No. 659/2015/R/eel of December 28, 2015, the Authority followed the initial phase of this process with an upward revision of the component that covers the distribution costs incurred by seller companies (PCV), which was increased both for residential customers and small businesses. However, additional consultations are planned for the early months of 2016, followed by a final resolution on a revised system for protected markets.

Functional unbundling: By Resolution No. 296/2015/R/com of June 22, 2015, the Authority approved provisions concerning functional unbundling requirements for operators in the electric power and gas sectors – Integrated Functional Unbundling Provisions. Significant developments include the new requirements concerning the separation of the advertising and branding policy of distributor and seller companies, the separation of commercial and end-customer interface activities and the provisions governing the treatment of sensitive commercial information. These new rules went into effect on January 1, 2016, except for separation requirements concerning branding and advertising policies (with compliance starting on June 30, 2016) and commercial and end-customer interface activities (by January 1, 2017).

Reform of network rates for electric power customers: Resolution No. 582/2015 of December 2, 2015 reformed the network rates applicable to domestic electric power customers to replace the traditional gradual rates based on consumption brackets. The Authority is proposing a gradual implementation of the changes that are part of the reform, beginning on January 1, 2016 and reaching full implementation on January 1, 2018. Initially, the only values that will be changed will be those of the components related to network services, which will retain a three-part structure (fixed portion, power portion and energy portion). The brackets will be totally eliminated in 2017 and the rates charged to cover network services will no longer be gradual. Upon full

implementation there will be a difference between how costs will be recovered from residential and nonresidential customers.

Hydrocarbons

Rates and Market

Reform of rate components covering general costs in the gas system (Resolution No. 60/2015/R/gas): The Authority, further to the recommendations put forth in connection with Consultation Document No. 553/2014/R/gas, issued Resolution No. 60/2015/R/gas by which it streamlined the rate components covering general costs in the gas system applied to gas volumes injected into the network (or to increase the CV variable unit component of the transmission rate). More specifically, the Authority decided to:

- replace, starting on October 1, 2015, the CVi, CVos and CVbl rate components applied at the network's entry points with the new rate components CRVi, CRVos and CRVbl, respectively, applied to gas withdrawn at the redelivery points on the transmission network, making no special distinction between points directly linked with the transmission network and point interconnected with the distribution networks;
- upon initial implementation, exempt from the adoption of the new system the CVfg fees (which cover the guarantee factor for the regasification service) and the φ rate component (which covers revenue equalization imbalances regarding the CRr transmission capacity fee on the regional network), as they are directly related to rate dynamics and, consequently, continue to be applied to gas injected into the network.

Implementation of EU Regulation No. 312/2014 concerning gas balancing issues: EU Regulation No. 312/2014 established a Network Code on Gas Balancing in Transmission Networks (Balancing Network Code), which went into effect on October 1, 2015, specifically applicable to all points on transmission networks that interconnect member countries.

The Balancing Network Code introduces a market balancing system based on the principle that network users are responsible for balancing their commercial and physical position at the end of the day, with penalties in the event of actual imbalances. However, users must be enabled to meet their obligations by having access to flexible resources (storage, LNG and pipeline imports) and accurate and timely information about network insertions and withdrawals. On the other hand, only a residual role is being assigned to the transmission service operator (TSO), who is being asked to intervene by buying/selling gas on the market only when there is an effective risk for the system's ability to operate correctly.

In August, pursuant to Article 52 of EU Regulation No. 312/2014, Snam Rete Gas asked the Authority to postpone the full implementation of the new balancing system. The purpose of this deferral was to allow the introduction of the new balancing system within a framework characterized by certainty of rules and not before the successful completion of a testing period. By consultation document No. 422/2015/R/gas the Authority then shared its preferences in this regard, asking operators for additional considerations about the requirements that should be taken into account for timing definition purposes. The Authority also put out for consultation a proposal for the introduction of a system of incentives/penalties that Snam will be required to adopt by virtue of its status as manager of the new gas balancing market. The future different allocation of roles and responsibilities between operators and Snam will require the introduction of mechanisms to hold the

transmission operators responsible both for supplying highly precise information and encouraging them to pursue efficient behaviors when buying or selling gas on the market.

At the same time, Stogit published for consultation a proposal to amend the Storage Code (No. 28) in a manner functional to the implementation of Balancing Network Code. More specifically, this proposal calls for a revision of the timing for the intra-day renomination, introducing renomination cycles on an hourly basis, similarly to the system followed by Snam Rete Gas, and defines the limit applicable to renominated quantities withdrawn from or added to stored gas.

By Resolution No. 470/2015/R/gas of October 7, 2015, the Authority then, on the one hand, approved the proposal to amend Snam's Network Code with regard to the balancing activity and, on the other hand, agreed to postpone the start of the new balancing system, in accordance with the deadline of EU Regulation No. 312/2014, granting Snam's request. However, the starting date for the new balancing system will be set by a subsequent resolution, but in any case not earlier than three months after the activities necessary to implement the new system are completed, taking into account the preference expressed by the operators for a start during summer and not later than October 1, 2016.

As for the amendments to the Network Code, only a minimum number of them will go into effect over the near term (e.g., providing information about the portfolio of users starting on November 1, 2015, with the shift to kWh, for planning and balancing processes, set for October 1 2015). In any event, the completion of the rules framework and clarifications by the Authority about the new implementation timing of the EU model are expected in the near future.

Calls for tenders for area gas distribution: On July 14, 2015, the Ministry of Economic Development published Decree No. 106 of May 20, 2015, which amends and integrates Decree No. 226/2011 concerning modalities for issuing calls for tenders for awarding concessions to distribute natural gas for ATEM (minimum territorial areas). The main new developments concern the transfer for consideration of network segments from the exiting operator to the entering operator and the possibility that the concession awarding stations can submit the VIR and RAB data, necessary for the assessment of variance by the Authority at December 31 of year t-2 instead of t-1. If municipal administrations fail to pursue the acquisition of the data, the concession awarding stations can replace it in transactions with the operator.

Resolution No. 407/2015/R/gas of July 30, 2015 updated the rules governing methodological issues for the identification of the types of VIR and RAB variances greater than 10% and the operational modalities for the acquisition by the Authority of the VIR data necessary for the verifications required by Decree Law No. 145/13 called "Destination Italy". More specifically, the resolution allows that the fact that a situation in which a portion of the network belongs to the exiting operator but is being returned free of charge at the scheduled expiration to the local administration that awarded the concession is taken into account for the purpose of computing the VIR/RAB variance. Calls for tenders are currently being published by the concession awarding stations for various areas.

Distribution rates: By Resolution No. 90/2015/R/gas of March 5, 2015, the Authority determined the final reference rates for 2014. Resolution No. 147/2015/R/gas of April 2, 2015 determined the provisional reference rates for 2015, based on pre-closing balance sheet data for 2014. Subsequently, Resolution No.

253/2015/R/gas of May 29, 2015 redetermined the 2014 final reference rates for the gas distribution and metering services referred to in Article 3, Section 2, Letter b), of the RTDG for some locations, following the correction of material errors found in Resolution No. 90/2015/R/gas.

Resolution No. 280/2015/R/gas of June 12, 2015 *"Provisions concerning rate components covering centralized costs for online reading/management systems and concentrators' costs",* extends to 2016 the rules in effect for 2014 and 2015 for determining the rate components $TEL_{t,c}$ and $CON_{t,c}$, as set forth in Article 29, Section 1, of the RTDG rate regulations, to cover centralized costs for online reading/management systems and concentrators' costs.

Reform of the regulations governing metering at the redelivery points on the distribution network: Resolution No. 117/2015/R/gas of March 19, 2015 significantly reformed the regulations governing metering at the redelivery points on the distribution network. The changes regard: the adoption of so-called reading reference periods (which must cover at least 80% of consumption for the period), the meter reading intervals, the availability of metering data, including switching readings, and potential adjustments by distribution companies. A noteworthy development is the introduction of an additional intermediate consumption threshold of 1,500 standard cubic meters/year (in addition to those already in effect: 500 and 5,000 standard cubic meters/year), which entails an additional meter reading obligation for the distributor, performed every four months, midway between the monthly reading (consumption > 5,000 standard cubic meters/year) and the semiannual reading for lower consumption (< 500 standard cubic meters/year). In addition, with this Resolution, the Authority introduced a single monthly deadline for sending all of the readouts by distributors to users, within the sixth business day of the month through standard channels and with standard formats and a maximum data validation time by distributors of three business days.

Remuneration of invested capital in regulated sectors (WACC): Resolution 583/2015/R/com set new values for the remuneration rate of invested capital (WACC) for regulated services in the electric power and gas sectors. By this resolution, the Authority approved criteria for determining and updating the rate for the remuneration of invested capital for infrastructural services in the electric power and gas sectors (TIWACC 2016-2021), which are applicable from January 1, 2016 to December 31, 2021, i.e., for a period of six years. The rates will be updated every three years (2018) for the parameters applicable to all services, while the specific parameters for services (β and D/E), currently equal to the values of the existing specific regulatory periods, will be updated at the expiration of the abovementioned periods. The new WACC values for the second three-year period (2019-2021) will be defined in 2018. The resolution determines the values for the 2016-18 period for the distribution and metering of natural gas, setting them at 6.1% and 6.6%, respectively and at 6.5% for storage.

The innovation introduced in the WACC formula is the reference to the real values of the rates of return on equity capital and debt capital (Ke and Kd) and the addition of a correction factor (F) that provides coverage for the taxes on nominal profit; in addition, the resolution introduces a value that takes into account the country risk called Country Risk Premium (CRP) that will be updated based on a trigger-type mechanism.

Functional unbundling: An update of the rules governing functional unbundling for companies operating the electric power and gas sectors is provided in the Electric Power – Retail Market section on page 25, which should be consulted for more information.

Delinquent customers: Resolution No. 258/2015/R/com amends and integrates the provisions concerning delinquent customers in the electric power and natural gas sectors and sets forth a revision of the switching procedure in the natural gas sector reducing its timing.
With regard to the Default Service, the resolution establishes a specific requirement according to which a user who requests the administrative termination of a delinquent end customer must provide the distribution company with documents providing evidence of the customer's failure to pay and thus bring judicial proceedings to conclusion more effectively. The resolution also establishes "*indemnities in favor of the user of the distribution service*" if the distribution company fails to terminate/suspend delinquent customers, when it is directly responsible for such failure, and the reversal of 50% of the fee for the distribution and metering services paid by the seller, until the services owed are performed.

Infrastructures

Modulation storage – allocation modalities: The Ministry Decree of February 6, 2015 redefined the modulation storage volumes and allocation modalities for the 2015/2016 thermal year. The share of the stored gas earmarked for the modulation service was set at 6.8 billion cubic meters (including 6.2 billion cubic meters for Stogit and 0.6 billion cubic meters for Edison Stoccaggio) and is allocated by means of consecutive auctions, structured in accordance with a predefined calendar and on a monthly basis over the entire length of the injection period. Please note that, for the first time, operators are also being offered a multi-year product, with a uniform delivery profile of 500 million standard cubic meters and a minimum duration of two years, extendible for an additional two years. However, in the February auction no gas was allocated and, consequently, the 500 million standard cubic meters offered will be made available within the framework of the other products with uniform delivery profile, as allowed under the Ministry Decree.
By a subsequent resolution (No. 49/2015/R/gas), the Authority established rules for the methods used to organize auction procedures for the allocation of storage capacity for the 2014/2015 thermal year. Edison Stoccaggio allocated all of the available 0.6 billion cubic meters of peak capacity as part of the first auction held in March 2015. Lastly, by resolution No. 80/2015/R/gas of February 26, 2015, the Authority defined the modalities for computing the reserve price for auction procedures for the allocation of storage capacity for the 2015/2016 year; the resolution was published at the end of the auction procedures.

Storage – Rates

By **Resolution No. 51/2015/R/gas** "Approval of the business revenues from storage service for 2015", the Authority approved on a provisional basis the revenues of Edison Stoccaggio. As for the final approval of these revenues, the Authority ordered additional inquiries regarding the services provided by the S. Potito and Cotignola site. These more in-depth inquiries caused a delay in the communication of the finding of the analysis in the rate approval proceedings to be postponed to November 3, 2015. On November 26, 2015, the Company submitted a new rate proposal consistent with the recognized revenue determination criteria

mentioned in the findings referred to above and, at the same time, proposed a different methodology for valuing the services provided and, consequently, the project's economic efficiency. The Authority then postponed to February 2016 the publication of the rate approval resolution.

