EDISON
EDF GROUP

2016 FINANCIAL REPORT

REPORT ON OPERATIONS

CONTENTS

2016 FINANCIAL REPORT

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

2016 FINANCIAL REPORT


edison

GROUP PROFILE

Building together a low carbon future: this is the essence of our brand.
A new vision and a new mission, in step with the changes taking place in the energy sector - a new business positioning, centered around sustainability and the customer.

Today, more than ever, customers want intelligent energy solutions designed to optimize the benefits of sustainable energy. Our task is to offer them innovation and expertise to support their day-to-day activities and needs.

As the oldest energy company in Europe, Edison intends to face this challenge in keeping with its history of industrial and commercial leadership.

The company strives to be a reference operator in the Italian energy sector, with an active role in the process aimed at strengthening the retail market and energy efficiency. It currently operates in Italy, Europe and the Mediterranean with a staff of about 5,000 people, including Fenice acquired over the year.

Edison distributes electric power and natural gas to end customers, as well as energy efficiency services and environmental solutions, in particular to industrial clients. It is also strongly committed to expanding its customer base of over 1 million users in Italy over the next few years, through both organic growth and acquisitions.

Thanks to a highly efficient and eco-friendly portfolio of electric power generating facilities ranging from CCGT plants to hydroelectric stations, wind farms, solar and biomass systems, Edison produced, in 2016, 20.4 TWh, accounting for 7.4% of Italy's electric power production.

In the hydrocarbons business, Edison operates in Italy, in the Mediterranean Area and in Northern Europe, with over 100 concessions and permits for the exploration and production of natural gas and crude oil, and reserves of 248.4 million barrels of oil equivalent.
In 2016, Edison imported 14.6 billion of cubic meters of gas, covering 22,5% of Italy's total gas imports and contributing to the security of the national energy system.

The Group is also committed to contributing to the diversification of gas sources and routes in order to support Italy's energy transition and security. The Company is developing new import infrastructures for Italy and Europe. Through its subsidiaries, it also manages the transmission, storage and distribution of natural gas. In addition, Edison is engaged in trading activities in electric power, gas and commodities in general.

Since 2012 Edison has been controlled by EDF. Savings shares are the only class of shares traded on the market operated by Borsa Italiana Spa.

A LETTER TO SHAREHOLDERS

Dear Shareholders,

2016 was a crucial year for Edison as the Company redirected its strategic focus on customers and a sustainable energy model to promote and develop low-carbon emission solutions for the market.

Market conditions were difficult in the year just ended, with a drop in the prices of all energy commodities, a 2.1% contraction in demand for electricity and persistently weak demand for natural gas, despite the 5.2% recovery as a result of low hydroelectric generation and the decrease in imports. Nevertheless, Edison maximized its commitment to operational management and efficiency. Indeed, the Company responded well in all the sectors in which it operates, intensifying its transformation efforts in line with the profound changes of energy markets and with an eye trained on the future.

Edison improved sales processes, increasing the quality of customer service. The increased satisfaction of our buyers and the development of an efficient, modern and digitally advanced platform underpin the future expansion of our customer base.
Edison will be able to make the most of the potential it has created if the market deregulation process in Italy continues according to the principles of fair competition, with a regulatory framework allowing players to compete for customers on the basis of technologically innovative offers and operating expertise.

The integration of Fenice, an Italian leader in its sector, has enabled Edison to substantially strengthen its line of energy services for large industrial customers. The Company's Energy Services Division aims to become a top market player, offering complete, highly innovative solutions for various customer segments through organic growth and targeted acquisitions.

To better support its presence in the various markets, Edison has adopted a new brand identity platform based on sustainable energy, a focus on customers and proximity to the areas where the Company offers value from power generation to sale.

The innovative solutions currently being tested and developed fall into this context. They include the "aggregation" project which, by leveraging the Internet of Things infrastructure, will optimize the flexibility of both power station loads and distributed power generation to improve the efficiency of the electrical system and to create shared value. In addition, the Small Scale LNG project in which natural gas, the key fuel in the energy transition process, will replace oil for supplies in remote areas and for specific end uses, such as vehicle mobility.

In 2016, the renewable energy generation underwent a crucial change in the wind sector: through the E2i platform, Edison has taken important steps to become the wind power player with the most capacity in Italy. One important achievement in this direction was the awarding of 153 MW of capacity to E2i in the GSE auction in December 2016.

In addition, Edison has been active in the mini-hydroelectric generation field with significant acquisitions, including Cellina Energy and Idreg Piemonte, for 105 MW of total new capacity in the Piedmont and Friuli-Venezia Giulia regions.

Edison has been able to focus on new challenges and growth lines thanks to its effective management of traditional thermoelectric generation activities. In particular, in the last part of the year, the high reliability of Edison's combined cycles contributed significantly to the safety and strengthening of the national energy system impacted by the reduction in imports from the other side of the Alps.

The positive technical performance of Edison assets combines with the energy management expertise, which has evolved further in recent years, shifting towards the management of an industrial portfolio characterized by the growing weight of intermittent sources over programmable sources and operating in highly volatile energy markets.

Edison has achieved significant results in its natural gas contract portfolio management as well, agreeing to adjust the price of the long-term contract for natural gas from Qatar with RasGas to market conditions. These agreements marked the end of commercial negotiations that began in late 2015 for the supply of 6.4 billion cubic meters of natural gas per year.

I strongly believe that competitive and secure procurement remains the best strategy for ensuring a competitive natural gas offer on the market. In 2016, Edison also worked diligently on the development of new natural gas import routes, including the "Southern Corridor" in an area just outside Europe where the development of Edison's ITGI-Poseidon project has seen renewed interest thanks to a memorandum of understanding signed with Gazprom and the Greek electricity company DEPA for the supply of natural gas from Russia to Greece and subsequently to Italy, across the Black Sea.

Finally, Edison has been active in the Middle East, particularly in Israel and Egypt. In Egypt, it operates major plants and holds exploration concessions in an area with high discovery potential. Specifically, the construction of platform NAQ PI#3 was completed during the year and it will begin operating in the first few months of 2017, increasing Abu Qir concession production from the current 35,000 barrels/day to 55,000 barrels/day.

With respect to exploration and production, Edison is focused on the operational management of its assets in Italy and abroad. Increasing efficiency and optimizing production and reserves have entailed the rationalization of the Group's positions and a 50% reduction in investments in exploration, in order to concentrate on the areas with the highest development potential.

Overall, in 2016, Edison achieved positive results, with EBITDA of 653 million euros, in line with forecasts. This performance was achieved in part thanks to the 5% cut in operating costs considering the same consolidation scope, in the wake of the 12% improvement achieved in 2015. Edison has also demonstrated effective financial management, with a further decrease in net financial debt to 1,062 million euros, despite the consolidation of Fenice. In particular, this reduction was the result of the ordinary activities carried out to reduce net working capital.

Edison ends the year with an excellent debt/EBITDA ratio of 1.6. Its financial soundness will help it take advantage of the most interesting opportunities that may arise from the consolidation of the Italian energy market.

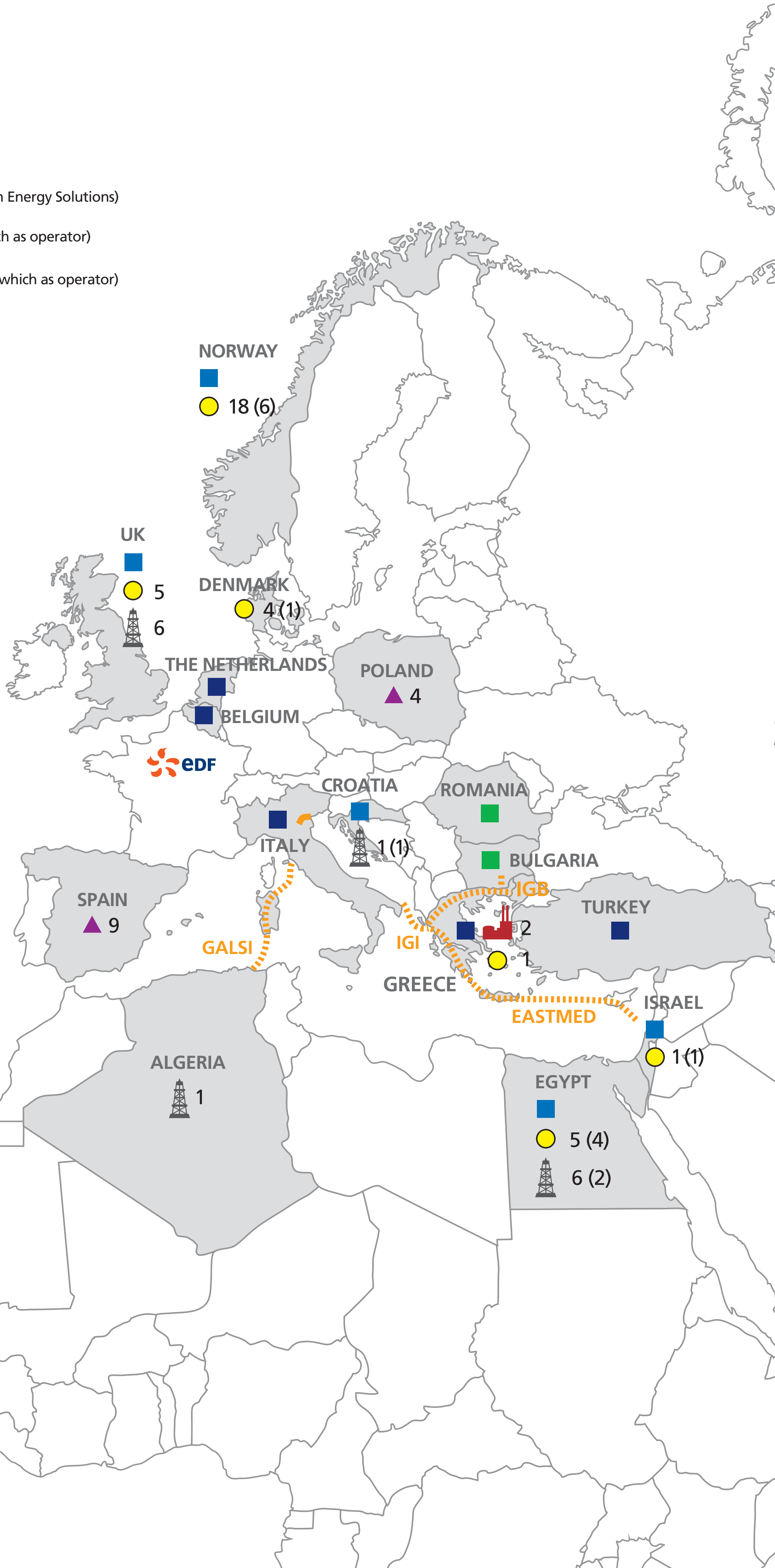
In the context of social performance, Edison (including Fenice) has achieved excellent results in worker safety, with a global accident frequency rate of 1.96 accidents for every million hours worked. Furthermore, the results of the company internal perception survey are extremely encouraging: they show a rise in Edison employee engagement and employees' widespread support for the new development lines and the projects in progress to transform Edison's operating model.

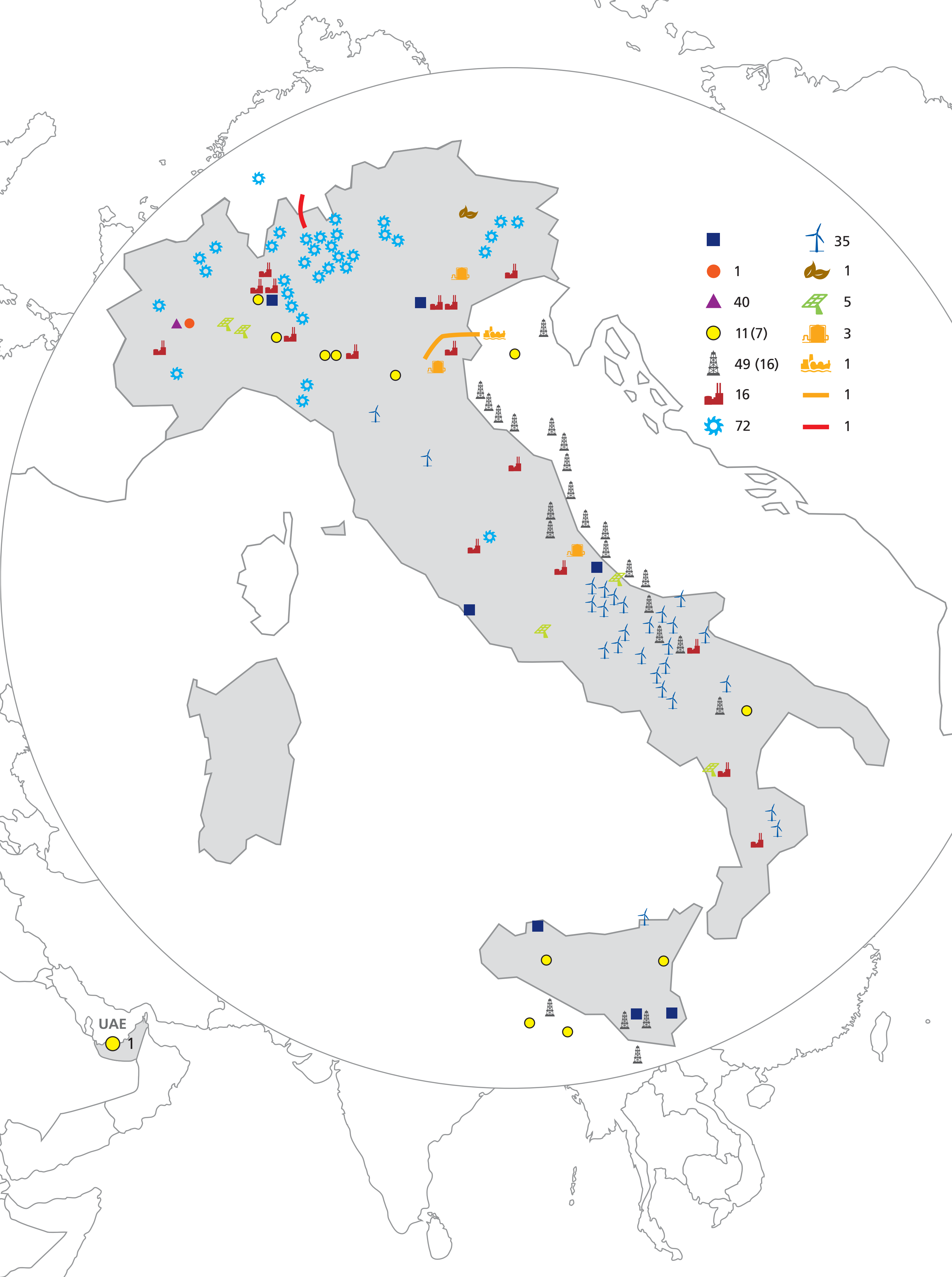
In conclusion, in these challenging times of transformation for the energy sector, we are pursuing an action plan based on the distinctive competencies, financial soundness and innovation that have distinguished the Company since inception. We have made significant progress in this direction and we are convinced that, by pursuing our goal of building a low carbon future together, Edison will continue to create value for communities, customers, employees, shareholders and all its stakeholders in general.

Marc Benayoun
Chief Executive Officer

OPERATIONAL PRESENCE

- EDISON LOCATIONS AND OFFICES
- HYDROCARBON BRANCHES AND OFFICES
- TRADING BRANCHES
- R&D CENTER
- MANAGED PRODUCTION SITES (Fenice and Edison Energy Solutions)
- HYDROCARBON EXPLORATION LICENSES (of which as operator)
- HYDROCARBON PRODUCTION CONCESSIONS (of which as operator)
- THERMOELECTRIC POWER PLANTS
- HYDROELECTRIC POWER PLANTS
- WIND FARMS (through E2i)
- BIOMASS POWER PLANT
- PHOTOVOLTAIC PLANTS
- GAS STORAGE CENTERS
- LNG TERMINAL
- MERCHANT LINE
- EXISTING GAS PIPELINE
- PIPELINES UNDER DEVELOPMENT





1
40
11 (7)
49 (16)
16
72
35
1
5
3
1
1
1
UAE
1

VALUE CHAIN

ACTIVITY

Upstream

Power assets & Engineering

Management and development of generating electric facilities in Italy and abroad

ELECTRIC POWER

6.5 GW
net installed capacity

1 HV
merchant power line (150 MW)

20.4 TWh
net production

72 hydroelectric power plants
19 thermoelectric power plants
35 wind farms
5 photovoltaic systems
1 biomass power plant

248.4 MBoe
hydrocarbon reserves

16.1 MBoe
hydrocarbon production
4.5 MBoe Italy
11.6 MBoe abroad

110 concessions, permits and licenses
60 in Italy
50 abroad

HYDROCARBONS

Hydrocarbon exploration, development and production in Italy and abroad

Exploration & Production

Midstream

Energy Management

Dispatching portfolio, optimization and energy trading

91.2 TWh

volumes handled

21.9 bn m^3

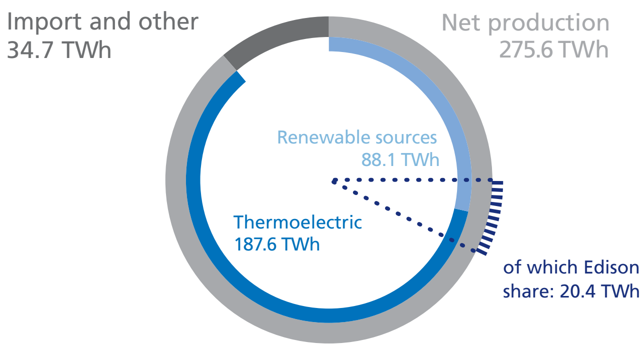
Management of long-term procurement contracts, logistics, supply of gas to the thermoelectric and wholesale markets

Gas Midstream, energy management & optimization

ITALIAN MARKET

Electric power

2016 - Total gross Italian demand 310.3 TWh



7.4%
Edison's share of total Italian production

Downstream

Gas & Power Market

1,059 thousands
sites served

11.6 TWh
electric power sold to end customers

6.5 bn m^3
gas sold for residential and industrial uses

49
electric and thermal generation plants

4
photovoltaic plants at customers sites

275
MWe installed capacity

2,632
MWth installed capacity

Energy Services Market

4
gas pipeline projects

- Development of gas transmission infrastructures in Italy and abroad

3
storage centers

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

80 km
of high pressure gas pipelines

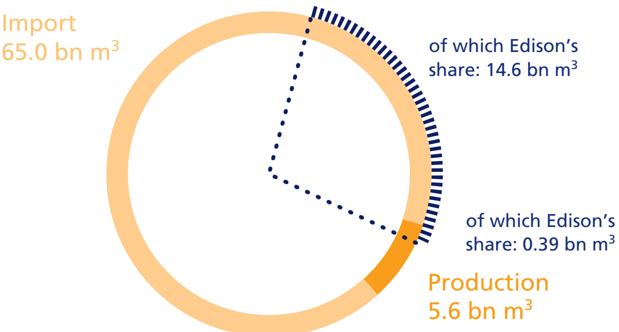
3,559 km
of low and medium pressure gas pipelines

- Storage management, gas transmission and distribution in Italy

(Gas regulated assets)

Gas

2016 - Total Italian demand 70.4 bn m^3



22.5%
Edison's share of total Italian imports

7%
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 accounting principles. The methods used to compute these indicators, consistent with the guidelines of the European Securities and Markets Authority (ESMA), are described in the footnotes to the tables.

Income statement highlights (millions of euros)	**2016**	**% of revenues**	2015	% of revenues	% change
Sales revenues	11,034		11,313		(2.5%)
EBITDA	653	5.9%	1,261	11.1%	(48.2%)
EBIT	(260)	n.m.	(795)	n.m.	67.3%
Profit (Loss) attributable to Parent Company shareholders	(389)		(980)		60.3%

Balance sheet highlights (millions of euros)	**12.31.2016**	12.31.2015	Var. %
Capital expenditures	337	389	(13.4%)
Investments in exploration	68	139	(51.1%)
Net invested capital (A + B)	7,327	7,023	4.3%
Net financial debt (A) [1]	1,062	1,147	(7.4%)
Total shareholders' equity (B)	6,265	5,876	6.6%
Shareholders' equity attributable to Parent Company shareholders	5,955	5,439	9.5%

Rating	**12.31.2016**	12.31.2015
Standard & Poor's		
- Medium/Long-term rating	BB+	BBB+
- Medium/Long-term outlook	Stable	Negative
- Short-term rating	B	A-2
Moody's		
- Rating	Baa3	Baa3
- Medium/Long-term outlook	Stable	Stable

Key Indicators	**2016**	2015	% change
Debt/Equity ratio (A/B)	0.17	0.20	
Gearing (A/A+B)	14%	16%	
Number of employees [2]	4,949	3,066	61.4%

(1) A breakdown of this item is provided in the "Net Financial Debt" section of the Notes to the Consolidated Financial Statements.
(2) Year-end data for companies consolidated line by line.