Resolution No. 75/2015/R/gas marked for Edison Stoccaggio the completion of the approval process of the revenue components of the 2012-2013 rates for incremental operating costs, which had been frozen while a legal dispute was pending after the refusal, in rate Resolutions No. 106/2011 and No. 313/2012, to allow compensation for the incremental operating costs arising from the investments made by the Company in 2009 and 2010. Resolution No. 75/2015, by which compensation for the same costs was denied, is also being challenged before the Regional Administrative Court.

By **Resolution No. 126/2015/R/gas,** the Authority provided a final determination of the storage rate for Edison Stoccaggio for 2014; this resolution confirms the provisional values of the revenue components and the specific enterprise fees of Edison Stoccaggio for 2014, published in Resolution No. 350/2013/R/gas.

Resolution No. 171/2015/R/gas "Provisions concerning the settlement of economic issues regarding the storage service for the 2015/2016 thermal year", introduced, for the current thermal year, mechanisms that enable storage operators to recover revenues shortfalls resulting from capacity allocation auctions, providing a revenue flow substantively equivalent to that which they would have obtained had they applied to the capacities allocated through auctions the same rates as those charged for rate-based services (when the award price is lower than these rates). The resources earmarked for distribution to storage operators are drawn from the "Storage Costs" account established as part of the Equalization Fund and funded with the CRVos variable transmission rate component paid by users at redelivery points on the transmission network.

Resolution 182/2015/R/gas introduced mechanisms to incentivize the development of additional storage capacity for the new regulatory period (2015-2018), applicable to projects in connection with which an application was filed with the Authority by September 30, 2015. Pursuant to this Resolution, certain minimum performance requirements must be met to be eligible for the incentivizing mechanism, which the Authority may verify also after a project has been completed. The incentive award period is 12 years for facilities built and operated by existing storage operators and 15 years for facilities built and operated by new operators and will be applied based on the maximum supply peak that the storage operator undertakes to make available continuously for 15 days.

Storage – Service quality: By Resolution No. 485/2015/R/gas, the Authority approved the proposal to update the Storage Code of Edison Stoccaggio Spa, submitted pursuant to Section 2 of Resolution No. 596/2014/R/gas, which concerns regulating the quality of the natural gas storage service for the 2015-2018 regulatory period.

Storage – Safeguarding new investments: Resolution No. 652/2015/R/gas of December 23, 2015 introduced a safeguarding clause for investments that commenced commercial service during the first year of the new regulatory period (2015-2018).

This clause extends to 2015 the validity of the mechanisms to incentivize investments in the development of new storage capacity that were available in the previous regulatory period, based on the award of an increase (4%) in the rate of return on invested capital. Specifically, these mechanisms had been superseded in the new regulatory period (Resolution No. 531/2014) in favor of a system based on efficiency in the allocation of capacity at the beginning of the year (potential extra revenues generated during the auction process compared with the reference rate) or of a mechanism to incentivize the achievement of a further supply peak (Resolution No. 182/2015). For Edison Stoccaggio, this clause is applicable primarily to investments at the San Potito and Cotignola site, which commenced commercial service in 2015.

Issues Affecting Multiple Business Segment

Alternative Dispute Resolution (ADR) Decree: Legislative Decree No. 130 of August 6, 2015 implementing Directive No. 2013/11/EU on the alternative resolution of consumer disputes, which amends EC Regulation No. 2006/2004 and Directive No. 2009/22/EC (Consumer ADR Directive), was published in the *Official Gazette of the Italian Republic* on August 19, 2015. The purpose of this decree is to regulate the procedures for the out-of-court resolution of national and transnational disputes concerning contractual obligations that arise from sales or service contracts between professionals established in the European Union and consumer residing in the European Union through the intervention of an ADR entity. In addition to the "mediation" entities, the system will include the "ADR entities," which will offer alternative procedures for the resolution of consumer disputes through "independent, impartial, transparent, effective, quick and equitable" ADR systems.

In this area, the Authority published Resolution No. 620/2015/E/com of December 17, 2015, which calls for the establishment of a list of approved ADR entities authorized to handle in the areas within their jurisdiction voluntary extrajudicial resolutions of disputes and the approval of the corresponding rules for initial implementation of Article 141 *decies* of the Consumer Code with regard to the methods for entering these entities in the list and managing, maintaining and overseeing the list.

Offshore Safety Decree: Legislative Decree No. 145 of August 18, 2015 was published in issue No. 215 of September 16, 2015 of the *Official Gazette of the Italian Republic* and went into effect on September 17, 2015. This decree introduces into the Italian legal system the provisions of Directive No. 2013/30/EU on the safety of offshore activities in the hydrocarbon sector (which amends Directive No. 2004/35/EC) and is added to a preexisting regulatory framework regarding safety and protection of the sea from pollution, ensuring the achievement of the highest European safety levels for workers and the environment.

This decree, which is comprised of 36 article and nine annexes, "sets forth the minimum requirements for preventing serious accidents in offshore activities in the hydrocarbon sector and limiting the consequences of such accidents" with the aim of fighting pollution with policy not only of prevention, but also of cooperation.

Stability Law 2016: Law No. 208 of December 28, 2015 "Provisions for the Preparation of the Annual and Multi-year Government Budget" (Stability Law 2016) was published in Issue No. 302 of December 30, 2015

of the *Official Gazette of the Italian Republic*. This law contains various provisions that are relevant to the energy sector, such as:

- tax credits for purchases of multimedia devices for remote control of heating, air conditioning or hot water production systems;
- incentives for the production of electric power from biomass, biogas and bioliquid facilities;
- state radio and TV subscription fee added to the electric bill;
- new tax rules, including new provisions concerning depreciation and amortization, potential revision of assessed property values for industrial facilities, except for facilities that are part of the production process and reduction of the IRES rate to 24% as of 2017;
- changes to regulations governing hydrocarbon exploration and production;
- use of proceeds from emission rights auctions to reimburse "new entry" credits and reallocation of uncommitted amounts;
- extension of the interconnector mechanism.

European Regulations

Projects of Common Interest (PCIs): The reference regulation for the selection of projects of common interest is Regulation (EU) No. 347/2013 of the European Parliament and Council, of April 17, 2013, regarding guidelines for trans-European energy infrastructures. The TEN-E Regulation identifies nine priority corridors and three theme areas of interest and defines the procedures and criteria required to qualify a project as a Project of Common Interest (PCI). In November 2015, the European Commission adopted a list of 195 key infrastructural projects in the energy sector, pivotal for the achievement of the energy union. The identification of Projects of Common Interest is carried out by regional groups that include representatives of the relevant ministries, national regulatory authorities and project promoters, the European Network of Transmission System Operators (ENTSOs), the Agency for the Cooperation of Energy Regulators and the European Commission. The list of projects is adopted further to a cost/benefit analysis, on the basis of which a score is assigned to projects applying for PCI status based on three criteria: supply reliability, market integration and competition. The list of the Projects of Common Interest will be updated in two years, as required by the Regulation. Insofar as Edison is concerned, the following projects are included in the list: IGB (Interconnector Greece-Bulgaria), Galsi (gas pipeline connecting Algeria to Italy), EastMed Pipeline (offshore Cyprus-Greece via Crete) and Poseidon.

Network code on interoperability and data exchange rules on gas transmission networks: Regulation 2015/703 establishing the network code on "Interoperability and data exchange rules on gas transmission networks" was published in the *Official Journal of the European Union* in May 2015. This Code defines interoperability and data exchange rules and fosters harmonization of gas transmission systems and communication formats, enabling TSOs to exchange information more extensively and efficiently. The text of the Code was defined after a lengthy consultation process by the European Network of Gas Transmission System Operators (ENTSO-GAS), in collaboration with the European Agency for the Cooperation of Energy Regulators (ACER).

ECONOMIC & FINANCIAL RESULTS AT DECEMBER 31, 2015

Sales Revenues and EBITDA of the Group and by Business Segment

(in millions of euros)	2015	2014	Change	% change
Electric Power Operations (1)				
Sales revenues	6,529	7,859	*(1,330)*	*(16.9%)*
Reported EBITDA	360	652	*(292)*	*(44.8%)*
Adjusted EBITDA (2)	276	690	*(414)*	*(60.0%)*
Hydrocarbons Operations (1)				
Sales revenues	5,512	5,168	*344*	*6.7%*
Reported EBITDA	995	293	*702*	*n.m.*
Adjusted EBITDA (2)	1,079	255	*824*	*n.m.*
Corporate Activities and Other Segments (3)				
Sales revenues	49	48	*1*	*2.1%*
EBITDA	(94)	(131)	*37*	*28.2%*
Eliminations				
Sales revenues	(777)	(750)	*(27)*	*(3.6%)*
EBITDA				
Edison Group				
Sales revenues	**11,313**	**12,325**	***(1,012)***	***(8.2%)***
EBITDA	**1,261**	**814**	***447***	***54.9%***
as a % of sales revenues	***11.1%***	**6.6%**		

(1) See the Value chain on page 8.
(2) Adjusted EBITDA reflect the effect of the reclassification from the Hydrocarbons Operations to the Electric Power Operations of the portion attributable to the Electric Power Operations of the results of commodity and foreign exchange hedges executed in connection with contracts to import natural gas. This reclassification is being made to allow a better operational presentation of the Group's industrial results.
Adjusted EBITDA are not verified by the Independent Auditors.
(3) Includes those operations of Edison Spa, the Group's Parent Company, that engage in central and transversal, i.e., activities that are not directly tied to a specific business, and certain holding companies and real estate companies.

In 2015, the Group's sales revenues totaled 11,313 million euros, down 8.2% compared with the previous year. EBITDA amounted to 1,261 million euros (814 million euros in 2014), for an increase of 447 million euros. See the sections of the Report that follow for a detailed analysis of the performance of the individual business segments.

Electric Power Operations

Sources

GWh (*)	2015	2014	% change
Edison's production:	**18,481**	**17,616**	***4.9%***
- Thermoelectric power plants	14,116	11,756	*20.1%*
- Hydroelectric power plants	3,378	4,954	*(31.8%)*
- Wind power and other renewables	987	906	*9.0%*
Other purchases (wholesalers, IPEX, etc.)(1)	**70,952**	**77,915**	***(8.9%)***
Total sources in Italy	**89,433**	**95,531**	***(6.4%)***

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

Uses

GWh (*)	2015	2014	% change
End customers (1)	**17,108**	**20,409**	***(16.2%)***
Other sales (wholesalers, IPEX, etc.)(2)	**72,325**	**75,122**	***(3.7%)***
Total uses in Italy	**89,433**	**95,531**	***(6.4%)***

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

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

Within the framework of this model, Edison's net production in Italy totaled 18,481 GWh, for an increase of 4.9% compared with 2014; more specifically, thermoelectric output posted a gain of 20.1% that mirrored in part the national trend. As for production from renewable sources, the performance in 2015 was characterized, on the one hand, by a significant reduction in hydroelectric output (-31.8%), in line with the national trend and reflective of the volume of water resources available during the year, which was significantly less abundant than the exceptional volume of 2014, and, on the other hand, by an increase in production from wind power and other renewable-source facilities (+9%), thanks to the contribution of the Andretta Bisaccia and Rignano Garganico wind farms, acquired in October 2014, and the Baselice facility, which went on stream in January, offsetting the effect of less windy conditions during the year.

Sales to end customers decreased by 16.2% due to lower volumes sold to the Business and Public Administration segments and a reduction in the number of residential customers that reflects a more selective new customer acquisition policy in terms of payment reliability.

In 2015, other purchases and sales decreased compared with the amounts reported in 2014; however, it is worth mentioning that these items include, in addition to transactions on the wholesale market, purchases and sales on the IPEX, which are characterized by lower unit margins as they are related to production from facilities operating in bidding mode, the balancing of individual portfolios and make-or-buy activity.

Income Statement Data

in millions of euros	2015	2014	% change
Sales revenues	6,529	7,859	*(16.9%)*
Adjusted EBITDA (1)	276	690	*(60.0%)*

(1) See note on page 33.