Operational data	**2016**	2015	% change
Net production of electric power (TWh)	20.4	18.5	10.3%
Sales of electric power to end users (TWh)	11.6	17.1	(32.2%)
Gas imports (Bn m^3)	14.6	12.7	15.0%
Total net gas sales in Italy (Bn m^3)	21.9	17.6	24.4%
Locations served power and gas (thousands)	1,059	1,153	(8.2%)
Hydrocarbon reserves (Mboe)	248.4	257.5	(3.5%)
Hydrocarbon production in Italy and abroad (Mboe)	16.1	16.7	(3.6%)

Other operating results	**2016**	2015	% change
CO_2 emissions (t)	7,828,802	6,083,394	28.7%
Specific CO_2 emissions (g/KWh gross)	367	319	15.0%
Injury incidence rate for the Group and external companies	1.96	2.10	(6.7%)
Lost workday incidence rate for the Group and external companies	0.14	0.11	27.3%
Investments and expenditures for health and safety (thousands of euros)	20,580	10,495	96.1%
Total employee training hours	125,205	97,106	28.9%

INFORMATION ABOUT THE EDISON SHARES AND CORPORATE GOVERNANCE BODIES

INFORMATION ABOUT THE EDISON SHARES

Shares at December 31, 2016		Number	Price
	Common shares	5,266,845,824	(*)
	Savings shares	110,154,847	0.7401

Shareholders with significant holdings at December 31, 2016		% of voting rights	% interest held
	Transalpina di Energia Spa [1]	99.484%	97.446%

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

CORPORATE GOVERNANCE BODIES

Board of Directors [1]	Chairman	Jean-Bernard Lévy [2]	
	Chief Executive Officer	Marc Benayoun [3]	
	Directors	Marie-Christine Aulagnon [4]	
		Béatrice Bigois [5]	
		Paolo Di Benedetto [6]	Independent Director
		Gian Maria Gros-Pietro [7]	Independent Director
		Sylvie Jéhanno [8]	
		Nathalie Tocci [9]	Independent Director
		Nicole Verdier-Naves [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) Elected by the Shareholders' Meeting on March 22, 2016 for a three-year period ending with the Shareholders' Meeting convened to approve the 2018 financial statements.
(2) Confirmed as Director and Chairman by the Shareholders' Meeting on March 22, 2016.
(3) Confirmed as Director by the Shareholders' Meeting on March 22, 2016 and as Chief Executive Officer by the Board of Directors on March 22, 2016.
(4) Elected as Director by the Shareholders' Meeting on March 22, 2016. Member of the Control and Risk Committee.
(5) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. Chairperson of the Control and Risk Committee.
(6) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. Chairman of the Compensation Committee and member of the Control and Risk Committee, the Committee of Independent Directors and the Oversight Board.
(7) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. 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.
(8) Elected as Director by the Shareholders' Meeting on March 22, 2016.
(9) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. Member of the Compensation Committee and the Committee of Independent Directors.
(10) Confirmed as Director by the Shareholders' Meeting on March 22, 2016. 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 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

GROWING OUR BUSINESS

Gazprom, Depa and Edison sign a Memorandum of Understanding

On February 24, 2016, Gazprom, Edison and Depa signed a Memorandum of Understanding regarding the delivery of gas from Russia through the Black Sea towards Greece and Italy, with the aim of developing a Greece-Italy gas pipeline functional to the creation of a new route for the supply of natural gas.

This agreement underscores the interest of the parties in establishing a new natural gas transmission route from Russia- through the Black Sea and third-party countries - to Greece and from Greece to Italy. To that end, the parties intend to utilize to the maximum extent possible the work already carried out by Edison and Depa for the ITGI Poseidon project.

Contribution in kind of Fenice to Edison

On March 22, 2016, the Extraordinary Shareholders' Meeting of Edison Spa approved the conveyance to Edison of the 100% equity stake held in Fenice Spa by Transalpina di Energia Spa, Edison's controlling shareholder.

This transaction, carried out by means of a capital increase in kind reserved for Transalpina di Energia Spa totaling 247 million euros, including an increase of 85.3 million in par value capital and 161.7 million in additional paid-in capital, went into effect as of April 1, 2016. As a result of this transaction, Fenice has been directly controlled by Edison and Edison has consolidated the results of the conveyed company on a line-by-line basis as of the abovementioned date.

Fenice is an Energy Service Company (E.S.Co.) specialized in energy efficiency solutions and environmental services, mainly for large industrial companies. More specifically, Fenice has an established position and competencies for the delivery of a complete range of integrated and customized energy saving and environmental sustainability solutions for its customers, with offerings integrated along the entire value chain, including energy diagnostics, environmental audits, design, installation and management of turn-key projects for complex energy systems and energy solutions with low environmental impact. Fenice operates in Italy, Poland, Spain and Russia. It is also worth of mentioning that in September 2016 the 100% of the equity stake in the company Fenice Rus Llc was sold.

With the acquisition of Fenice, Edison aims at positioning itself as a key operator in the Italian market for energy services, consistent with its strategic objectives, broadening and diversifying its offering. Leveraging the value of Edison's brand and customer portfolio and capitalizing on Fenice's status and competencies in its market segment, the Group will be able to develop and strengthen its position in the market for energy services, while at the same time expanding the range of services it can offer to medium and small-size companies, service businesses and public administrations.

Edison strengthens its position in the hydroelectric market with the acquisition of nine mini-hydro plants in the Piemonte and Friuli regions

On May 25, 2016, Edison acquired from IDREG Piemonte in bankruptcy nine hydroelectric power plants, including seven in the Piemonte region and two in the Friuli Venezia Giulia region, with a total installed capacity of 15 MW and an average annual production of 70 GWh. The acquisition of these power plants was completed with an outlay of 36 million euros, including 2 million euros in incidental charges. Thanks to this acquisition, Edison's hydroelectric generation portfolio is comprised of 72 hydroelectric power plants, including large scale facilities and mini-hydro systems.

Edison completes the acquisition of Cellina Energy in the Friuli Venezia Giulia region

On May 31, 2016, Edison and Alperia completed a transaction to swap Edison's investments in Hydros and Sel Edison in the Bolzano province with Alperia's stake in Cellina Energy, the company that owns the Cellina hydroelectric hub in the Friuli Venezia Giulia region. With this agreement, which comes on the heels of the agreement signed on December 29, 2015 by Edison and SEL (which changed its name to Alperia following its merger with AEW), Edison lengthened the average life of its hydroelectric portfolio, thereby reducing its concession renewal risks. Edison acquired 100% of Cellina Energy, a company owned by Alperia, in exchange for its interests in Hydros (40%) and Sel Edison (42%). This transaction enabled Edison to consolidate Cellina Energy on a line-by-line basis.

The hydroelectric hub on the Cellina River, whose concessions will expire in 2029, includes 23 facilities, counting both large and small water diversion systems, for a total installed capacity of 90 MW.

Edison-ENI: Agreement for the long-term contract to supply gas from Libya

In the second quarter of 2016, Edison and ENI signed an agreement revising the pricing formula for the long-term contract to supply natural gas from Libya. The new formula is being applied to volumes imported starting on October 1, 2015 and will be valid for three years. This agreement marks the conclusion of a price review started by ENI in the last quarter of 2015. The long-term contract is for 4 billion cubic meters of gas a year.

Edison-RasGas: Agreement for the long-term contract to supply gas from Qatar

On September 1, 2016, Edison and RasGas signed an agreement revising the price for the long-term contract to supply natural gas from Qatar, bringing it in line with current market terms.

This agreement marked the conclusion of business negotiations that started at the end of 2015 and strengthened the collaborative spirit between the two companies regarding a long-term contract for the supply of 6.4 billion cubic meters of gas a year that has been in effect since 2009.

Alerion Transaction

On October 12, 2016, as part of its consolidation and expansion strategy in the area of electric power generation from renewable sources, Edison entered into an agreement with F2i SGR Spa (hereinafter F2i) aimed at promoting a voluntary tender offer for all of the common shares of Alerion Clean Power Spa (hereinafter Alerion), carried out by a newly established company, Eolo Energia Srl, controlled for 51% by Edison Partecipazioni Energie Rinnovabili Srl - hereinafter Eper - (83.3% Edison and 16.7% EDF EN Italia) and by E2i Energie Speciali Srl (30% Eper and 70% F2i) for the balance.
Alerion's portfolio of generating facilities includes 10 wind farms in Italy, with an installed capacity of 259 MW, and a 6 MW system in Bulgaria.
In addition, Edison is already present in this sector, specifically through E2i Energie Speciali Srl. In turn, F2i, through its F2i Energie Rinnovabili Srl subsidiary, already owns a 16.03% stake in Alerion's share capital. The objective is thus to become the top operator in the wind energy sector.
In this regard, the different interested parties, i.e., Edison, F2i, Eper, E2i and Eolo Energia concurrently executed a series of agreements concerning, inter alia, the implementation modalities of the voluntary offer, its financing, the possible conveyance to Eolo Energia by F2i of its stake in Alerion, and the governance guidelines of Eolo Energia and Alerion.
The effectiveness of the offer, which was for 43,579,004 Alerion common shares, at a price of 2.46 euros per share, was initially conditional on achieving an ownership stake in Alerion of at least 50% plus one share, if the abovementioned conveyance occurred before the offer's expiration, with the percentage automatically reduced to 35% plus one share if that was not the case.
Eolo Energia's offer, which qualified as a competing offer compared with the partial offer launched by FGPA Srl on August 28, 2016 for 29.9% of Alerion's voting rights, with an offer acceptance period that began on October 11, 2016, was announced to the market on October 12, 2016 and began, after publication of the offer memorandum approved by the Consob, on October 31, 2016 with expiration date of December 2, 2016. However, on November 30, 2016, the parties waived the requirement of the achievement of the abovementioned minimum acceptance percentages, thereby immediately rendering effective the shareholders' agreements signed on October 12, 2016 and triggering the obligation to promote an all-share tender offer for Alerion with the same price as the voluntary tender offer. This was because the interest held by Eolo Energia, which in the interim purchased Alerion shares independently of the ongoing tender offer equal to 14.997% of Alerion's share capital, for a total consideration of about 16.1 million euros, when added to F2i's 16.030% interest in Alerion, pushed the total interest in Alerion's share capital past the 30% threshold.
Payment for the 3,288,137 shares tendered in acceptance of Eolo's voluntary offer, equal to 7.545% of Alerion's share capital, took place on December 9, 2016, for a consideration of about 8.1 million euros. At the conclusion of the voluntary tender offer, taking into account the 6,665,288 Alerion common shares acquired independently of the tender offer, equal to 15.295% of the share capital, Eolo Energia held a 22.840% interest in Alerion's share capital, bringing the total combined interest of Eolo Energia/F2i to 16,939,281 shares, equal to 38.870% of Alerion's capital.
The obligation to carry out an all-share tender offer was then fulfilled by Eolo Energia directly and on behalf of the other joint obligees. The tender offer was launched on December 6, 2016, with publication of the offer memorandum, beginning on December 23, 2016 and ending on January 16, 2017. During this period, 26,342 additional Alerion common shares, equal to 0.061% of the share capital, were tendered. The corresponding consideration of 64,801.32 euros was paid on January 18, 2017.
At the end of this final transaction, the aggregate stake held by Eolo Energia and F2i was equal to 38.931% of Alerion's share capital.
Lastly, Alerion's Shareholders' Meeting was held on January 30, 2017, with an agenda that included the election of the Board of Directors. In anticipation of this Shareholders' Meeting, Eolo Energia launched the process of soliciting voting proxies and, together with F2i filed a slate of candidates. Only one candidate drawn from that slate was elected to the Board of Directors.

Edison: Agreement in Norway to develop the Dvalin (Zidane) concession

On December 21, 2016, Edison confirmed its interest in the Dvalin (Zidane) concession, located in the Norwegian Sea and that it will contribute to the investment needed for the concession's future development, but reduced its interest from 20% to 10%, with Dea Norge AS and Petoro AS acquiring 5% each. These agreements will be effective as of January 1, 2017 and are subject to government approval.

This transaction is consistent with Edison's strategy based on rigorously defining investment priorities in the E&P sector. The development plan for the Dvalin project, which will be implemented by a joint venture with a strong financial position that includes, in addition to Edison Norge AS, Dea Norge AS, as operator, and the government owned company Petoro AS, was filed on October 3, 2016 with the Ministry of Oil and Energy for approval, pursuant to Norwegian law.

Wind Power Capacity Calls for Tenders

At the end of December 2016, E2i Energie Speciali, a company established by Edison and F2i in 2014, was awarded 153 MW in new wind power capacity that will be added to its portfolio of generating facilities.

E2i participated in the call for tenders issued by Energy Services Operator (Gestore dei Servizi Energetici – GSE) seeking new generating capacity from onshore wind farms, in which all of the eight projects it submitted were accepted based on the rankings of the GSE calls for tenders; construction of these projects will require investments totaling about 200 million euros. Specifically, five greenfield facilities will be built in the Campania, Puglia, Sicily and Basilicata regions, together with three projects involving the total rebuilding of operational wind farm in the Abruzzo and Basilicata regions, for a total of more than 150 MW. The total rebuilding projects will make it possible to exploit technological advances in aerogenerators to increase the generating capacity of existing facilities, while reducing the number of wind power systems in the territory. This new generating capacity will be added to about 600 MW already included in E2i's portfolio of facilities.

In addition, E2i will benefit from the specific competencies of EDF Energies Nouvelles in the area of plant operation and maintenance services.

Based on the terms specified in the call for tenders issued by the GSE, the facilities must be completed within 31 months from the date of award.

OTHER KEY EVENTS

Edison: S&P reviews rating to BB+ from BBB- with stable outlook

On October 4, 2016, Standard & Poor's reviewed the Company's long-term credit rating to BB+ from BBB- and the short-term rating to B from A-3 with a stable outlook. The rating revision comes as a consequence of the review of EDF's rating (lowered to A- from A, stable outlook) following the approval of the Hinkley Point C project.

Edison: Moody's confirms rating to Baa3 with stable outlook

On October 19, 2016, Moody's confirmed Edison's rating at Baa3 with a stable outlook. This reflects the Company's improved risk profile following the renegotiation of the gas contracts and a slight improvement in energy prices scenario, despite the persisting structural pressures weighing on the industry.

SIGNIFICANT EVENTS OCCURRING AFTER DECEMBER 31, 2016

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, 2016."

EXTERNAL CONTEXT

ECONOMIC FRAMEWORK

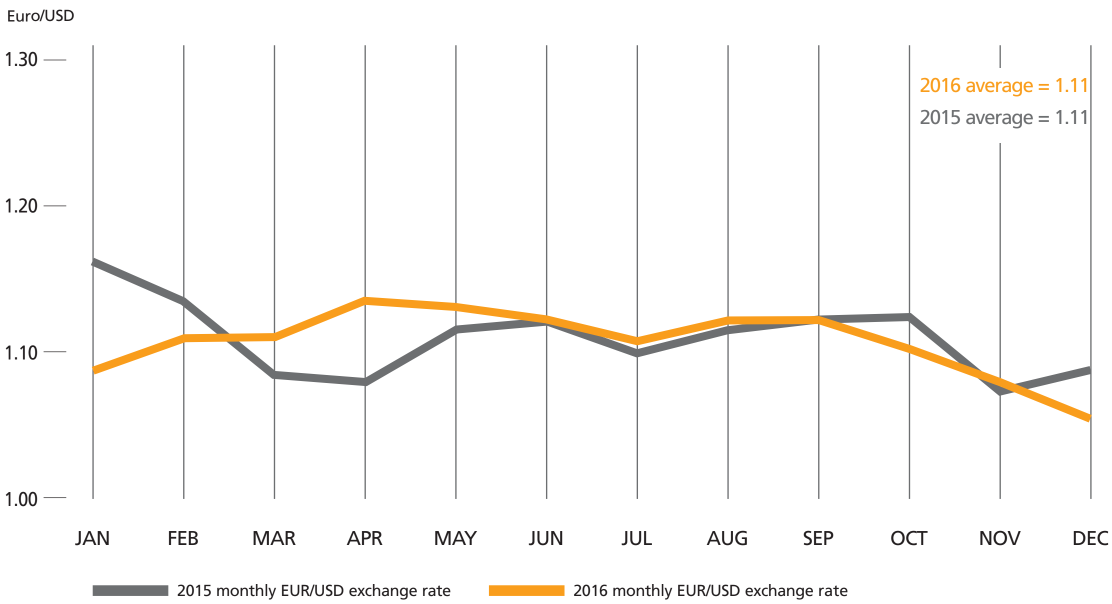
In 2016, despite many uncertainties, the global economy proved to be reasonably resilient in responding to potentially destabilizing events. There were numerous concerns about the continuation of the cyclical recovery at the global level and the dynamics of European economies, the Italian economy in particular. The risks stemmed mainly from the outcomes of the election in the United States and the referendums in the United Kingdom and Italy, but also from the continuation of conflicts in the Middle East and terrorists attacks.
GDP and international trade dynamics were positive during the reporting period: the increased vitality shown in the second half of the year by the main world economies was matched by indications of an upturn and expectations of a modest improvement in trade flows, which, however, are still rather weak.
In the United States, growth was bolstered by an improving labor market and the accommodating policies pursued by the Federal Reserve. However, the U.S. presidential election was followed by a heightening of certain internal uncertainties, with an impact on the global economy, specifically in terms of the policies regarding increased government spending, protectionism with restrictions on trade and immigration.
In Japan, the growth rate is still modest, while it is probable that the continuation of a gradual slowing of the Chinese economy will have an impact of the other emerging countries.

In Europe, overall economic grew steadily at a moderate rate. On the one hand, there was progress regarding government budgets, the labor market and consumer spending. On the other hand, there still are some obstacles, including: the political uncertainty that characterizes both the European Union in general and some member countries, the slow growth rate that is also affecting non-EU countries and an insufficient recovery in global trade that does not provide adequate support for exports. Based on the latest projections by the European Commission, there continues to be a risk that the mediocre economic performance of recent years will slow growth; moreover, in the coming years, the European economy will no longer be able to rely on the extraordinary support provided by such external factors as the slump in oil prices and the falling value of its currency.

In 2016, while Germany grew at a faster rate than the average for the Eurozone, France's performance was below average. Spain enjoyed a significantly higher growth rate, but this trend was fueled by debt and is not sustainable over the long term.
In the United Kingdom, despite all the unknown factors regarding the method employed to leave the European Union, the economic recovery remained strong, disproving expectation of a hard landing following the result of the referendum. However, given the uncertainty generated by the so-called Brexit, the possibility that investments and growth could slow in the coming months cannot be excluded.

In Italy, growth was quite modest and significantly lower than the European average. Nevertheless, the situation of public finances improved, in terms both of deficit and debt, there were some encouraging signs in the labor market and renewed strength in consumer spending and industrial production. On the other hand, the slower expansion reported for domestic demand and, partially, for exports had an impact on an already lackluster rate of growth, which was accompanied by a continuing trend of low inflation. Lastly, it is important to keep in mind that the adoption of the more expansionary fiscal policies that are being carried out should bolster consumption and household spending, improve the financial condition of businesses and support the implementation of investment projects.

In 2016, the EUR/USD exchange rate was substantially stable compared with 2015, averaging 1.11 USD for one euro. However, an analysis of the monthly trends shows a steady increase in the value of the euro between January and May (reaching a high of 1.16 in May), followed by a significant drop in the fourth quarter, with the exchange rate falling to 1.04 on December 20, the lowest level since 2003. The downward trend was magnified by the Brexit effect, which caused financial analysts to revise downwards recovery expectations for the European economy without the United Kingdom and drove investors towards massive purchases of U.S. dollars, and by the FED's interest rate increase in the last quarter of the year.

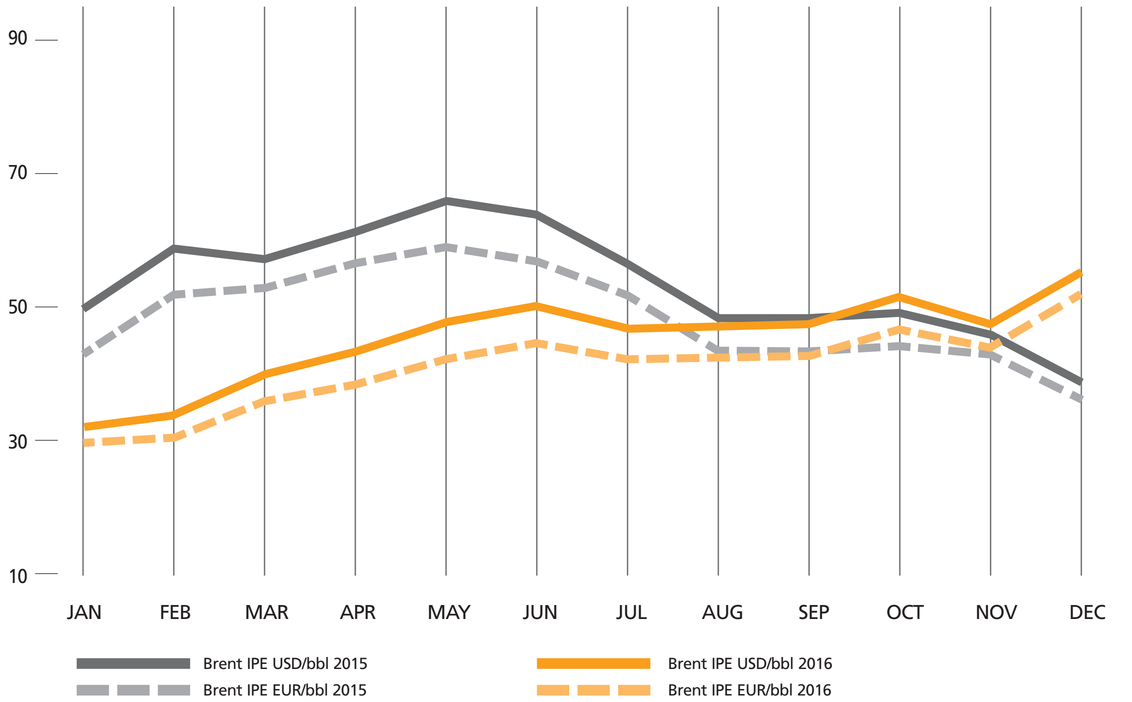


Insofar as the oil markets are concerned, the average price for the year for Brent crude contracted by 16%, decreasing from 53.7 USD/barrel in 2015 to 45.1 USD/barrel in 2016. After falling to 27.9 USD/barrel in January, its lowest level in 12 years, the price of Brent crude followed an upward trend, steadily increasing and reaching the high for the year, at 56.8 USD/barrel, on December 30, 2016.
While, on the one hand, expectations regarding potential transversal agreements between OPEC and non-OPEC countries to cut or freeze production were repeatedly disproven during the year, other bullish factors contributed to the steady price rise. Undoubtedly significant factors in the latter category include the production interruptions that recurred in the second quarter of the year in Kuwait, Canada, Libya and Nigeria and the trend in crude oil production in the United States, which was down almost 10% compared with the beginning of 2016.
Following a pause in July - given OPEC's historical production records, the high inventory levels of oil and oil products, diesel fuel mainly, and the absence of a contribution from a disappointing driving season in the United States - beginning in mid-August, expectations of a possible agreement about production levels between OPEC and non-OPEC countries, Russia in particular, at the World Energy Forum scheduled for September in Algiers, provided fresh momentum for price increases.
The actual achievement of an agreement in this area setting the production ceiling at 32.5 million barrels a day, for a reduction of 1.2 million barrels a day, helped significantly increase the price per barrel, which was further boosted by an agreement reached on December 10, 2016 by some non-OPEC countries for an additional production cut of 0.6 million barrels a day (including a 0.3 million barrels a day cut by Russia). In December alone, prices jumped by 16.6% compared with the previous month.
Crude prices stated in euros mirrored the annual trend of the price in U.S. dollars, with the single currency losing value in the fourth quarter and making the upward bias in crude prices slightly more pronounced. At 40.8 EUR/barrel, the average for 2016 was 15.8% lower than the average for 2015.