In 2015, sales revenues amounted to 6,529 million euros, or 16.9% less than in 2014, due to a reduction in sales volumes and a decrease in average sales prices. Adjusted EBITDA for 2015 totaled 276 million euros (690 million euros in 2014), for a decrease of 414 million euros that reflects a further reduction in electric generation margins and an unfavorable comparison with the exceptional abundance of water resources available in 2014.

Hydrocarbons

Sources of Natural Gas

in millions of m^3 of natural gas	2015	2014	% change
Production (1)	485	417	*16.4%*
Imports (Pipeline + LNG)	12,722	9,915	*28.3%*
Other purchases	4,172	2,739	*52.3%*
Change in stored gas inventory (2)	197	172	*14.8%*
Total sources in Italy	**17,576**	**13,243**	***32.7%***
Production outside Italy (3)	**1,508**	**1,734**	***(13.0%)***

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

Uses of Natural Gas

in millions of m^3 of natural gas	2015	2014	% change
Residential use	2,648	2,314	*14.4%*
Industrial use	3,385	3,413	*(0.8%)*
Thermoelectric fuel use	5,671	4,407	*28.7%*
Other sales	5,872	3,109	*88.9%*
Total uses	**17,576**	**13,243**	***32.7%***
Sales of production outside Italy(1)	**1,508**	**1,734**	***(13.0%)***

(1) Counting volumes withheld as production tax.

Production of natural gas, counting the combined output of the Italian and international operations, totaled 1,993 million cubic meters in 2015, down 7.3% compared with the previous year. Production marketed in Italy was up 16.4%, thanks to activities carried out in 2014 to develop some wells and the contribution of the Izabela field (Croatia) and the Fauzia field, which came on stream in July 2014 and November 2014, respectively, offsetting the natural decline of production curves at some fields, mainly outside Italy, where production contracted by 13%.

There were substantial increases both in gas imports (up 2,807 million cubic meters) and Other purchases (up 1,433 million cubic meters) in response to the need to meet rising sales during the year.

Gas volumes sold totaled 17,576 million cubic meters, for an increase of 32.7% compared with 2014. Specifically, sales to residential users were up by 14.4%, due to weather in the winter months that was colder on average than in 2014, while deliveries to thermoelectric users grew by 28.7%, thanks to increased gas consumption by the Group's thermoelectric power plants and external customers.

Crude Oil Production

in thousands of barrels	2015	2014	% change
Production in Italy	2,546	2,620	*(2.8%)*
Production outside Italy (1)	1,808	1,541	*17.3%*
Total production	**4,354**	**4,161**	***4.6%***

(1) Counting volumes withheld as production tax.

Crude oil production grew by 4.6% in 2015, as an increase in production outside Italy (+266,000 barrels), made possible by the contribution of the Scott and Telford (UK) fields acquired in May, more than offset a decline in production from fields in Italy (-74,000 barrels).

Income Statement Data

in millions of euros	2015	2014	% change
Sales revenues	5,512	5,168	*6.7%*
Adjusted EBITDA (1)	1,079	255	*n.m.*

(1) See note on page 33.

Sales revenues grew to 5,512 million euros in 2015, for a gain of 6.7% compared with 2014, thanks to an increase in sales volumes that more than offset the impact of a decline in average sales prices consistent with the negative trend in the benchmark scenario, mitigated in part by the revision of the price charged for gas in Egypt.
Adjusted EBITDA for 2015 totaled 1,079 million euros, or 824 million euros more than in 2014. This positive change is the net result of the following factors:

- on the one hand, the increased margins earned by the natural gas buying and selling activities, thanks to the successful completion of the arbitration with Eni regarding gas imported from Libya, the total impact of which, including the effects of some contractual options tied to the take-or-pay clause exercised during the year, amounted to 855 million euros; and
- on the other hand, a loss of 184 million euros incurred by the Exploration & Production activities due to a slump in oil prices since the end of 2014.

Hydrocarbon Reserves

The Group's hydrocarbon reserves (proven reserves plus 50% of probable reserves) totaled about 42.0 billion cubic meter equivalent (257.5 MBoe) at December 31, 2015 compared with 46.2 billion cubic meter equivalent (283.5 MBoe) the previous year. Therefore, net of the gross 2015 production, totaling about 2.8 billion cubic meter equivalent (17.3 MBoe), hydrocarbon reserves decreased by about 1.4 billion cubic meter equivalent (8.7 MBoe). During the year, the acquisition of new assets in the North Sea boosted reserves by 1.1 billion

cubic meter (6.5 MBoe), while a revision of the reserves of the Rosetta and Abu Qir concessions had an adverse effect of about 2.4 billion cubic meter (15.0 MBoe) on total Group reserves.

More detailed information is available in the section of the consolidated financial statements entitled "Additional Disclosure About Natural Gas and Oil".

Corporate Activities and Other Segments

Income Statement Data

in millions of euros	2015	2014	% change
Sales revenues	49	48	*2.1%*
EBITDA	(94)	(131)	*28.2%*

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

Sales revenues for 2015 were little changed compared with the those reported in 2014, while EBITDA improved by 37 million euros, thanks in part to a program to curb operating expenses and to the absence of the nonrecurring charges and tax and environmental charges recognized in 2014.

Other Components of the Group's Income Statement

in millions of euros	2015	2014	% change
EBITDA	**1,261**	**814**	***54.9%***
Net change in fair value of derivatives (commodities and foreign exchange)	161	250	*(35.6%)*
Depreciation, amortization and writedowns	(2,194)	(761)	*n.m.*
Other income (expense) net	(23)	(11)	*n.m.*
EBIT	**(795)**	**292**	***n.m.***
Financial income (expense), net	(29)	(91)	*68.1%*
Income from (Expense on) equity investments	(38)	13	*n.m.*
Income taxes	(97)	(159)	*39.0%*
Profit (Loss) from continuing operations	**(959)**	**55**	***n.m.***
Profit (loss) attributable to Parent Company shareholders	**(980)**	**40**	***n.m.***

Negative EBIT of 795 million euros are after depreciation, amortization and writedowns totaling 2,194 million euros, a positive net change in the fair value of derivatives hedging commodity and foreign exchange transactions amounting to 161 million euros (250 million euros in 2014) and net other expense of 23 million euros.

Depreciation and amortization increased by 139 million euros to a total of 660 million euros, due to higher exploration costs (72 million euros) and reductions in the useful lives of some production facilities.

The increase in writedowns, which totaled 1,534 million euros (240 million euros in 2014) chiefly reflects the effects of the impairment test applied to goodwill and other assets. The asset writedowns (877 million euros), which refer to thermoelectric power plants located in Italy, were recognized due to expectations of a contraction in margins resulting from the continuation of low profitability and overcapacity conditions in the Italian electric power market, and to hydrocarbon concessions both in Italy and abroad, due to a projected decrease in profitability consistent with the trend in the energy scenario.

The writedown of goodwill, amounting to 657 million euros refers to the Electric Power Operations and is also attributable to a revision of the projected profitability margins for electric power caused by the persisting conditions of strong competitive pressure that characterize the Italian market.

The net result from continuing operations was a loss of 959 million euros (profit of 55 million euros in 2014), after net financial expense of 29 million euros and income taxes of 97 million euros. The significant reduction in net financial expense compared with the previous year was made possible by a reduction in the level of debt and a different mix of financial resources, in addition to a net translation gain made possible by a favorable trend in the euro/dollar exchange rate. The income tax liability for 2015 reflects the impact of two important changes to the tax laws that occurred during the year:

- the ruling of unconstitutionality of the Robin Hood Tax (Constitutional Court Decision No. 10 of February 11, 2015), as a result of which the deferred tax assets and the provision for deferred taxes recognized on the 6.5% IRES surcharge were eliminated, with a one-off negative effect of 68 million euros;
- the 2016 Stability Law (Law No. 208 of December 28, 2015), which introduced a reduction of the IRES rate to 24%, down from the current rate of 27.5%, starting in 2017, as a result of which the deferred tax assets and the provision for deferred tax were adjusted to reflect the reduced rate of 3.5 % with a negative net impact of 17 million euros.

Net Financial Debt and Cash Flows

At December 31, 2015, net financial debt amounted to 1,147 million euros, for a decrease of 619 million euros compared with the 1,766 million euros owed at the end of December 2014.

More detailed information about the individual components of this item is provided in the “Net Financial Debt” section of the Consolidated Financial Statements.

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

in millions of euros	2015	2014
A. NET FINANCIAL (DEBT) AT BEGINNING OF PERIOD	**(1,766)**	**(2,451)**
EBITDA	1,261	814
Elimination of non-cash items included in EBITDA	38	(25)
Net financial expense paid	(45)	(98)
Net income taxes paid (-)	(120)	(249)
Dividends collected	8	9
Other items from operating activities	(16)	(21)
B. CASH FLOW FROM OPERATING ACTIVITIES	**1,126**	**430**
Change in operating working capital	19	408
Change in non-operating working capital	40	23
Net investments (-)	(535)	(92)
C. CASH FLOW AFTER NET INVESTMENTS AND CHANGES IN WORKING CAPITAL	**650**	**769**
Dividends paid (-)	(93)	(76)
Other items	62	(8)
D. NET CASH FLOW FOR THE PERIOD	**619**	**685**
E. NET FINANCIAL (DEBT) AT END OF PERIOD	**(1,147)**	**(1,766)**

In addition to the EBITDA effect reviewed above, the main cash flows for the period derived from:

- A slightly positive change in operating working capital as the significant negative effect resulting from the recognition of the still uncollected portion of the receivable owed by Eni for the Libyan gas (553 million euros) was more than offset by the positive impact of programs implemented to optimize collection and payment timing.
- Investment activities that absorbed cash flow totaling 535 million euros, mainly for Exploration and Production activities in Italy, including development of the Clara Northwest field (58 million euros) and the Ibleo field (6 million euros), as well as workover projects for some wells in the Vega A concession (9 million euros).

  Investment projects outside Italy focused on the Abu Qir concession in Egypt, for the construction of the NAQ PIII platform and for workover activities and drilling activities on some wells (98 million euros), the Zidane concession in Norway, for the construction of the Polarled pipeline that will link Zidane with the mainland (27 million euros), Algeria for the development of the Reggane concession (41 million euros) and Great Britain for the acquisition of interests in the Scott and Telford fields (38 million euros), development activities for these fields (12 million euros) and exploration activities in connection with exploration permits in the North Sea (6 million euros).

  In addition, about 139 million euros were invested in exploration activities in Norway, mainly to drill the Tvillingen well (38 million euros), the Haribo well (10 million euros) and the Omen well (9 million euros), in Great Britain for exploration activities in the Handcross concession (17 million euros), in Egypt (5 million euros) for exploration activities in the South Idku and North Thekah blocks and in the Falkland Islands for hydrocarbon exploration activities in the southern area (43 million euros).

  A noteworthy development in the electric power sector was the growth generated in the mini-hydro segment with the acquisition of Shen Spa (7 million euros), the company that operates the Maelo (LO)

hydroelectric power plant on the Adda River, and the development of the Pizzighettone facility (5 million euros) locate opposite the Maleo power plant.

- The payment of dividends mainly to minority shareholders of E2i Energie Speciali Srl.

Outlook and Expected Results in 2016

In view of the deteriorating conditions currently witnessed in the Italian electric power market and of current Brent prices, 2016 EBITDA, which will not benefit from the nonrecurring items recognized in 2015, should stand at about 600 million euros, computed on a comparable scope of consolidation.

Edison Spa

Financial Highlights

in millions of euros	2015	2014	% change
Sales revenues	5,517	4,822	*14.4%*
EBITDA	662	(258)	*n.m.*
as a % of sales revenues	12.0%	n.m.	
EBIT	(535)	(402)	*33.1%*
as a % of sales revenues	n.m.	n.m.	
Net profit (loss) from continuing operations	(776)	(37)	*n.m.*
Net profit (loss) from discontinued operations	-	-	*n.m.*
Net profit (loss)	(776)	(37)	*n.m.*
Capital expenditures	120	238	*(49.6%)*
Net invested capital	5,029	5,954	*(15.5%)*
Net financial debt	410	373	*9.9%*
Shareholders' equity	4,619	5,581	*(17.2%)*
Debt/Equity ratio	0.09	0.07	
Number of employees	1,473	1,506	*(2.2%)*

Pursuant to Consob Communication No. DEM/6064293 of July 28, 2006, the schedules that follow provide a reconciliation of the Group interest in net profit (loss) for the period and the shareholders' equity attributable to the shareholders of the controlling company at December 31, 2015 to the corresponding data for Edison Spa, the Group's Parent Company.

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

in millions of euros	2015	2014
Net result of Edison Spa	**(776)**	**(37)**
Intra-Group dividends eliminated in the consolidated financial statements	(212)	(343)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	135	375
Valuation of investments in associates measured by the equity method	9	3
Other consolidation adjustments	(136)	42
Group interest in net result	**(980)**	**40**

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

in millions of euros	12/31/2015	12/31/2014
Shareholders' equity of Edison Spa	**4,619**	**5,581**
Carrying value of investments in associates eliminated against the corresponding interests in the shareholders' equities of the investees		
- Elimination of the carrying values of the consolidated investments in associates	(944)	(1,358)
- Recognition of the shareholders' equities of consolidated companies	1,914	2,343
Valuation of investments in associates measured by the equity method	41	36
Other consolidation adjustments	(191)	25
Shareholders' equity attributable to the shareholders of the controlling company	**5,439**	**6,627**

Risks and Uncertainties

Risk Management at the Edison Group

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

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

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

Working with the support of the Risk Office, the managers of the Company's business areas use a Risk Self-Assessment process to map and assess the risks that affect the areas under their jurisdiction and provide an initial indication of the mitigating actions they have taken. The results of this process are then consolidated at the central level into a mapping system in which risks are prioritized based on the scores assigned to them and aggregated, so as to facilitate the coordination of mitigation plans within the framework of an integrated risk management approach.

The Enterprise Risk Management process is closely linked with the medium- and long-term planning process in order to correlate the Group's overall risk profile with the return on investment projected in the plan/budget document. The results produced by ERM are communicated to the Control and Risk Committee and Board of Directors on predetermined dates and are used by the Internal Auditing Department as a source of information to prepare special risk-based audit plans.

An analysis of the overall results of the process for the year just ended is provided in the "**Risk Factors**" section that follows, while the "**Financial Risks**" section lists the main factors related to the commodity price, exchange rate, credit, liquidity and interest rate risks, for which specific safeguards were adopted over the years to manage and minimize their impact on the Group's economic and financial equilibrium. For additional details about these risks see the information provided for IFRS 7 purposes in the section of the Consolidated Financial Statements at December 31, 2015 entitled "Group Financial Risk Management".

Risk Factors

1. Risks Related to the External Environment

Legislative and Regulatory Risk

A potential source of uncertainty for Edison is the constant evolution occurring in the reference legislative and regulatory framework, which affects market activity, rate plans, required levels of service quality and technical and operational compliance requirements.

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

Among the main changes in the evolving legislative framework, which are described in the "Legislative and Regulatory Framework" section of this Report, the most significant risk factors include the following:

- the provisions governing the **renewal of large-scale hydroelectric concessions,** which were substantially amended by Article 37 of Decree Law No. 83 of June 22, 2012, setting forth "Urgent Measures for the Country's Development" (converted into Law No. 134/2012). At the moment, the Ministry of Economic Development is conducting an in-depth review aimed at completing the reference regulatory framework and detail regulations concerning the procedures for the renewal of hydroelectric concessions;
- the new **system for remuneration of production capacity** and, specifically, the provisional system with regard to which the Authority, by Resolution No. 90/2015/I/eel, asked the Ministry of Development to put forward to 2017 the effects of the corresponding mechanism, which are currently still being defined;
- the **referendum** concerning the repeal in Italy of the option to extend **hydrocarbon** production concessions for the length of the useful lives of fields located within 12 nautical miles.

Market and Competitive Environment

In recent years, the energy markets in which the Group operates have been faced with a condition of excess supply and a relentless decline in the prices of the relevant energy commodities that exerted significant pressure on volumes and sales margins, the negative effect of which was magnified by high competitive pressure.

In the Italian electric power market, the impact of this situation of overcapacity is being felt primarily by gas-fired thermoelectric production, which represents a significant portion of the Group's production mix. In addition, the power generation part dependent on large-scale hydroelectric concessions, is also exposed to the abovementioned risk of a revision of the reference legislative context and the outcome of the calls for tenders for the renewal of expired or expiring concessions. Moreover, technological changes in the electric power sector could make some technologies/services more competitive than those that are part of the Company's business. In order to mitigate this risk, Edison monitors and assesses on an ongoing basis the development of new technologies, which are discussed in greater detail in the "Innovation, Research and Development" section of this Report on Operations at December 31, 2015.

The oversupply condition that characterized the natural market improved somewhat in 2015 due to colder winter weather than last year and a reduced availability of water resources. The abundant supply of natural gas in a context still characterized by falling consumption could expose the Company to the take-or-pay clauses of long-term gas procurement contracts. With regard to these contracts, an important tool to mitigate the effect of changes in the benchmark energy scenario and market conditions is the enforcement of clauses allowing the

renegotiation of prices. In this respect, Edison successfully completed both a first round and a second round of renegotiations of the price under existing contracts with all of its current suppliers of natural gas.

Country Risk

The Group's presence in the international markets that involves both the marketing of electric power and the pursuit of hydrocarbon exploration and production activities exposes the Company to a whole series of risks deriving mainly from political, economic, social, regulatory and financial differences compared with conditions in the country of origin. Currently, the areas that are most significant for the Group are Greece, where Edison produces and markets electric power through a joint venture with Hellenic Petroleum, its Greek partner, and Egypt, where the Company is a producer of natural gas and crude oil as the operator of the Abu Qir offshore concession.

- Starting in 2014, Greece witnessed a deterioration of the political, economic and financial environment. Moreover, the country's financial health is heavily dependent on assistance by European and international institutions, the disbursement of which is conditional on the implementation of a program of reforms by the Greek government that also affect the energy sector. One of these reforms, particularly significant for the Group, is the definition and implementation of a new mechanism to remunerate production capacity and support the profitability of gas-fired generating facilities. In this context the Company monitors on an ongoing basis Greece's political and economic environment. The table below detail Group's exposure to this country at December 31, 2015:

	Millions of euro
Loan receivable from the affiliate	82
Guarantees provided	28
Equity investments	6
Total	**116**

- Thanks to the greater political stability provided by the Al-Sisi government and the stabilization of the economy deriving primarily from financial aid provided by some Gulf countries, Egypt's overall outlook showed important signs of improvement. In this environment, the Group constantly monitors the country's macroeconomic situation, concerning which the most significant uncertainties currently include the loss of value of the local currency and the security conditions under which the Company operates, taking whatever actions may be most appropriate.

2. Operational Risks

Processes, structures and Business Management Systems

Edison's core businesses include building and operating technologically complex facilities for the production of electric power and hydrocarbons that are interconnected along the entire length of the value chain, managing gas storage centers, developing gas infrastructures, marketing energy efficiency services and solutions and distributing electric power and gas in retail and wholesale markets. These activities, which could entail the involvement of third parties, expose the Company to risks deriving from the potential inadequacy of

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

The policy to manage these risks calls for the adoption of specific security and quality standards, and the implementation of upgrades to comply with international and national laws and the requirements of local entities with regulatory authority over such issues and of activities to improve the quality of processes in the various areas of business, with special focus on customer services. In addition, the management of potential crisis events is governed by specific internal guidelines, updated in 2015, designed to provide a quick and effective response to potential crisis situations that could cause injuries to people and damage the environment and the Company's facilities and reputation.

Additional information about the management of environmental and occupational safety risks is provided in the section of this Report on Operations at December 31, 2015 entitled "Health, Safety and the Environment".

Information Technology

The Group's diverse activities and business processes are supported by complex information systems. Risks issues exist with regard to the adequacy of these systems and the availability, integrity and confidentiality of data and information. With regard to the first of these issues, important projects finalized in 2015 included implementing a new information system to support credit collection activities. Other ongoing projects that will be finalized in 2016 were aimed at:

- making the systems to manage the gas and power businesses compliant with new directives;
- developing procedures and systems to support compliance with Remit regulations;
- developing a new information technology system to support the Company's rolling forecast process.

With regard to the risk of unavailability caused by a system fault, Edison adopted high reliability hardware and software configurations and a business continuity solution for those applications that support critical activities. A project to migrate the Company's entire information system from the current data center to EDF's data center was approved in the second half of 2015. The migration will take place in stages over a period of almost two years.

Lastly, the risk related to the integrity/confidentiality of Company data and information and their availability in the event of a cyberattack is being mitigated with the adoption of strict security standards and solutions. In this regard, a study was completed in 2015 for the implementation of a Security Operation Center (SOC) service that, starting in 2016, will provide the services needed to prevent and manage these new types of cyberattacks.

3. Strategic Risks

The development of the core businesses of the Edison Group must be supported with investments, acquisitions and selected divestments, implemented as part of a strategy to streamline the overall portfolio: the Group's ability to strengthen its core businesses and defend its competitive position in the markets where it operates is predicated on the effective deployment of these initiatives.

More specifically, insofar as direct investments are concerned, they typically entail a risk related to potential overruns in operational and investment costs, as well as possible delays in the start of commercial service, due

in part to uncertainties in the permit issuing process, with a resulting impact on the profitability of these initiatives.

As for the strategy of growth through acquisitions, its success is predicated on the availability in the market of opportunities that could help the growth of the Group's core businesses at an acceptable cost and on the Company's ability to identify those opportunities on a timely basis and effectively integrate the acquired assets into the Group's activities.

In order to mitigate these risks, the Company adopted a series of internal processes to monitor the research and assessment phases of investment initiatives. In addition to the use of appropriate written procedures, these processes require the use of due diligence activities, binding contracts, multilevel internal authorization processes, project risk assessment activities and project management and project control activities.

Financial Risks

Commodity Price Risk

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

The activities required to manage and control these risks are governed by the Energy Risk Policies, which require the adoption of specific risk limits, in terms of economic capital, and the use of financial derivatives that are commonly used in the market for the purpose of containing the risk exposure within preset limits.

Approved activities that are part of the core businesses of the Edison Group include physical and financial commodity trading, which must be carried out in accordance with special procedures and segregated at inception in special trading portfolios. Trading portfolios are monitored by means of strict risk limits and compliance with these limits is verified by an organizational unit independent of those who execute the transactions.

Foreign Exchange Risk

The activities carried out by the Group in currencies different from the euro and its strategies of expansion in the international markets expose the Company to fluctuations in foreign exchange rates. The guidelines concerning the governance and strategies to mitigate the foreign exchange risk generated by business activities are set forth in specific policies, which describe the foreign exchange risk management objectives depending on the different nature of the risk in question.

The Company adopts a centralized management model through which the Parent Company safeguards on an ongoing basis the Group's economic and financial equilibrium by constantly monitoring exposures and the implementation of suitable hedging and funding strategies aimed at mitigating this risk.

Credit Risk

With regard to the risk of potential losses caused by the failure of any of the counterparties the Company interacts with to honor the commitments they have undertaken, the Group has implemented for some time procedures and tools to evaluate and select counterparties based on their credit rating, constantly monitor its

exposure to the various counterparties and implement appropriate mitigating actions, primarily aimed at recovering or transferring receivables.

Interest Rate Risk

Because it is exposed to fluctuations in interest rates primarily with regard to the measurement of debt service costs, the Edison Group assesses on a regular basis its exposure to the risk of changes in interest rates, which it manages mainly by defining the characteristics of the facilities during the negotiation phase and through the use of derivatives.

Liquidity Risk

The liquidity risk has to do with the possibility that the Company may not have access to sufficient financial resources to meet its financial and commercial obligations in accordance with agreed terms and maturities. The policy to manage this risk, integrated at the EDF Group level, is designed to ensure that the Edison Group has access to sufficient credit facilities to meet short-term financial maturities, while at the same time consolidating its funding sources.

OTHER RESULTS FROM OPERATIONS

Innovation, Research and Development

The portfolio of activities pursued in 2015 by the Research, Development & Innovation (RD&I) Department both in the electric power and hydrocarbon areas was shaped by the challenges that arise from a competitive and constantly changing business environment and, obviously, by the need to achieve environmental sustainability.
The identification and assessment of innovative solutions for these challenges, applicable not only on a short-term basis, is the mission that the RD&I Department is pursuing through study, testing, assessment and development activities, carried out in close coordination with other Company departments and the research and development organization of the EDF Group.