The table and chart that follow show the average data for the year and the monthly trends for 2016 and 2015:

	2016	2015	% change
Oil price in USD/bbl (1)	45.1	53.7	(16.0%)
USD/EUR exchange rate	1.11	1.11	(0.27%)
Oil price in EUR/bbl	40.8	48.4	(15.8%)

(1) Brent IPE



As was the case for crude oil, prices of distilled products also followed a rising trend in 2016, reaching highs in December 2016. Despite this positive trend, the average price of diesel fuel decreased to USD 399.9 per metric ton in 2016, down 20.4% compared with the 2015 average, while average annual prices for fuel oils contracted by 16.9% for low sulfur products and 19.3% for high sulfur products.
Coal prices also improved, particularly on the Atlantic market, especially in the last quarter of the year, for a gain of 66% compared with the fourth quarter of 2015. In 2016, the price of coal grew to USD 59.8 per ton, or about 5% more than the previous year, boosted by a Chinese policy that provided new incentives for imports and the unavailability of several nuclear power plants in France, at the end of September and October.

On the other hand, gas prices were down on the main European hubs on an average annual basis, with prices holding relatively steady during the first three quarters of the year, albeit at a lower level than in the same period in 2015, and increasing in the closing quarter of the year, due to colder weather conditions than the average for the period and tension on the French electric power market. More specifically, the price of gas on the TTF (Europe's main hub) averaged 148 EUR/000scm, for a reduction of about 30% compared with the previous year, even though it rose strongly in the fourth quarter of 2016, for a gain of 34.4% compared with the previous quarter and rising to a level 0.6% higher than in the same period in 2015.
The VEF-TTF spread averaged 18 EUR/000scm, or 25% less than the previous year. The level of the spread, which frequently fell below import costs (logistics and transmission) for gas from Northern Europe, caused a 37% reduction in inflows entering through Griespass compared with 2015. The reduction in volumes arriving from Northern Europe was more than offset by an increase in quantities imported from Algeria (about 19 billion cubic meters in 2016 compared with about 7 billion cubic meters in 2015), which in December rose to the highest level of the past three years (2.2 billion cubic meters), boosted by high demand, lower imports of electric power and severe restrictions on the use of stored natural gas.

The market for CO_2 emissions rights was quite volatile in 2016, alternating between periods of sharp declines and bullish trends, but prices held steadily below the level recorded in 2015. On an annual basis, the price averaged EUR 5.4 per ton, down about 30% compared with the previous year. An analysis of monthly price trends shows that the greatest change occurred in the first quarter of the year, when prices contracted by 32.9% compared with the last quarter of 2015. On the other hand, in the second quarter of 2016, prices were driven higher by an increase in trading volumes ahead of the annual compliance requirements for allowances held by the manufacturing sector. From the end of June onwards, bearish sentiment was boosted by the outcome of the referendum in the U.K. and the possibility that Great Britain may exit the Emissions Trading Systems (ETS), which could result in the dumping on the market of a significant volume of emissions rights.
In the closing quarter of the year, price volatility was mainly driven by regulatory uncertainties regarding the post-2020 market model and uncertainties related to nuclear plant production in France. Lastly, in mid-December, the ENVI, European environmental committee, approved a series of amendments to the proposed post-2020 ETS directive, slated for discussion at a meeting of the full European Parliament scheduled for February 2017.

THE ITALIAN ENERGY MARKET

DEMAND FOR ELECTRIC POWER IN ITALY AND MARKET ENVIRONMENT

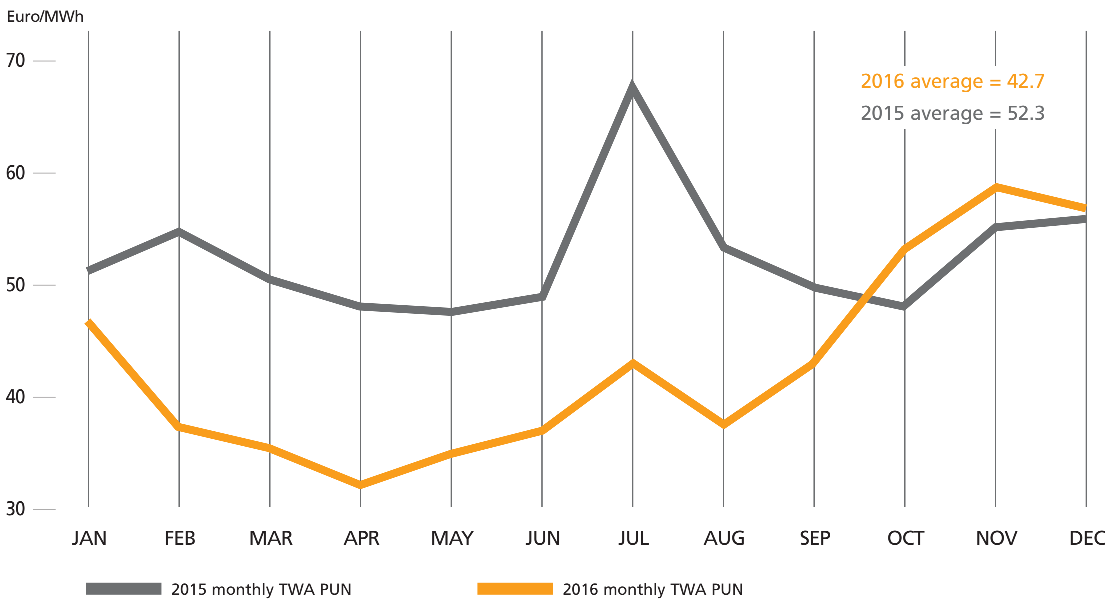
(TWh)	2016	2015	% change
Net production:	275.6	272.4	1.2%
- Thermoelectric	187.5	182.9	2.5%
- Hydroelectric	42.3	46.5	(8.9%)
- Photovoltaic	22.5	22.6	(0.2%)
- Wind power	17.5	14.7	18.7%
- Geothermal	5.9	5.8	0.7%
Net imports	37.0	46.4	(20.2%)
Pumping consumption	(2.4)	(1.9)	27.0%
Total demand	**310.3**	**316.9**	**(2.1%)**

Source: Analysis of 2015 official data and pre-closing 2016 Terna data, before line losses.

In 2016, gross total demand for electric power from the Italian grid totaled 310.3 TWh (TWh = 1 billion kWh), for a decrease of 6.6 TWh (-2.1%) compared with the previous year.
Net of pumping consumption, domestic production covered 88% of demand, a higher percentage (+2.6%) than in 2015.
In 2016, net production of electric power increased by 3.2 TWh, as a decline of 4.2 TWh (-8.9%) in hydroelectric output was offset by an increase of 4.6 TWh (+2.5%) in thermoelectric production.
As for other renewable sources, the positive trend of recent years continued with a gain of 2.8 TWh (+6.5%) thanks mainly to greater output by the wind power facilities (+2.8 TWh; +18.7%), which more than offset a slight reduction in photovoltaic production (-0.1 TWh; -0.2%).
Net imports decreased by 9.4 TWh (-20.2%) reflecting lower flows from France, while pumping consumption increased by 0.5 TWh (+27%).

Insofar as the price scenario at December 31, 2016 is concerned, the time-weighted average (TWA) for the Single National Price (abbreviated as PUN in Italian) settled at 42.7 euros per MWh, down 18% compared with the previous year (52.3 euros per MWh).
This reduction should be viewed within the context of a significant contraction of thermoelectric generating costs (gas and coal), reduced demand for electric power (-2.1% on an annual basis) and an abundant supply of renewable energy from wind power facilities (+18.7%).
An analysis of the monthly price data for the PUN in 2016 reveals two opposing trends: the first one characterized the first nine months of 2016 with a significant price decline (-26.5% compared with the same period the previous year) attributable to weather conditions that were warmer on average and a significant reduction in thermoelectric generating costs, coupled with a large supply of renewable energy production. The second trend, which dominated the fourth quarter of 2016, saw prices rise by 6%, driven by stoppages at numerous nuclear power plants in France, which resulted in a reduction in imports (-48% compared with the same period the previous year) and an increase of 19% in domestic thermoelectric production.
In 2016, the F1, F2 and F3 hourly time period and, similarly, the peak and off peak intervals experienced virtually identical reductions of about 18% compared with the previous year.
As for zone pricing, there were reductions of about 18% in all zones in 2016.

The chart that follows shows the monthly trend compared with the previous year:



Similarly, prices in other European countries also showed across-the-board reductions. Germany ended the year at the level of 29 euros per MWh (-8.5% compared with 2015) thanks to strong production from wind power facilities. The Italy-Germany spread narrowed by 33% compared with 2015, contracting to 13.8 euros per MWh.

France closed 2016 at 36.7 euros per MWh, for a decrease of 4.8% compared with the previous year. In particular, in the last quarter of 2016, the effect of a succession of nuclear power plants being taken offline (about one-third of the installed capacity), coupled with strikes for the reform of labor laws that affected thermoelectric power plants repeatedly during the year, helped significantly boost prices and more than offset the sharp drop experienced during the first nine months of the year. As a result the Italy-France spread also narrowed, contracting to 6 euros per MWh, or 56.1% less than in 2015.

DEMAND FOR NATURAL GAS IN ITALY AND MARKET ENVIRONMENT

(billions of cubic meter)	**2016**	2015	% change
Services and residential customers	28.3	28.3	(0.1%)
Industrial users	16.7	15.9	4.9%
Thermoelectric power plants	23.3	20.8	12.4%
System usage and leaks	2.1	2.0	6.2%
Total demand	**70.4**	**66.9**	**5.2%**

Source: 2015 final data and 2016 preliminary data from Snam Rete Gas and the Ministry of Economic Development and Edison estimates.

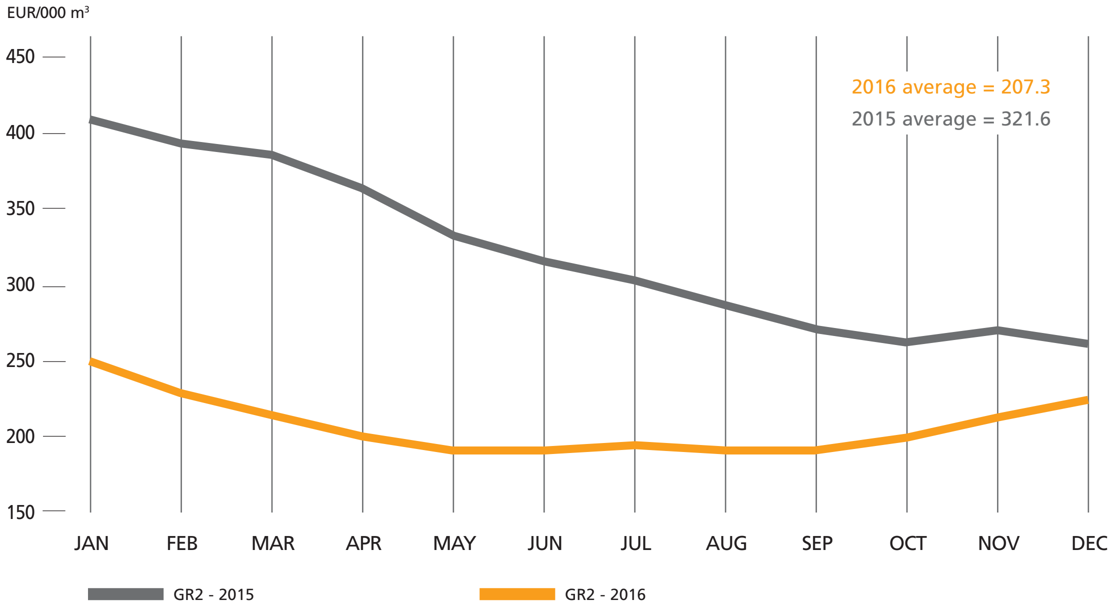
In 2016, Italian demand for natural gas grew by 5.2% compared with the previous year to a total of about 70.4 billion cubic meters, for an overall increase of about 3.5 billion cubic meters.

These dynamics are chiefly attributable to the thermoelectric sector, which benefitted from a sharp drop in imported electric power and a decrease in production from hydroelectric and coal burning power plants: consumption by gas fired generating facilities increased by 2.5 billion cubic meters (+12.4%) compared with 2015.

Consumption by industrial users was also up, rising by 4.9% compared with the previous year, with volumes increasing by 0.8 billion cubic meters.
Consumption by the service sector and residential users held steady during the calendar year, as winter weather conditions in 2016 were similar to those experienced the previous year and in line with seasonal averages.

As for supply sources, the following developments characterized 2016:
- lower domestic production (-0.9 billion cubic meters; -14% compared with 2015);
- higher gas imports (+4 billion cubic meters; +7% compared with 2015);
- a net increase of about 0.7 billion cubic meters in volumes added to the stored gas inventory.

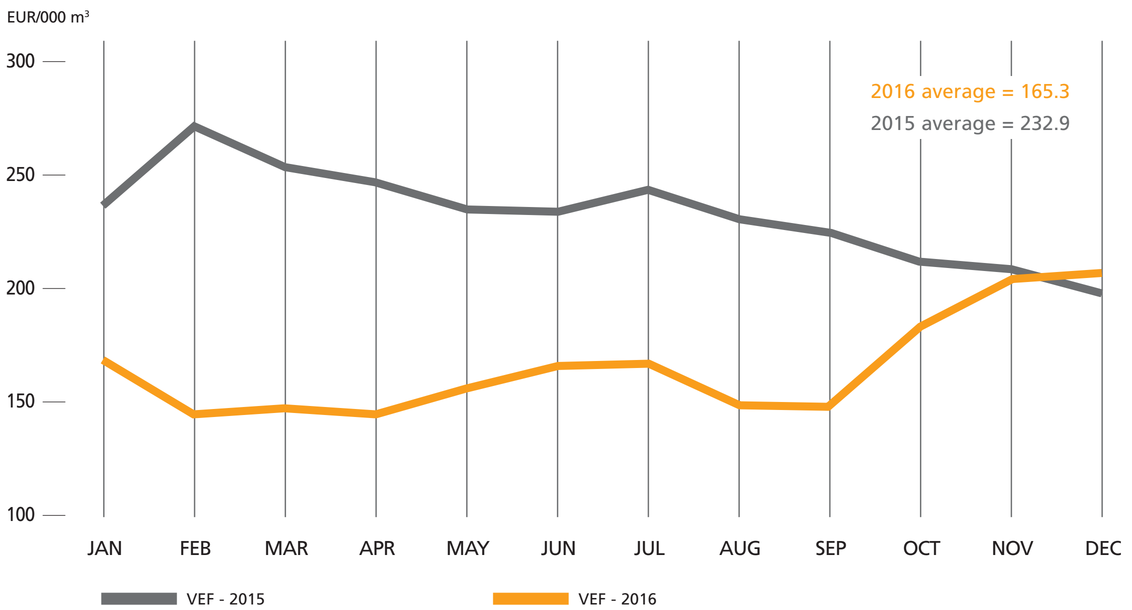
In 2016, the price for indexed gas (shown in the chart that follows, which uses the Gas Release 2 formula as a benchmark) decreased by 35.5% compared with 2015 averaging 207.3 EUR/000smc. The trend in the early months of the year was consistent with the bearish sentiment that prevailed in the oil market, particularly in the first quarter of the year. Starting in May, the formula began to reflect the upturn in the prices of crude oil and distillates, with a gain of 10.9% in the last three months of the year driven in part by a concurrent decline in the value of the euro versus the U.S. dollar.



In 2016, gas prices on the spot market followed the price trend on the other European markets with prices on the Virtual Exchange Facility (VEF) decreasing to 165.3 EUR/000scm, or 29% less than in 2015.
As was the case in 2015, the monthly trend for gas prices on the spot market, depicted in the chart below, did not reflect the usual impact of seasonal changes, with prices falling during the summer months and increasing concurrently with the start of the new thermal year. Specifically, this past winter was characterized by weather conditions warmer than the seasonal averages, except for sporadic cold spells: in the first quarter,

this caused consumption by residential users to fall by 4.6% compared with the first three months of 2015. In the second quarter, prices began to rise again due to the alternating of scheduled and extraordinary maintenance at production fields in Northern Europe and to the effect of gas storage dynamics, with injection demand, which was higher than in the second quarter of 2015 (+4.9%), when additions to stored gas were postponed and concentrated in the third quarter to fully benefit from the decrease in the price of gas under long-term contracts.

During the third quarter, prices resumed their downward slide, except for July when they were up slightly, particularly during the last part of the month, due to schedule maintenance at the TAG gas pipeline in Austria. During the closing months of the year, the trend was up for gas prices (up about 30% compared with the third quarter of 2016), rising in December above the prices recorded last year (up about 5% compared with December 2015). An increase in demand, which grew by 14% compared with the fourth quarter of 2015, helped boost prices. Specifically, the upward trend was bolstered both by colder weather conditions than the seasonal averages and increased demand from the thermoelectric sector (up about 30% compared with the fourth quarter of 2015), due in part to the shutdown of several French nuclear power plants.



LEGISLATIVE AND REGULATORY FRAMEWORK

The main legislative and regulatory measures enacted in 2016 that concern the Group's various businesses are reviewed below, except for their impact on the Group, which, when material, is the subject of a specific disclosure in the sections of this Report where results and risks are reviewed.

ELECTRIC POWER

Environment

Environmentally Related Provisions - Provisions in the environmental area to promote green economy projects and minimize excessive use of natural resources: Law No. 221 of December 28, 2015 (so-called Green Economy Law), which was published on January 18, 2016 in Issue No. 13 of the *Official Gazette of the Italian Republic,* contains, inter alia, new regulations concerning hydrocarbons, surcharge for mountain watershed basins, waste, reclamation projects, energy, environmental impact assessments, air, water, construction projects code and minimal environmental requirements, emissions trading, establishment of a new ENEA (National agency for new technologies, and energy and economic and sustainable development), with new bylaws and governance regulations, and efficient user services (SEU).

Thermal Account: The decree issued by the Ministry of Economic Development on February 16, 2016, which updates the Thermal Account mechanism, was published on March 2, 2016 in Issue No. 51 of the *Official Gazette of the Italian Republic.* It introduces a series of simplifications and new technologies eligible for incentives. This decree, which went into effect on May 31, 2016, provides incentives totaling 900 million euros a year that would be available to public administrations, businesses and private individuals. The most significant innovations concerned, inter alia, an increase in the size of admissible facilities, a simplification of the direct access procedure for systems listed in the catalog, a higher ceiling for lump-sum disbursements of incentives and a reduction of the payment timeframe from six to two months with a new mechanism.

Wholesale Market

Resolution No. 101/2016/R/eel - Start of the procedure for the development of measures concerning certain issues regarding a network of Edison Spa, located in Torviscosa, pursuant to Authority Resolution No. 539/2015/R/eel: On March 11, 2016, the Electric Power, Gas and Water Systems Authority (the Authority) launched a procedure concerning the Torviscosa electrical network operated by Edison. The purpose of this procedure was to:

a) confirm or exclude the Torviscosa network from the list of internal user networks (RIUs), including possibly through the definition of qualifying conditions (conditions requiring the upgrade or redefinition of the system's footprint needed to qualify the network as an RIU);
b) depending on the decision adopted pursuant to letter a) above, determine the principles applicable to quantify and award transmission and distribution fees and the rate components covering general system charges paid but not owed.

At the end of December, the Authority published Resolution No. 788/2016/R/eel by which:

- it completed the framework of definitions and regulations regarding Closed Distribution Systems and Simple Production and Consumption Systems;
- it updated the register of internal user networks, which shows that Torviscosa is included in the list;
- it postponed to October 1, 2017 the effective date of the Integrated Text for Closed Distribution Systems (compliance with Resolution No. 539/15).

Quantification of prior period (2012-2014) imbalances: By Resolution No. 333/2016/R/eel of June 24, 2016, the Authority determined the imbalance fees for the time interval from July 2012 to September 2014, further to a complaint filed by the company Illumia. This document confirms the option of applying the standard regulation, which, basically, calls for measures similar to those in effect at the time when the operators planned their injections and withdrawals.
The resolution also provides, on a voluntary basis, the option of alternatively requesting the application of the

pre-existing regulation, as set forth in Resolution No. 111/06, while accepting the possibility of being the subject of audits on a sampling basis by the Authority to determine the occurrence of opportunistic behaviors.
Resolution No. 333/16 is currently being challenged by some users of the dispatching service. Edison, in order to protect that which it obtained, is considering the possibility of filing a concurring brief with the Authority.
The net effect for Edison at the Group level amounts to about 3.5 million euros.

Priority actions regarding the quantification of actual imbalances within the framework of electric power dispatching: By Resolution No. 444/2016/R/eel of July 28, 2016, the Authority introduced a new system to quantify actual imbalances within the framework of the dispatching service, through a gradual implementation, starting on August 1, 2016. More specifically, the resolution requires the following:
- for ineligible consumption and production units different from those supplied by renewable sources, transition to a mixed single-dual price quantification;
- for relevant production units supplied by non-programmable renewable sources, retaining unchanged the current regulation or the possibility of opting for single price quantification for the entire volume of the imbalance or accept the application of the alternative system provided under Resolution No. 522/2014/R/eel;
- for non-relevant production units supplied by non-programmable renewable sources, starting on January 1, 2017, choice between a single-dual pricing mechanism or the equalization system defined by Resolution No. 522/2014/R/eel.

And the end of November, the Authority published Consultation Document No. 684/2016/R/eel by which it detailed some of the adjustments that need to be made to the mechanism to quantify actual imbalances (with mixed single-dual price quantification) of the transitional period defined in Resolution No. 444/2016, effective as of January 2017, and provided guidance about the timeframe for introduction of a comprehensive reform of the regulation governing imbalances based on node prices. More specifically, this document offered for consultation the following options:
- postponing the date (currently set at January 1, 2017) for reduction of the standard interval for ineligible consumption and production units different from those supplied by non-programmable renewable sources and the start of the mixed single-dual price system for production units supplied by non-relevant non-programmable renewable sources;
- confirming the continuation of the existing system for production units supplied by relevant non-programmable renewable sources;
- balancing the actions listed above by amending the method for computing the sign of the aggregate zone imbalance with the aim of better approximating the system's actual imbalance. The document thus calls for returning to the method in effect until 2009 for determining the sign of the aggregate zone imbalance, based on actual metering data and withdrawals.