The activities carried out in 2015 can be grouped into the following three main areas: the growing digitalization of the energy sector, the increasingly widespread adoption of smart solutions and the identification of energy efficiency as an important driver of new services. Examples include, for the first area, assignments based on computational intelligence techniques, for the second one, tests of storage systems combined with photovoltaic facilities and for the third one development of efficiency increasing and consumption qualification solutions that facilitate access to new services for residential customers and for micro and small businesses.

The competencies of the RD&I Department are enhanced by numerous and established collaborative relationships with industrial and academic partners and with the research organization of the EDF Group. In 2015, for example, collaboration with Turin's Politecnico was particularly important during the startup of the new Hydrocarbon Laboratory, inaugurated at the Trofarello Research Center on June 16.

The concern for the academic world and young researchers is also demonstrated by the Edison Volta Physics Prize, which was awarded this past October 16 to Nazzareno Mandolesi, Jean-Loup Puget and Jan Tauber for detecting the first light emitted by the universe. On the same occasion, an Edison scholarship was awarded to a young researcher who is pursuing research in the field of new materials for photovoltaic applications.

Health, Safety and the Environment

The main achievements of 2015 and projects under development are reviewed below.

Safety Performance Trend

Consistent with previous years, the Group consolidated the practice of presenting with a comprehensive and integrated approach the effect of programs to promote a culture of occupational health and safety; occupational safety indices are computed combining the data for Edison's personnel and for employees of suppliers, assigning to management throughout the organization improvement objectives compared with the average results for the previous three years.

On this basis, in 2015, the combined Injury Incidence Rate for activities in Italy and abroad was 2.1, in line with the trend for recent years, while the number of hours worked was not significantly different from the previous year. More specifically, the Injury Incidence Rate was 1.9 for Company employees and 2.4 for employees of external companies in 2015.

The combined Lost Workday Incidence Rate for activities in Italy and abroad was 0.11 in 2015, slightly better than in 2014, net of a fatal accident that involved an employee of an external company working on the FSO Leonis vessel, connected with the Vega offshore platform (hydrocarbon area).

Activities Concerning Health, Safety and the Environment

The main activities carried out in 2015 in this area are reviewed below.

- A new Edison Health, Safety and Environmental Policy, aligned with the corresponding Group policy, was published in March. Consequently, General Regulation No. 08/93 "Guidelines for protecting the environment and safeguarding the health and safety of people" was updated, becoming the reference document for Company activities in this area.
- All of the requirements of the applicable regulations concerning health, safety and the environment were satisfied, specifically with regard to updating risk assessments and holding periodic safety meetings, during which the implementation progress of training programs and the macro results of the employee health monitoring were presented. In addition, the timing and qualitative requirements of the deadlines of national environmental laws were complied with. An activity worthy of special mention in this area was the implementation of energy diagnoses at a representative number of Company locations (staff and operational), the results of which are currently being analyzed to plan future efficiency enhancement actions.
- In October, in continuity with previous years, Edison was an active participant at the European Safety Week devoted to muscular-skeletal disorders. In addition to initiatives of an educational type, all employees were able to access a specific e-learning session to increase awareness of these issues and participate in voluntary activities of postural awareness.
- All of the required inspections and/or renewal visits for the management systems certified in accordance with the UNI EN 14001 environmental standards, BSI OHSAS 18001 health and safety standards and UNI EN ISO 9001 quality standards were successfully completed. In addition, when applicable, the audits for maintaining the EMAS environmental registrations were also performed.

- As for the audit plan, a total of 81 internal audits were performed in 2015, equal to 103% of the audits planned at the beginning of the year. These reviews confirmed a generally a good level of process governance and control; no meaningful discrepancies with reference standards and practices were uncovered and all findings were addressed with adequate action plans. The main recommendations concerned document management by external companies, correct use of work permits and waste management.
- There were no accidents with an impact on the environmental matrices (soil, subsoil, surface waters and biodiversity) in 2015. In this area, Company Procedure PRO-013.EDIS-03 Rev. 04 "Guidelines for the communication of accidents in the areas of health, safety and the environment" was updated, making it consistent with General Regulation 91/2014 "Guidelines for the management of Company crisis". In addition, a drill simulating a Company crisis related to a potential environmental accident at the Rospo Mare offshore field was performed in November with positive results.
- Site characterization, safety assurance and environmental remediation work continued. Most of these activities involve highly significant industrial sites potentially polluted by activities carried out in the past that were sold and/or closed. In this area, a permit was obtained in 2015 from the relevant authorities for an operational remediation project that involves activities to biologically degrade the contaminants that are present at Nuova Alba's Dogaletto site, where work is now under way and will be completed in 2016, avoiding the adoptions of solutions that would have been extremely costly for the Company. At the same time, work continued on environmental remediation procedures for soil and aquifer contamination plumes identified or started in previous years at some of the Group's thermoelectric and hydroelectric power plants.

Human Resources and Industrial Relations

Human Resources

At December 31, 2015, the Edison Group had a total of 3,066 employees compared with 3,101 employees at December 31, 2014, for a decrease of 35 employees.

Total labor costs for the year amounted to 232 million euros, for an increase of 4.7% compared with the previous year, 2.2% of which was due to the effect of the change in the euro/dollar exchange rate on the Egyptian hydrocarbon operations and wage dynamics accounting for the balance.

Industrial Relations

The main event of 2015 was the signing, in the second half of the year, of an important agreement on the "System of Industrial Relations" and the organization of union representatives at the Edison Group. This agreement, reached after in-depth discussions with the national unions, in addition to providing a shared consensus on the guidelines and the general principles establishing and underpinning a model of industrial relations based on an ongoing dialog between the Company and employee representatives, regulates various topics, including the methods of interaction with the unions, the individual representatives and levels of representation, the scope of the dialog with the unions, the methods for the establishment of and activity by union representatives at the Company and the resulting tools to access union representation.

The starting point of this new relational model were the elections, held in December 2015 at all Edison work units, to renew the Combined Union Representative Entities and the Employee Representatives for Safety and the Environment, in which 65% of the employee participated. Based on the results of the elections, a National Combined Coordination representatives will be designated, who will represents the employees in all of Edison's areas of business and will operate alongside the National Unions in discussing and negotiating all issues of a transversal nature in the interaction with the Company.

In the second half of 2015, work continued to manage the social safety net programs for the employees of mothballed thermoelectric power plants.

This process, started at the end of 2012 for nine production facilities for the reassignment and requalification of the employees of the abovementioned units, was 100% completed for the Jesi (AN) power plant, 70% completed for the San Quirico (PR) power plant and 50% completed for the Piombino power plants.

For the Piombino power plants, through specific agreement with the labor unions, the report of the joint review for accessing the Special Supplemental Layoff Benefits Fund due to shutdown of activity, effective as of November 16, 2015, was signed at the office of the Livorno Provincial Administration for a duration of 12 months.

For the Meduno (PN) hydroelectric hub, pursuant to final agreements signed in September 2015, the monitoring of the dams was reorganized with the introduction of new work schedules with semi-shift activity and on-call availability for employees assigned to these facilities.

A single agreement, at the national level for 2015, was signed in December for the renewal of the result/productivity/profit sharing bonuses for the electric power, hydrocarbons and gas-water sectors. The solution adopted should nevertheless be viewed as a first and important step towards the definition of a single bonus, tied to profitability and productivity factors, for all Edison companies.

Lastly, in 2015, the implementation began of the regulatory and operational changes that became necessary due to the implementation of new legislation (the Jobs Act), specifically with regard to new permanent employment contracts, apprenticeship contracts and project-based employment contracts.

Organization and Employee Services

The main organizational changes that occurred in 2015 are listed below:

- the role and mission of Edison International Holding NV (EIH), a company based in Amsterdam, were redefined, assigning to EIH responsibility for streamlining and gradually concentrating Edison's main foreign equity investments and managing these investments;
- the organizational structure of the Gas Midstream, Energy Management & Optimization Division was modified reallocating some of the Division's activities to two new departments responsible, respectively, for Gas Supply Origination & Infrastructures and Long Term Gas Contract Management;
- the assets and organization of SHEN Spa, a company acquired by Edison, were integrated into the organization of the Power Asset Management Division as part of the Hydroelectric Operations. The acquired company operates a run-of-the-river hydroelectric power plant on the Adda River known as the "Maleo Power Plant", located in Maleo, province of Lodi;
- also within the Power Asset Management Division, the Italy Facilities Development Department adopted a new organizational configuration structured in accordance with the different electric power generating technologies;
- on December 8, 2015, Edison's Board of Directors adopted an updated version of the Company's Organization and Management Model required by Legislative Decree No. 231/2001 (Model 231), which was communicated to all employees also in December. The new text of the Model integrates the list of crimes introduced into the 231 Decree in recent years and the specific conduct protocols concerning monetary and financial flows, the management of investment properties, the settlement of expenses and the guidelines for awarding notarized powers of attorney were updated.

With regard to employee services, the Company continued to provide significant support to the "Edison per Te" employee wellbeing program, the objective of which is to help employees reconcile their personal needs with their professional obligations with the aim of improving their quality of life. The program's popularity has been increasing, with steadily growing volumes of activity, which, in 2015, entailed handling service requests by 66.6% of Edison's employees in Italy. In additions, the annual service evaluation survey produced a highly positive assessment of the program: more than 97% of respondents rated the program as extremely, very or fairly useful (+4% compared with the previous year).

Training

In 2015, Edison implemented a training plan for a total of more than 97,000 hours. The plan covered 2,485 employees, for a teaching cost of about 6 million euros, including 200,000 euros financed through the training account of the Fondimpresa and Fondirigenti interprofessional funds. Compared with the previous year, training activities show a reduction of 4.5% in terms of total hours due to a decrease in the scope of activity resulting from the mothballing of some facilities and changes in the scope of consolidation.

In 2015, the training program was again characterized by a broad and transversal coverage of the different Company populations, including both professional development and technical training and the customary commitment to safety and the environment.

Among transversal initiatives, a training program on the Company's Code of Ethics achieved full implementation. The aim of this program is to disseminate with an innovative approach the values, principles and rules of conduct set forth in Edison's Code of Ethics, through a dynamic e-learning program that involved more than one thousand employees and ended with a classroom seminar open to all employees and carried out with the contribution of managers and outside professionals.

Training and development activities carried out in 2015 included, as usual, the implementation of institutional and managerial training tracks devoted to newly hired employees and professionals (including induction for the 2014 newly hired employees), accompanied by a training program specifically designed for the 50 young resources enrolled in the program for early detection of talented employees.

Programs concerning professional family competencies included important activities by the Market Academy, which is now also available to and structurally involves the employees of the contact center companies. Also noteworthy was the start of specialized training programs, such as the Nautilus program on geosciences and subsoil, which involved at the international level professionals in the Exploration & Production and Research and Development areas. Other activities launched in 2015 included a structured program on Project Management for ICT professionals, provided in cooperation with MIP, the business school of Milan's Politecnico, of which Edison is a founding partner.

In 2015, management training focused on the Annual Interview, seen as a boss-employee dialog tool, which was widely used by management in about 2,000 interviews.

In addition, the offerings of the Ecampusmanagers management training platform were broadened, specifically focusing on the economic scenario and innovation content, in addition to hosting videos of the numerous meetings/seminars organized by Edison as part of the EdisonOpen4Expo cultural project, with focus on sustainability, the environment and innovation.

Collaboration between Edison's training and development area and EDF's Corporate University continued in all leadership and management programs. A noteworthy development was the consolidation of the Gas and Hydrocarbons Fundamentals program developed by Edison and EDF in collaboration with SDA Bocconi.

Relations with Suppliers

Cost optimization, efficiency in purchasing, protection of local interests, adequate compensation of suppliers and on-time payments are the elements that characterize the sustainability of Edison's supply chain, consolidating over time equitable relationships with suppliers based on trust and transparency and investing to create value over the long term.

In 2015, Edison reduced by about 12% the total value of purchase orders compared with the previous year, thanks to a reduction in operating costs in the Corporate area (efficiency) and in Thermoelectric Generation (lower production) and despite purchase order increases in Hydrocarbons (investments in E&P in Norway), Hydroelectric Generation and the Market/Customers area.

The percentage of purchases supplied by qualified vendors was slightly more than 90%, in line with last year's percentage, despite the natural turnover of the supplier portfolio.

The Calls for Tenders Portal of the EDF Group became operational in January 2015 and since that time Edison handles through this new application all of its calls for tenders. This tool represents a shared asset of processes and data for the EDF Group, guaranteeing a transparent, secure and verifiable handling of calls for tenders.

Addressing Sustainability Issues in the Supply Chain

The fairness and transparency that underpin Edison's way of doing business characterize its entire value chain. For the procurement of goods and services, Edison operates with suppliers who apply the strictest standards in the areas of personnel health and safety and environmental protection. All Edison suppliers are required to go through a qualification process structured through a dedicated information system to manage the collection and traceability of information, Edison monitors on an ongoing basis its sustainable supply chain, guaranteeing and incentivizing compliance with requirements concerning health, safety and labor rights, reduction of environmental impacts and the fight against corruption.

The "Sustainable Supply Chain Self-Assessment Platform" was launched in 2014 as part of the TENP Project. Numerous Italian companies from different industries joined this project, which is inspired by the 10 principles of the Global Compact and was started in 2011 under the aegis the Global Compact Network Italia.

Other Information

Please consult Edison's 2015 Sustainability Report for additional information about the topics in this section of this Report.

OTHER INFORMATION

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

- at December 31, 2015, it did not hold treasury shares or shares of its parent company, either directly or indirectly through nominees or other third parties. No transactions involving treasury shares or shares of the parent company were executed during the year, either directly or indirectly through nominees or other third parties;
- in 2015, the Group executed significant transactions with related parties, a description of which is provided in the section of the consolidated financial statements entitled "Intercompany and Related-Party Transactions";
- no secondary registered offices have been established.

The Company chose to avail itself of the options provided under Article 70, Section 8, and Article 71, Section 1-*bis,* of the Issuers' Regulations. Consequently, it is not complying with the requirement to make available to the public an Information Memorandum in connection with significant transactions involving mergers, demergers, capital increases through conveyances of assets in kind, acquisitions and divestments.

MOTION FOR A RESOLUTION

Dear Shareholders,

Your company's separate financial statements at December 31, 2015 show a loss of 776,013,900.44 euros.

If you concur with the criteria adopted to prepare the financial statements and the accounting principles and methods applied, we recommend that you adopt the following resolution:

The Shareholders' Meeting,

- having reviewed the Company's separate financial statements and the Group's consolidated financial statements at December 31, 2015, as well as the Report on Operations submitted by the Board of Directors and the Report on Corporate Governance and the Company's Ownership Structure;
- being cognizant of the Report of the Board of Statutory Auditors pursuant to Article 153 of Legislative Decree No. 58/1998 (TUF);
- being cognizant of the Reports of the Independent Auditors on the separate and consolidated financial statements at December 31, 2015;
- considering that, as a result of the transition to and adoption of the IFRS principles, the Company's shareholders' equity at December 31, 2015 includes reserves, pursuant to Articles 6 and 7 of Legislative Decree No. 38/2005, on a part of which there are also tax restrictions;

resolves

to approve the Company's separate financial statements for the year ended December 31, 2015, and the individual items contained therein, which show a loss of 776,013,900.44 euros.

In relation to the methods of coverage of said loss, please refer to the motions to the extraordinary shareholders' meeting.

Milan, February 15, 2016

The Board of Directors
By: Marc Benayoun
Chief Executive Officer

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF EDISON S.P.A. PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE No. 58/98

Dear Shareholders:

In the year ended December 31, 2015, the Board of Statutory Auditors of Edison S.p.A. (hereinafter the "Company" or "Edison") carried out its oversight activities pursuant to law, performing its work in accordance with the rules of conduct for Boards of Statutory Auditors recommended by the Italian Board of Certified Public Accountants and Accounting Experts and consistent with the pronouncements published by the Consob concerning corporate controls and the activities of the Board of Statutory Auditors. This report was prepared in accordance with the guidelines provided by the Consob in Communication DEM/1025564 of April 6, 2001, as amended and integrated by Communication DEM/3021582 of April 4, 2003 and Communication DEM/6031329 of April 7, 2006.

The Board of Statutory Auditors currently in office was elected by the Shareholders' Meeting of March 28, 2014, in accordance with the provisions of the applicable laws and regulations and those of the Company Bylaws, which, in accordance with the amendments to the Bylaws approved by the Shareholders' Meeting of March 22, 2013 that, *inter alia,* eliminated the slate voting requirement to elect Statutory Auditors, due to the delisting of the Company's common shares, and introduced new rules for the election of Statutory Auditors consistent with the provisions of laws and regulations concerning gender parity. The term of office of this Board of Statutory Auditors will end with the Shareholders' Meeting convened to approve the financial statements at December 31, 2016.

The members of the Board of Statutory Auditors are in compliance with the limit on the number of governance posts held set forth in the Bylaws and Article 144-*terdecies* of the Issuers' Regulations.

The independent statutory audits required by Legislative Decree No. 58/1998 and Legislative Decree No. 39/2010 are performed by Deloitte & Touche S.p.A., pursuant to an assignment awarded for nine years (2011-2019) by the Shareholders' Meeting on

April 26, 2011.

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With regard to the performance, in the course of the year, of the activities under its jurisdiction, the Board of Statutory Auditors declares that:

- It attended the Shareholders' Meetings and the meetings of the Board of Directors and obtained from the Directors adequate information about the Company's operating performance and business outlook, as well as about transactions executed by the Company and its subsidiaries that qualified as highly material, because of their size and characteristics;
- It obtained the information needed to perform the activities required to verify compliance with the law, the Bylaws and the principles of sound management and the adequacy of the Company's organization through direct observation, documents and information obtained from managers of relevant Company departments and periodic exchanges of information with the company retained to perform statutory, independent audits of the annual and consolidated financial statements;
- Through its Chairman, it participated in the meetings of the Control and Risk Committee, the Compensation Committee and the Oversight Board, and attended those of the Committee of Independent Directors;
- It monitored the working and effectiveness of the system of internal controls and the adequacy of the administrative and accounting system, specifically with regard to the latter's reliability in presenting the results from operations;
- It carried out its monitoring activities in accordance with Article 19 of Legislative Decree No. 39/2010, which requires the Board of Statutory Auditors to perform the function of the "Internal Control and Audit Committee" with regard to: a) the financial reporting process, b) the effectiveness of the internal control, internal auditing and risk management systems, c) the statutory, independent auditing of the annual and consolidated financial statements, d) the independence of the Independent Statutory Auditors;
- It exchanged information on a regular basis with the Independent Auditors about the work they performed pursuant to Article 150 of Legislative Decree No. 58/98 by reviewing the results of the work performed by the Independent Auditors and obtained from the Independent Auditors the reports required by Article 14 and Article 19, Section Three, of Legislative Decree No. 39/2010 and the independence confirmation declaration required pursuant to Article 17, Section Nine, Letter a), of

Legislative Decree No. 39/2010;

- It discussed with the company performing statutory, independent audits of the financial statements the risks related to its independence and the measures it adopted to minimize them, in accordance with Article 17, Section Nine, Letter a), of Legislative Decree No. 39/2010;
- It monitored the functionality of the control system for Group companies and the adequacy of the instructions given to them, also pursuant to Article 114, Section 2, of Legislative Decree No. 58/1998;
- It was informed of the preparation of the Compensation Report required pursuant to Article 123-*ter* of Legislative Decree No. 58/1998 and Article 84-*quater* of the Issuers' Regulations and have no remarks to make in this regard;
- It ascertained that the provisions of the Bylaws were in compliance with statutory and regulatory requirements;
- It monitored the concreted methods deployed to implement the corporate governance rules adopted by the Company in accordance with the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A.;
- It ensured that the internal procedure concerning related-party transactions was consistent with the principles set forth in the Regulation approved by the Consob with Resolution No. 17221 of March 12, 2010, as amended, and that the abovementioned procedure was being complied with, pursuant to Article 4, Section 6, of the abovementioned Regulation;
- It monitored the corporate information process and verified compliance by the Directors with the procedural rules governing the preparation, approval and publication of the separate and consolidated financial statements;
- It ascertained the methodological adequacy of the impairment process applied to determine whether any Company assets listed on the balance sheet were impaired;
- It verified that the 2015 Report of the Board of Directors on Operations complied with current laws and regulations and was consistent with the resolutions adopted by the Board of Directors and the facts presented in the separate and consolidated financial statements;
- It became familiar with the content of the Semiannual Consolidated Report, concluding that no remarks by the Board of Statutory Auditors were required with regard to it, and verified that the Semiannual Consolidated Report and the Quarterly Reports were publicly disclosed in the manner required pursuant to law.

In the course of its oversight activities, which the Board of Statutory Auditors carried out in the manner described above, based on the information and the data obtained, no facts were uncovered indicating failures to comply with the applicable laws and the Articles of Incorporation or otherwise requiring disclosure to the regulatory authorities or mention in this Report.

* * * *

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

1. With regard to the year subject of this Report, the transactions with a greater material impact on the Company's income statement, balance sheet and financial position executed in 2015, including those implemented through subsidiaries, all of which are discussed in the Report on Operations, are summarize below:

• On January 13, 2015, Edison signed a put&call option to acquire from Apache Beryl I (a subsidiary of Apache Corporation) its interests in the Scott and Telford oil fields (10.5% and 15.7%, respectively) located in the P185 15/22 concession in the North Sea (UK). This transaction closed on April 30, 2015 for a total consideration of 41 million euros.

• On June 16, 2015, Edison inaugurated a new Hydrocarbon Laboratory at its Research, Innovation and Development Center in Trofarello (Turin), specialized in the development of innovative solutions in the areas of energy efficiency and environmental safety for the growth of the Group's businesses.

• In June 2015, Edison began construction of a new 4.5 MW facility in Pizzighettone (Cremona), which is scheduled to go on stream in 2016 and will produce 17.5 GWh of electric power.

• In July 2015, Edison acquired from the AGS Group (Alto Garda Servizi) 100% of the share capital of Shen S.p.A., the company that operates a run-of-the-river hydroelectric power plant on the Adda River in Maleo (Lodi) capable of producing about 15 GWh a year, with an installed capacity of 3 MW. As required by Article 2505 of the Italian Civil Code, the merger by absorption of Shen S.p.A. into Edison was approved in December 2015.

• On July 24, 2015, Edison and the Egyptian General Petroleum Corporation (EGPC), Egypt's national oil company, officially finalized an agreement to revise the gas supply price based on a new indexing formula.

• On November 27, 2015, the International Court of Arbitration of the International Chamber of Commerce (ICC) notified its award in the arbitration between Edison and ENI for a revision of the price charged under a long-term contract for the supply of natural gas from Libya. The Court of Arbitration granted the price revision requested by

Edison in 2012, for a retroactive value of about 1 billion euros, reserving the right to hand down a decision regarding interest, legal expenses and the exact amount owed by Eni based on the new contract price.

• On December 29, 2015, Edison and SEL S.p.A. (Società Elettrica Altoatesina) signed an agreement to swap Edison's equity interests in Hydros S.r.l. and Sel Edison S.p.A. in the Bolzano province for the hydroelectric facilities owned by SEL S.p.A. in the Friuli Venezia Giulia region.

Based on the information supplied by the Company and data obtained regarding the transactions described above, the Board of Statutory Auditors ascertained that they were consistent with the provisions of the applicable laws, the Articles of Incorporation and the principles of sound management, making sure that they were not patently imprudent or reckless, potentially entailing conflicts of interest, in violation of the resolutions adopted by the Shareholders' Meeting or capable of impairing the integrity of the Company's assets.

Subsequent to the end of the 2015 reporting year, the Company's Board of Directors meeting, on February 15, 2016, resolved to submit to Edison's Shareholders' Meeting a proposal for a capital increase, with exclusion of the preemptive right, pursuant to Article 2441, Section 4, of the Italian Civil Code, which will be paid-in with the conveyance to Edison of the 100% interest in the capital of Fenice S.p.A. held by the shareholder Transalpina di Energia S.p.A., ordering the implementation of all activities required to comply with the laws currently in effect regarding the submission of the proposal to the upcoming Shareholders' Meeting for approval. All safeguards required by the relevant laws and regulations were applied to the abovementioned transaction to verify its fairness and consistency with the Company's interest and for the purpose of its assessment as a related-party transaction in accordance with the Procedure for Related-party Transactions adopted by the Company. The abovementioned assessment was performed by the Committee of Independent Directors in accordance with the abovementioned procedure.

2. In the course of its reviews, the Board of Statutory Auditors did not identify any transactions that were atypical and/or unusual, as defined in Consob Communication DEM/6064293 of July 28, 2006.