Edison provided an opinion in support of the first two items above and an extremely negative opinion regarding the adoption of a computation method to determine aggregate zone imbalances based on actual metering data.

First phase of the reform of the dispatching service market - opening to demand, non-programmable renewable sources and distributed generation: By Consultation Document No. 298/2016/R/eel of June 10, 2016, the Authority provided guidelines regarding the first phase in the implementation of a project to reform the dispatching services market (DSM) that broadens participation in the supply of dispatching resources to non-programmable renewable sources, demand and distributed generation. The first phase of this reform project (RDE-1) should be viewed as transitional (two-year period 2017-2018). Issues of greater interest for Edison subject of the consultation include the following:
- the criteria for defining the aggregates, understood as a complex of injection and/or withdrawal points attributable to the same dispatching point and constituting virtual units eligible for participating in the DSM; during this first phase, production and consumption units cannot be aggregated and the aggregation geographic footprint cannot exceed the market zone;
- the uplift fee for eligible consumption units: the Authority believes that withdrawals attributable to virtual consumption units eligible to operate on the DSM cannot be required to pay a portion of the uplift fee in order to take into account the systemic advantages potentially deriving from their inclusion in the DSM.

Publication of a resolution concerning these issues is expected in the early months of 2017.

Italian capacity market: By Consultation Document No. 713/2016/R/eel of December 5, 2016, the Authority provided guidelines regarding key regulatory issues ahead of the upcoming start of the capacity market. This document falls within the framework of a broader process to amend and integrate the regulations governing this market that got under way with the publication, at the end of October 2016, of a proposed regulation developed by Terna in response to a specific request by the Ministry of Economic Development. The issues subject of the consultation document, which have not yet been addressed in Terna's proposed regulation and must be defined to allow a prompt implementation of the capacity options in 2017, concern the following:

- the definition of the maximum amount of the premium payable for existing and new capacity;
- the amendment of the contractual obligations incumbent upon the signatories of capacity procurement contracts, specifically with regard to the structure of reference prices (compared with the rules defined in Resolution No. 98/2011);
- the definition of the criteria for the computation of the fee covering the net capacity procurement costs applied to withdrawing users of dispatching services, owners of consumption units with capacity commitments.

Retail Market

Decree No. 94 of May 13, 2016 of the Ministry of Economic Development: The regulation implementing Article 1, Section 154, of Law No. 208 of December 28, 2015 (radio and television subscription fee added to the electric bill) was published on June 4, 2016 in Issue No. 129 of the *Official Gazette of the Italian Republic*. This decree sets forth the rules for the implementation of the measure introduced by the Stability Law (Law No. 208 of December 28, 2015), which requires payment of the radio and television subscription fee through the electric bill.

Process for the elimination of the price protection system in the electric power sector - "Protection 2.0": By Resolution No. 369/2016/R/eel of July 7, 2016, the Authority established the Similar Protection tool for the electric power sector, which will be introduced starting on January 1, 2017. This resolution was published at the end of a process that began in February 2016 with Consultation Document No. 75/2016, which sets forth final guidelines for redefining the terms of the protection services in the electric power sector for residential end users and small businesses, in line with the process for the removal of protection that was being discussed in Parliament (Competition Delegated Decree).

Insofar as the Similar Protection market is concerned, residential customers and small businesses served with maximum protection status can voluntarily request to be served on that market through the central website operated by the Single Buyer, which will enable customers to contact the selected suppliers.

In order to operate in the Similar Protection market, operators must meet requirements of economic and financial strength, integrity and operational capabilities, and will be allowed to serve a maximum number of customers, initially set at 500,000.

The contract will have a duration of one year, with no extensions and will cover only the supply of electric power. As for the economic terms applied, the Similar Protection price will include the following:

- a one-off bonus (in euros/withdrawal point) awarded in a lump sum with the first invoice, the level of which (different depending on the type of customer) will be determined by the supplier in connection with the admission procedure. If a contract is canceled ahead of time, the supplier may demand repayment of the bonus prorated based on the period running from when the contract was canceled and its original expiration (this shall not apply when a customer cancels the contract for failure to address a complaint within the required deadline or when the contract is interrupted because the supplier no longer meets the requirements);
- the PED fee and the DISPBT component applied to customers with maximum protection status;
- the PCR fee introduced specifically for the Similar Protection market to guarantee coverage of the risks inherent in the procurement of energy (to be determined with a subsequent resolution);
- the reference PCV fee for Similar Protection customers (to be determined with a subsequent resolution).

Reform of the invoicing system: Subsequent to Resolution No. 100/2016/R/com of March 10, 2016, which governed the issuance of closing invoices, the Authority published Resolution No. 463/2016/R/com of August 4, 2016 setting forth the Integrated Invoicing Regulation, in effect as of January 1, 2017. This resolution, which contains the new regulations governing cycle and closing invoicing, also confirms the obligation, probably starting in January 2018, to provide a standard offering by all sellers in the regulated market. This document is applicable to all customers connected at low voltage (excluding street lighting) for the electric sector and customers with consumption of less than 200,000 standard cubic meters of gas a year, whether they are served with protection status or in the regulated market. The Authority's main decisions concern the timeframe for issuing invoices, the invoicing intervals, the prohibition to issue mixed invoices for certain categories, meter self-reading, automatic customer refunds by distributors and resellers and the recording of gas and electric metering data by distributors.

HYDROCARBONS

Rates and Market

Distribution rates: By Resolution No. 99/2016/R/gas of March 10, 2016, the Authority determined the final reference rates for gas distribution and metering services for 2015, computed based on actual financial data for 2014. For the purposes of this determination process, the applications for rate redetermination and adoption of the statutory rate starting with the year 2015 and the applications for restatement of financial and physical data received by February 15, 2016 were taken into account.
By Resolution No. 173/2016/R/gas of April 7, 2016, the Authority determined the provisional reference rates for gas distribution and metering and approved the advance bimonthly equalization amounts for the natural gas distribution service for the year 2016.
By Resolution No. 186/2016/R/gas of April 21, 2016, the Authority corrected material errors in the regulation of the rates for gas distribution and metering services (RTDG), with regard to the UG3 component of the mandatory rate to cover costs related to disconnecting activities.
Lastly, by Resolution No. 775/2016/R/gas of December 22, 2016, further to Consultation Document No. 629/2016 providing an intra-period update of the 2014-2019 Rate Regulation (RTDG), the Authority approved a new version of the RTDG, with amendments concerning: the efficiency recovery rate for recognized operating costs, rate component covering the cost of metering verifications (*ΔCVER*), remote reading/remote management and concentrator costs *(t(tel)* and *t(con))* and standard costs of electronic metering units, for the 2017-2019 three-year period effective as of January 1, 2017.

Implementation of EU Regulation No. 312/2014 concerning gas balancing issues: EU Regulation No. 312/2014 established a network code on gas balancing in a transmission network (Balancing Network Code) specifically applicable to all points on the transmission network that interconnect member countries. All EU countries are required to implement the new mechanism based on market criteria and Italy set October 1, 2016 as the starting date for the new system, it being understood that the Authority has the power to postpone this deadline if certainty conditions for the overall framework are not achieved. More specifically, by Resolution No. 312/2016/R/gas of June 16, 2016, the Authority determined the regulation's implementation aspects, combining into a single Integrated Gas Balancing Text issues concerning the new balancing system.
The regulatory and operational provisions required to start up the system were completed during the summer. More specifically, in August 2016, the Authority published Consultation Document No. 469/2016/R/gas launching a second consultation process regarding the incentive system for the Balancing Manager, aimed at determining the values of the incentivizing parameters defined by the Integrated Gas Balancing Text to encourage the pursuit by Snam Rete Gas of balancing actions consistent with an economic and efficient functioning of the transmission network. The process of defining the incentivizing mechanism was completed in October with the publication of Resolution No. 554/2016/R/gas, which defined the incentivizing parameters for the Balancing Manager.
In September, by Resolution No. 487/2016/R/gas, the Authority approved the proposal to update the Stogit Code and make it consistent with Resolution No. 193/2016/R/gas, which introduces, with the start of the new balancing system, the allocation by auction of storage capacities on a monthly, weekly and daily (day-ahead) basis, as well as the overnomination mechanism to manage contractual congestion in the utilization of storage capacity.
In addition, the Electric Market Operator (GME) updated, consistent with the provisions of Resolution No. 312/2016/R/gas, the regulation of the PB-Gas platform and the M-Gas regulated market, introducing a testing period and a transitional phase (beginning on October 1, 2016), during which the trading session for locational products (MPL) and the trading session for stored gas (MGS) are carried out on the PB-GAS balancing platform in which Snam Rete Gas acts as the central counterparty for the transactions.

Lastly, specifically with regard to the Rovigo regasification terminal, starting on October 1, 2016, Adriatic ALNG introduced a new intraday flexibility service, in addition to the current day-ahead flexibility service, with the aim of providing users with an additional tool to take advantage of opportunities under the new balancing system.

Provisions concerning the handling of variances at cross-border points on the national gas transmission network: On May 26, 2016, the Authority published Resolution No. 270/2016/R/gas by which it updated the rules governing transmission capacity variances at cross-border interconnection points, with the aim of making the system more consistent with the portfolio of capacity products currently available.
Under the previous regulation, in the event of variances greater than 2% between capacities allotted to and utilized by the user, the transmission company applied a fee equal to 1.125 times the amount of the annual capacity fee, multiplied by the maximum variance recorded during the month at cross-border interconnection points. Resolution No. 270/2016/R/gas introduced a distinction in the regulation between northern points (Tarvisio, Gorizia and Griespass) and southern points (Mazara and Gela); more specifically, this resolution requires for the northern points the assessment of a fee equal to 1.125 times the amount of the daily capacity fee, multiplied by the maximum variance recorded during the day, while for the Southern points the fee applied is equal to 1.125 times the amount of the monthly unit capacity fee, multiplied by the maximum variance recorded during the month. Based on the amendments made by the resolution, the 2% tolerance threshold would not be retained, thereby penalizing variances of less than 2%.
Subsequently, by Resolution No. 556/2016/R/gas, the Authority reintroduced the 2% tolerance threshold for the assessment of variance fees limited only to the Mazara del Vallo and Gela points.
These amendments were included by Snam Rete Gas in its transmission code with the start of the new variance handling method scheduled for October 1, 2016.

Integration of the regulation governing congestion at cross-border interconnection points: By Resolution No. 464/2016/R/gas of August 4, 2016, the Authority completed the process of adopting EU regulations regarding the management of congestion at cross-border interconnection point, as set forth in Annex I to Regulation No. 715/2009 (Congestion Management Procedures – CMP Regulation).
This regulation confirms the guidelines already provided by the Authority during the consultation phase. Specifically, the regulation introduces the use-it-or-lose-it mechanism on a day-ahead basis to manage any contractual congestions identified at the Tarvisio, Griespass and Gorizia interconnection points. Under this measure, users will be required to comply with stricter requirements for the utilization of contractualized capacity, with the aim of releasing more capacity for the market. Specifically, this mechanism calls for the adoption of restrictions on daily renomination rights held by the owners of continuous transmission capacity, thereby enabling third parties to utilize unused capacity. Subsequent to the enactment of this resolution, Snam Rete Gas prepared and opened for consultation a proposal for updating its network code aimed at implementing the abovementioned resolution. The updated network code is currently being reviewed for approval by the Authority.