The Board of Statutory auditors acknowledges that the information provided in the Financial Report regarding significant nonrecurring events and transactions and atypical and/or unusual transactions, including intercompany or related-party transactions, is adequate.

3. The characteristics of intercompany and related-party transactions executed by the

Company and its subsidiaries in 2015, the parties involved and their financial effects are explained in the section of the 2015 Consolidated Financial Statements entitled "Intercompany and Related-party Transactions", which should be consulted for additional information. In that document, the Company specifies that all transactions reviewed in it were executed on terms consistent with market practice. Transactions executed with the controlling company Transalpina di Energia S.p.A. in connection with the Group consolidated VAT return and the consolidated corporate income tax (IRES) return were negotiated by the parties in accordance with the applicable laws. This information is also mentioned in the Report on Operations. The Board of Statutory Auditors believes that information provided in the manner mentioned above about the abovementioned transactions is adequate overall and that, based on the data thus acquired, the transactions in question appear to be fair and in the Company's interest.

Related-party transactions, identified in accordance with international accounting principles and the directives issued by the Consob, are governed by an internal procedure (the "Procedure") adopted by the Company's Board of Directors on December 3, 2010, as required by Article 2391 *bis* of the Italian Civil Code and the regulations issued by the Consob, as amended, most recently on November 12, 2014. The Board of Statutory auditors reviewed the Procedure, verifying that it was compliant with Consob Regulation No. 17221 of March 12, 2010, as amended by Resolution No. 17389 of June 23, 2010 and as interpreted by Resolution No. 78683 of September 24, 2010.

In the course of 2015, the Company, acting both directly and through subsidiaries, carried out three transactions to which the abovementioned Procedure is applicable, all classifiable as "Less Material" transactions. These transactions, which were executed by Edison and EDF SA, involved, respectively, an amortizable loan within the framework of an EIB facility, the provision of services within a Power International framework and a cooperation agreement in the research and development area. As required, the opinion by the Committee of Independent Directors was obtained for all of the above transactions.

The Board of Statutory Auditors verified that the abovementioned transactions were carried out in accordance with the approval and implementation modalities set forth in the abovementioned Procedure.

4. On February 16, 2016, the Independent Auditors Deloitte & Touche S.p.A. issued the reports required by Article 14 of Legislative Decree No. 39 of January 27, 2010, certifying that:

- the separate and consolidated financial statements at December 31, 2015 were prepared transparently and present truthfully and fairly the financial position, income statement and

cash flow of the Company and the Group;

- the Report on Operations and the disclosures provided in the Report on Corporate Governance and the Company's Ownership Structure in accordance with Article 123-*bis*, Section 1, Letters c), d), f), l) and m), and Section 2, Letter b), of Legislative Decree No. 58/1998 are consistent with the Company's Statutory Financial Statements and the Group's Consolidated Financial Statements.

The abovementioned report of the Independent Auditors did not contain any qualifications or disclosure requests.

No issues requiring mention in this Report were uncovered in the course of the regular meeting that the Board of Statutory Auditors held with the Independent Auditors, as required by Article 150, Section Three, of Legislative Decree No. 58/1998.

5. In 2015, the Board of Statutory Auditors did not receive any complaints pursuant to Article 2408 of the Italian Civil Code or negative remarks submitted by shareholders or third parties.

6. Please note that, in 2015, according to information provided by the Company, the Independent Auditors Deloitte & Touche S.p.A. did not receive any additional assignments from Edison S.p.A.. Subsequent to the end of the 2015 reporting year, the Company asked the abovementioned Independent Auditors to render an opinion as to the fairness of the share issue price, as required by Article 2441, Section 6, of the Italian Civil Code and Article 158, Section 1, of Legislative Decree No. 58/98, in connection with the planned capital increase transaction, with exclusion of the preemptive right, with the shares being paid-in through the conveyance of the 100% interest in the capital of Fenice S.p.A. held by Transalpina di Energia S.p.A.. The fee charged for this assignment was 200,000 euros.

7. In 2015, the following assignment were awarded to the Independent Auditors Deloitte & Touche S.p.A. by some Edison subsidiaries:

1. independent audit of Shen S.p.A., for a fee of 10,000 euros (assignment awarded by the Shareholders' Meeting of Shen S.p.A.);
2. performance of agreed upon procedures concerning Abu Qir Petroleum at June 30, 2015, for a fee of 22,000 euros (assignment awarded by the Board of Directors of Edison International S.p.A.);
3. performance of agreed upon procedures concerning Abu Qir Petroleum at December 31, 2015, for a fee of 22,000 euros (assignment awarded by the Board of Directors of Edison International S.p.A.);

4. independent audit of the special financial statements of the Milazzo power plant, for a fee of 14,000 euros (assignment awarded by the Board of Directors of Edison Trading S.p.A.)
5. performance of agreed upon procedures concerning Edison Stoccaggio, for a fee of 12,000 euros (assignment awarded by the Chief Executive Officer of Edison Stoccaggio S.p.A.).

While acknowledging that the additional services provided in 2015 by the Independent Auditors derive from earlier assignments, the Board of Statutory Auditors rendered its opinion regarding the additional assignment awarded by Edison to the Independent Auditors, as mentioned in Section 6 of this Report.

8. The Board of Statutory Auditors monitored the independence of the Independent Auditors, taking also into account the requirements of Article 19 of Legislative Decree No. 39/2010, ascertaining that they were in compliance with the provisions of the relevant statutes in providing Edison and its subsidiaries with services other than the statutory, independent audits of the financial statements, and determined, based on information provided by the Company, that no assignments were granted in 2014 to parties linked with the Independent Auditors by an ongoing relationship, pursuant to Section 2, Item 8, of the Consob Communication of April 6, 2001.
Based on the information obtained, no problematic issues were uncovered regarding the independence of the Independent Auditors.

9. The Board of Statutory Auditors issued the opinions required pursuant to the applicable laws and regulations, specifically regarding:
a. the approval of the actual MBO data applicable to the variable compensation of the Chief Executive Officer for 2014;
b. the proposal concerning the definition of the 2015 targets upon which the variable compensation of the Chief Executive Officer will be based, also evaluating, without being required to provide remarks, the proposed targets for the second cycle of the 2015-2017 LTI for management;
c. the proposal to provide indemnities and compensation for the Company's Chairman and the *pro tempore* Chief Executive Officer for costs, expenses and damages resulting from the risks inherent in the performance of tasks entailed by the offices held at the Company and its subsidiaries, opinion rendered on the conditions and within the limits defined in the existing interpretations currently available regarding to these benefits.
In addition, it approved a resolution adopted on December 8, 2015 by the Company's

Board of Directors to coopt, pursuant to Article 2386 of the Italian Civil Code and Article 14, Section 7, of the Company Bylaws, Marc Benayoun as a replacement for the resigning Director Denis Lépée.
It also provided its opinion whenever the Board of Directors requested it in accordance with provisions that, for certain decision, require the prior input of the Board of Statutory Auditors.

10. In general, in order to obtain the information needed to carry out its oversight activities, the Board of Statutory Auditors performed the following activities:
- in 2015, it met six times, within the time intervals required pursuant to law. The activities performed on those occasions were documented in the minutes of the meetings;
- it attended all six meetings of the Company's Board of Directors, obtaining from the Board of Directors a steady flow of information concerning its activity and transactions with a material impact on the Company's income statement, financial position and cash flow executed by the Company and its subsidiaries;
- it attended the Shareholders' Meetings of March 26, 2015;
- it attended, through its Chairman as a minimum, the five meetings of the Control and Risk Committee and the three meetings of the Compensation Committee;
- it exchanged information with the control bodies of the subsidiaries, as required by Article 151 of Legislative Decree No. 58/1998, holding joint meetings with some of them, there being no indication of any significant issues or ascertained circumstances that would require mention in this Report;
- through its Chairman, it attended four of the five meetings of the Oversight Board of the Organization and Management Model adopted pursuant to Legislative Decree No. 231 of June 8, 2001 and an expanded meeting with the Chairmen of the Oversight Boards of the subsidiaries;
- through its Chairman, it attended the meetings of the Committee of Independent Directors, which were held to review related-party transactions.

11. The Board of Statutory Auditors monitored compliance with the law and the Articles of Incorporation and with the principles of sound management, ensuring that all transactions approved and executed by the Board of Directors complied with the abovementioned rules and principles, were financially sound, were not manifestly imprudent or reckless, did not give rise to potential conflicts of interest with the Company, were not in conflict with resolutions approved by the Shareholders' Meeting and did not impair the integrity of the Company's assets. The Board of Statutory Auditors believes that the tools and governance

systems adopted by the Company provide an effective safeguard in terms of compliance with the principles of sound management.

The Board of Directors retains ample decision-making powers. Specifically, it has sole jurisdiction, in addition to the issue assigned to it pursuant to law and the Company Bylaws, over decisions concerning particularly significant issues and transactions, which, consequently, cannot be delegated to executive Directors.
The Board of Directors delegated powers exclusively to the Chief Executive Officer enabling him to perform all activities that are consistent with the Company's purpose, except for the limitations imposed by laws and the Company Bylaws and excluding the transactions over which the Board of Directors decided to reserve sole jurisdiction.
Pursuant to the Bylaws, the Chairman of the Board of Directors and the Chief Executive Officer are the Company's legal representative vis-à-vis third parties and in court proceedings.
The Chairman of the Board of Directors does not have operational authority, serving instead in an institutional guidance and control function.

12. The Board of Statutory Auditors monitored the adequacy of the organizational structure of the Company and the Group by gaining an understanding of the Company's administrative structure and exchanging data and information with the managers of the various Company functions, the manager of the Internal Auditing Department and the Independent Auditors.

The organizational structure of the Company and the Group is defined by the Chief Executive Officer and implemented by means of a system of internal communications, by which the managers of the various departments and business units were appointed and to whom power were delegated consistent with the assigned responsibilities, the attribution guidelines of which are confirmed within the framework of the 231 Model. The responsibilities of the Company's top management are clearly defined, with a detailed specification of the attributions of the managers of the main areas of business and corporate functions, who are members of the Executive Committee (COMEX).

The more operational aspects of the organizational structure are defined by additional organizational communications issued by the managers of the various Departments and Business Units, with the prior approval of the Chief Executive Officer, which are posted on the Company Intranet. Based on the verifications performed, no problematic issues having

been uncovered, the Company's organizational structure appears adequate in light of the Company's purpose, characteristics and size.

13. In monitoring the adequacy and effectiveness of the system of internal controls, also with regard to the requirements of Article 19 of Legislative Decree No. 39/2010, the Board of Statutory Auditors met on a regular basis with managers of the Internal Auditing Department and other Company functions and relied on the information obtained as a minimum by the Chairman of the Board of Statutory Auditors by attending relevant meetings of the Control and Risk Committee and the Oversight Board of the Model pursuant to Legislative Decree No. 231/2001.

Edison's system of internal controls is based on a structured and organic set of rules, procedures and organizational structures aimed at preventing or minimizing the impact of unexpected results and allow the achievement of the Company's strategic and operating objectives (i.e., consistency of the activities with the desired objectives, effectiveness and efficiency in conducting its operations, and protection of the corporate assets), compliance with applicable laws and regulations, and accurate and transparent internal and market communications (reporting).

The Board of Directors, working with the support of the Control and Risk Committee, (i) defines the guidelines of the system of internal controls; (ii) regularly reviews the main risks faced by the Company, as identified by the Chief Executive Officer, who is responsible for implementing the guidelines of the system of internal controls; and (iii) assesses the adequacy, efficacy and effectiveness of the system of internal controls at least once a year.

The system of internal controls includes an Internal Auditing Department, which is responsible for providing support to the Board of Directors, the Control and Risk Committee and the Company's management in pursuing the objective of a properly functioning internal control and risk management system. The Board of Directors assigned to the manager of this department the task of assessing the adequacy and effectiveness of the overall system of internal controls. The activity of this Department is carried out primarily through an annual plan of auditing and compliance engagements and includes monitoring the actual implementation of recommendations issued in connection with auditing engagements (follow up).

The Board of Statutory Auditors interfaced on a regular basis with the Internal Auditing Department for the purpose of assessing the audit plan and its findings, both in the planning phase and in the review of completed audits and the corresponding follow-up

activities.

In addition, the Board of Statutory Auditors verified that internal control monitoring tools were also promptly activated by subsidiaries whenever necessary or just appropriate, depending on the circumstances.

The Company, directly and at the Group level, uses additional tools to monitor progress toward the achievement of operational and compliance objectives, including a structured and periodic planning, management control and reporting system, a financial risk governance system (commodity and foreign exchange risks primarily), a system to manage Company risks in accordance with Enterprise Risk Management (ERM) principles, and the accounting control model required by Law No. 262/2005 in the area of financial disclosures.

Consistent with the ERM Model, the Company developed a map of the main business risks by implementing a structured risk mapping and risk scoring activity, carried out through a risk self-assessment process that involved all Department and Business Unit managers. Edison's Risk Officer is responsible for coordinating the risk management process, supporting management in defining the overall strategy and risk policies; analyzing, identifying, assessing and managing risks; and defining and managing an appropriate control and reporting system.

As part of the ERM Model, the Company has adopted for some time an Energy Risk Policy that, in addition to defining the governance, monitoring and control environment for these risks (specifically risks related to fluctuations in the prices of energy commodities and the related foreign exchange risk, when denominated in foreign currencies), calls for the adoption of specific risk limits.

In 2015, the Company also completed a program to make its processes compliant with the EMIR regulations.

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

Edison adopted the organizational model required pursuant to Legislative Decree No. 231/2001 ("231 Model") of which the Code of Ethics is an integral part. The Model is designed to prevent the perpetration of the unlawful acts referred to in the abovementioned Decree and, consequently, shield the Company from administrative liability. In 2015, the Company completed the updating of its 231 Model with regard to the crimes of self money laundering and the new crimes concerning false company communications and began the updating of its 231 Model for the new environmental crimes (Law No. 68/2015).

In 2015, the Oversight Board, with the support of the Internal Auditing Department, implemented programs to provide employees with training on the principles and

requirements of the 231 Model and monitored the development of relevant regulations concerning Legislative Decree No. 231/2001. In addition, it launched a project to revise and update the system for reporting violations (also known as whistleblowing), based on the use of a dedicated IT platform, in line with international standards capable of ensuring its security effectiveness and fairness.

The Company has in place a procedure for the external communication of documents and information concerning its activities as an issuer of securities, which is an integral part of its 231 Model and calls for the adoption of specific safeguards for the management of insider information.

In May 2015, the Company adopted the "Anticorruption Guidelines" aimed at providing all those who operate within the Company's organization with a framework for the interpretation of rules and principles designed to prevent the occurrence of corruptive illegal acts.

Lastly, the Company adopted and Antitrust Code that complements the Code of Ethics, with the aim of supporting and facilitating compliance with the rules protecting competition.

In the area of internal dealing, in addition to the obligations that already exist pursuant to the regulations concerning market abuse, the Company, acting pursuant to law, introduced an obligation to refrain, during certain periods of the year, from executing transactions that involve financial instruments issued by the Company that are listed on regulated markets.

In 2015, the Board of Directors, based on the available information and evidence, gathered in part thanks to the preparatory work of the Control and Risk Committee, carried out an overall assessment of the adequacy of the internal control and risk management system, concluding that it was adequate overall for the purpose of providing a reasonable certainty that the mapped risks are properly managed. In the opinion of the Board of Statutory Auditors, in light of the information obtained, the Company's internal control and risk management system appears to be adequate, effective and effectively implemented.

14. In addition, the Board of Statutory Auditors monitored the adequacy and reliability of the Company's administrative and accounting system in presenting accurately the results from operations by obtaining information from the managers of the relevant departments, reviewing Company documents and analyzing the information produced by the Independent Auditors. The two Corporate Accounting Documents Officers were awarded jointly the attributions that the law requires and were provided with sufficient authority and resources to discharge their duties. In addition, the Chief Executive Officer,

through the Corporate Accounting Documents Officers, is responsible for implementing the "Accounting Control Model Pursuant to Law No. 262/2005," the purpose of which is to establish the guidelines that must be applied within the Edison Group to satisfy the obligations set forth in Article 154-*bis* of Legislative Decree No. 58/1998 with regard to the preparation of corporate accounting documents and comply with the resulting certification requirements. The preparation of accounting disclosures and of statutory and consolidated financial statements is governed by the Group Accounting Manual and by the other administrative and accounting procedures that are part of the Model pursuant to Law No. 262/2005, including the fast closing procedure adopted by the Company.

The Model adopted pursuant to Law No. 262/2005 includes official procedures concerning the impairment test, performed in accordance with IAS 36. The analysis of the recoverable values of goodwill and other assets was carried out with the support of a highly qualified independent expert and approved by the Board of Directors on February 15, 2016. A detailed description of the methods and assumptions applied is provided in the relevant note to the consolidated financial statements.
The impairment test procedure and its results were monitored by the Board of Statutory Auditors through meetings with Company managers and the Independent Auditors and through the attendance by the Chairman of the Board of Statutory Auditors at meetings held by the Control and Risk Committee to review the abovementioned results.
The Board of Statutory Auditors is cognizant of the attestations issued by Edison's Chief Executive Officer and Corporate Accounting Documents Officers regarding the adequacy of the administrative and accounting system, in light of the Company's characteristics, and the effective implementation of the administrative and accounting procedures required for the preparation of the separate financial statements of Edison S.p.A. and the consolidated financial statements of the Edison Group. In addition, the Board of Statutory Auditors, having monitored the financial information reporting process by obtaining information from Company managers, found that, overall, the Company's administrative-accounting system is adequate and reliable in presenting accurately the results from operations.

15. The Board of Statutory Auditors monitored the adequacy of the instructions provided by the Company to its subsidiaries pursuant to Article 114, Section 2, of Legislative Decree No. 58/98, determining, based on information provided by the Company, that these instructions were suitable for providing the information needed to comply with statutory disclosure requirements, and has no objections.

16. The Board of Statutory Auditors, with the support of the Corporate Affairs Department, monitored the process adopted to ensure the concrete implementation of the corporate governance rules set forth in the edition currently in effect of the Corporate Governance Code published by Borsa Italiana (the "Code"), also with respect to updating those monitoring activities to reflect the new provisions added to the Corporate Governance Code further to the revisions completed in July 2015.

The Report on Corporate Governance and the Company's Ownership Structure lists the Code recommendations that the Board of Directors chose not to adopt, explaining the reasons for those choices, and describes any alternative solutions that may have been adopted.

17. The Company's Board of Directors is currently comprised of 10 members, including three independent Directors. It composition is compliant with gender parity rules.

On March 26, 2015, Edison's Shareholders' Meeting confirmed the appointment of Jean-Bernard Lévy, who was coopted by the Board of Directors on December 12, 2014.

On December 8, 2015, the Company's Board of Directors, acting pursuant to Article 2386 of the Italian Civil Code and Article 14, Section 7, of the Company Bylaws, adopted a motion to coopt Marc Benayoun as a replacement for the resigning Director Denis Lépée. At the same time, Marc Benayoun was appointed Chief Executive Officer of the Company, effective as of January 1, 2016. The Board of statutory Auditors approved the cooption resolution adopted by the Board of Directors, as required by Article 2386, Section 1, of the Italian Civil Code.

In 2015, the Board of Directors carried out a self-assessment of the size, composition and activities of the Board of Directors and its Committees. The results of this process were presented to the Board of Directors at a meeting held on February 15, 2016 and are listed in the Report on Corporate Governance and the Company's Ownership Structure.

With regard to the procedure followed by the Board of Directors to ascertain the independence of its members, the Board of Statutory Auditors carried out a review of the issues over which it has jurisdiction, concluding that the criteria and procedures used to verify the independence requirements, pursuant to the applicable laws and the Corporate Governance Code, were correctly applied and the requirements concerning the overall composition of the Board of Directors were complied with.

On the occasion of the most recent verification of compliance with the independence requirements, performed on February 15, 2016, specifically regarding the uninterrupted service on the Board for more than nine years by the Director Gian Maria Gros-Pietro, the Board of Directors confirmed that the abovementioned Director met the independence

requirement, considering substantive criteria and the ethical and professional qualities of the party in question. The abovementioned Director also serves in the capacity as Lead Independent Director since October 2012.

Lastly, the Board of Statutory Auditors ascertained that its members met the same independence requirements as the Directors and adopted the Corporate Governance Code's recommendation requiring its members to disclose any personal or third-party interest in specific transactions submitted to the Board of Directors for approval. In 2015, there were no instances in which the members of the Board of Statutory Auditors were required to make such a disclosure.

The following committees were established within the framework of the Board of Directors:

- The Control and Risk Committee, which is responsible for providing consulting support and making recommendations, reports to the Board of Directors at least once every six months about the work it performed and the adequacy of the internal control and risk management system. This committee, which is comprised of four non-executive Directors, two independent, met five times in 2015. The recommendation of the Corporate Governance Code that the Control and Risk Committee be comprised exclusively of independent Directors was not complied with for the reasons presented in the 2015 Report on Corporate Governance and the Company's Ownership Structure.
- The Compensation Committee, which is comprised of four non-executive Directors, three independent, met three times in 2015.
- The Committee of Independent Directors, which is comprised of three independent Directors, held four meetings in 2015 during which it reviewed seven related-party transactions, including three transactions relevant for the purposes of the Procedure for Related-party Transactions (all Less Material transactions discussed in Section 3 of this Report) and four regular transactions, with regard to which the Committee rendered its opinion.

Additional information about the Company's corporate governance is provided in the Report on Corporate Governance and the Company's Ownership Structure, with regard to which the Board of Statutory Auditors has no objections requiring disclosure.

18. The Board of Statutory Auditors reviewed the Compensation Report approved by the Board of Directors on February 15, 2016 upon a recommendation by the Compensation Committee and verified its compliance with the applicable laws and regulations, and the clarity and completeness of the disclosures provided regarding the compensation policy adopted by the Company.

19. The Board of Statutory Auditors also reviewed the motions that the Board of Directors, meeting on February 15, 2016, resolved to submit to the Shareholders' Meeting, specifically with regard to:

- a motion for a capital increase, with exclusion of the preemptive right, pursuant to Article 2441, Section 4, of the Italian Civil Code, which will be underwritten through the conveyance of the 100% interest in the capital of Fenice S.p.A. held by Transalpina di Energia S.p.A.;
- the modalities for replenishing the loss for the year by utilizing the existing reserves, with a resulting reduction of reserves restricted pursuant to company regulations and/or tax laws, and the additional paid-in capital that will result from the proposed share capital increase.

The Board of Statutory Auditors declares that it has no specific remarks with regard to the motions submitted by the Company's Board of Directors to the Shareholders' Meeting.

20. Lastly, the Board of Statutory Auditors verified directly compliance with the provisions of the statutes governing the preparation of the draft separate financial statements and consolidated financial statements at December 31, 2015, the respective accompanying Notes and the Report of the Board of Directors. It accomplished this task through direct observations and with the support of managers of Company departments and representatives of the Independent Auditors. Specifically, the Board of Statutory Auditors, based on the controls performed and the information supplied by the Company, within the limits of its jurisdiction pursuant to Article 149 of Legislative Decree No.58/98, attests that the separate and consolidated financial statements of Edison at December 31, 2015 were prepared in accordance with the laws governing their construction and presentation and the International Financial Reporting Standards issued by the International Accounting Standards Board, as published in the *Official Journal of the European Union.*

The separate and consolidated financial statements are accompanied by the required conformity declarations signed by the Chief Executive Officer and the Corporate Accounting Documents Officers.

* * * *

Based on the foregoing considerations, which provide an overview of its activities in 2015, the Board of Statutory Auditors did not uncover any specific negative issues, omissions, improper acts or irregularities and has no remarks or recommendations for the Shareholders' Meeting, as would be required pursuant to Article 153 of Legislative Decree No. 58/1998, with regard to issues under its jurisdiction concerning the separate and

consolidated financial statements, the accompanying notes and the report on operations, and finds no grounds for objecting to the approval of the motions submitted by the Board of Directors to the Shareholders' Meeting, including those concerning the capital increase, with exclusion of the preemptive right, pursuant to Article 2441, Section 4, of the Italian Civil Code, and the full replenishment of the loss for the year.

Milan, February 18, 2016

The Board of Statutory Auditors

Serenella Rossi	Chairperson
Leonello Schinasi	Statutory Auditor
Giuseppe Cagliero	Statutory Auditor