Launch of a pilot project concerning the allotment of capacity at redelivery points on the gas transmission network from which electric power generating facilities are supplied: The Authority launched a pilot project to reform the regulation governing the allotment of short-term capacity at redelivery points on the gas transmission network from which electric power generating facilities are supplied. The pilot project is designed to carry out a transition to more flexible and efficient allotment mechanisms and initially concerns only thermoelectric power plants, in view of their increased need for flexibility caused mainly by the development of renewable sources for the generation of electric power.
Users will thus be able to select the composition of their portfolio of capacity products that best satisfies their production needs, with the possibility of acquiring capacity on a daily basis and no longer just on an annual basis by January 2017.
In July, the Energy Authority confirmed the value of the multiplication coefficient, equal to 10 times the value of the reproportioned annual fee. During the summer, Snam Rete Gas completed a consultation regarding the incorporation into its code of the new rules established by the Authority.
Lastly, as of October 2016, the pilot project calls for a reduction of the penalties applicable in the event of variances between the capacity utilized by a user and the capacity allotted at a redelivery point that supplies power generating facilities.

Litigation concerning the 2010-2013 transmission rates: In June, the Energy Authority published Consultation Document No. 321/2016/R/gas *"Compliance with the decision by the Council of State concerning gas transmission rates for the 2010-2013 (Enel Trade complaint) – final guidelines".* The Authority felt that a second consultation with the operators was necessary (following the consultation held in January) further to a decision by the Council of State that upheld Enel Trade's complaint, focused on the allocation of capacity/commodity revenues and the rules governing self-consumption during the 2010-2013 rate period, thought to be particularly penalizing for importers from the south.
In 2010, specifically, Enel Trade filed a complaint with the Regional Administrative Court of Lombardy challenging the resolutions that set the amounts of the gas transmission rates for the 2010-2013 period. Further to the Regional Administrative Court upholding the complaint (Decision No. 995/13), the Authority filed an appeal with the Council of State which, however, denied the complaint filed by the Authority against the decision of the Regional Administrative Court. The Authority then filed a motion asking that the decision by the Council of State be set aside insofar as it concerns the allocation of revenues.
In October, the Authority published Resolution No. 550/2016/R/gas which again confirmed the continuation of the capacity/commodity allocation (pending a final decision by the court) and confirmed the new fuel gas management modality for the 2010-2013 period, previously the subject of consultation and consistent with the guidelines of the decision by the Council of State. This new modality calls for the transition from a conveyance in kind to a monetary conveyance, while maintaining the logic of a different contribution by the various entry points to cover the operating costs of the compression facilities.

New rules for the reimbursement of investments in gas distribution networks: Resolution No. 704/2016/R/gas of December 1, 2016 introduced provisions concerning the reimbursement of costs incurred for investments in natural gas distribution networks, beginning with the investments made in 2018. This resolution also introduced a ceiling for recognition of unit capital costs for localities in the startup phase, beginning with the investments made in 2017.
To that end, a technical worktable was established between the Associations and the Authority with the aim of defining the structure of the price list that would then be offered for consultation.
A final resolution is expected in October 2017 that will also define the sharing mechanisms for the higher/lower costs incurred by companies compared with standard costs and may possibly introduce restrictions regarding the maximum cost capitalization percentage. Lastly, this resolution will define the mechanisms for monitoring effectiveness in the implementation of standard costs, particularly with regard to renewals for existing networks. Pending the allocation of distribution areas, standard cost would also be applied to municipal or supra-municipal entities.

Infrastructures

Storage - 2012-2014 rates: The decision denying the complaint regarding the incremental operating costs (CONI) deriving from the investments made in 2009-2010 filed by Edison Stoccaggio against Resolution No. 75/2015/R/gas concerning the 2012-2013 rates and Resolution No. 126/2015/R/gas concerning the 2014 rates was published on May 6, 2016. The Company is appealing this decision before the Council of State.

Storage - 2015 rates: By Resolution No. 66/2016/R/gas, the Authority approved on a final basis Edison Stoccaggio's business revenues for 2015, after a lengthy preparatory process launched at the end of 2014 the conclusion of which was delayed due to the request of more detailed information by the Authority regarding the implementation progress for the S. Potito and Cotignola project, which went on stream in 2013 and is currently in the phase of bringing its services to full operating capacity, in light of the new regulations for the Fourth Regulatory Period (2015-2018) - as defined by Resolution No. 531/2014/R/gas of October 30, 2014 - which introduced significant differences compared with previous regulatory periods.
Basically, with the recent resolution, the regulatory authority did not find that the investments made at the S. Potito and Cotignola site was adequately efficient given the services offered, which were assessed based on a comparison between services concerning exclusively space, nonbinding, required upon the issuance of the storage concession (2009) and those actually made available with the start of commercial operations in 2015. Against this backdrop, the regulatory authority introduced a mechanism to reduce revenues from capital expenditures at the site (computed based on the ratio between realized investments and space services provided), to be applied each year until the site is brought to full operating capacity (scheduled for 2019), while

at the same time providing a partial payment for the reduction in revenues received, based on the space services that the concession will provide when operating at full capacity.
In addition, limited to 2015 and also based on Resolution No. 531/2014/R/gas, the Authority made the reimbursement of certain revenue components (depreciation and incentive amounts) conditional on the commercial startup of the facility or the date by which the facility will begin to offer commercially its capacity for storage services (2015), thereby postponing the reimbursement of these components by one year (starting in 2016).
On April 20, 2016, in order to protect its interests, the Company challenged Resolution No. 66/2016/R/gas by filing an extraordinary complaint with the President of the Republic; the Authority, by Resolution No. 257/2016/C/gas, took action to oppose the extraordinary complaint filed by Edison Stoccaggio with the President of the Republic asking that it be transferred to the Regional Administrative Court as a regular complaint, i.e., in a jurisdictional venue.

Storage - 2016-2017 rates: The Authority approved the storage service revenues of Edison Stoccaggio Spa on a definitive basis for 2016 and on a provisional basis for 2017 by Resolution No. 418/2016/R/gas of July 21, 2016 and Resolution No. 441/2016/R/gas of July 28, 2016, respectively.
Both the revenues for 2016 and 2017 were reduced based on the reproportioning coefficient applied to capital expenditures at the S. Potito and Cotignola site pursuant to the abovementioned Resolution No. 66/2016/R/gas. With regard to the emerging operating costs, Resolution No. 418/2016/R/gas confirmed the partial reimbursement of the amount requested by the Company in its 2016 rate proposal and the Authority, by Resolution No. 441/2016/R/gas, differently from the previous two years, recognized for 2017 coverage of emerging operating costs based on the actual 2015 operating cost of San Potito and Cotignola,
Aa a result, complaints have been filed by the Company challenging the abovementioned resolutions: the one for 2016 as additional grounds in the main complaint against Resolution No. 66/2016/R/gas (2015 rates) and the one for 2017 in separate proceedings because, differently from the previous two years, there is no longer a failure to reimburse incremental operating costs.

Revenue adjustment for storage companies: By Resolution No. 323/2016/R/gas of June 16, 2016, the Authority defined, as it did in the previous three years, the revenue adjustment mechanism for storage companies in instances in which the awarded price in competitive bidding procedures for the allotment of capacity is different from the rates charged for services allotted with non-market criteria.
In addition, the Authority set at 1, also for 2016, the value of the "gamma factor", which is the coefficient that must be applied to the portion or revenues related to the remuneration of incentivized investments that went on stream in previous regulatory periods as part of the revenue guarantee mechanism.
The definition of the mechanism that must regulate the determination of this coefficient, indicator of the efficiency that storage companies will show in managing the procedures for the allotment of capacity, was postponed after the completion of the inquiry ordered by the abovementioned resolution regarding the status of the services provided by storage fields operated by Stogit Spa under concession.

Storage auctions for the 2016/2017 thermal year: By Resolution No. 77/2016/R/gas of February 29, 2016, the Authority issued rules governing the methods for organizing auction procedures for the allotment of storage capacity, consistent with the Consultation Document No. 30/2016/R/gas of January 28, 2016 and implementation of the Ministry Decree of February 25, 2016. This resolution sets forth the provisions applicable to storage services for the 2016-2017 thermal year, defining the criteria for organizing auction procedures for awarding capacity with regard to different storage services, computing the reserve prices and the fees applied to the allotted capacities, as well as some improvements regarding utilization modalities.
The general structure of the auctions for the 2016-2017 thermal year is similar to the one adopted the previous year with the allotment of uniform and peak service capacity provided by storage companies based on monthly procedures, to be carried out in the months until September 2016 in accordance with the calendar published by the storage companies (the calendar was published by the Ministry of Economic Development only for the first auctions). The same procedures apply to the allotment of uniform service on a multi-year basis (only for Stogit).
The computation criteria for reserve prices were communicated with subsequent resolutions (Resolution No. 85/2016/R/gas for Edison Stoccaggio) with confidentiality required. Differently from the previous year, reserve prices were determined based on market terms also for the multi-year product and for the integrated regasification/storage service.

In addition, the resolution confirmed the criteria for covering transmission costs associated with interconnection points with storage facilities and the modalities for defining the service and the injection and delivery capacity for the various modulation services, including the disclosure requirement for storage companies prior to performing the procedures.
Edison Stoccaggio allotted all of its modulation capacity (755 million standard cubic meters) as a peak service within the framework of the first auction completed on March 16, 2016.

Storage Code: By Resolution No. 475/2016 of September 1, 2016, the Authority approved, on an experimental basis, an updated draft of Edison Stoccaggio's Code designed to allow users to avail themselves of reprogramming cycles for this storage transactions with an hourly frequency during the course of a flow day, consistent with the provisions of European Regulation No. 312/2014 regarding the balancing of the gas system. The modalities for the physical implementation of user programs are the subject of a monitoring period by the Balancing Manager regarding the compatibility of these implementation modalities with balancing the network during the gas day.
A second update to the Code concerned the rules introduced by Resolution No. 193/2016/R/gas to increase the availability to users of flexibility resources with the aim of balancing the national gas system through the allotment and sale between users of storage capacity on a short-term basis, i.e., for periods of one month or less.
More specifically, the resolution defines the procedures for the allotment of storage capacity (space, injection capacity, delivery capacity) on a monthly, weekly and daily basis, each organized into two successive sessions for "continuous" and "interruptible" capacities.
In addition, the resolution introduced a mechanism for reprogramming storage capacity that is not being utilized by users, on an interruptible basis, during the gas day (so-called "overnomination").
Storage companies have updated and made available to customers for consultation their storage codes, with the aim of making them compliant with the regulations regarding the new short-term allotment procedures.
The updated version of Edison Stoccaggio's Code was approved by the Authority with Resolution No. 14/2017/R/gas of January 19, 2017.

ISSUES AFFECTING MULTIPLE BUSINESS SEGMENTS

Legislative Decree No. 33/2016 implementing Directive 2014/61/EU, which sets forth measures aimed at reducing installation costs for high-speed electronic communication networks, was published on March 9, 2016 in Issue No. 57 of the *Official Gazette of the Italian Republic.*
This decree specifies the rules by which the operators of physical infrastructures (including networks for the distribution/transmission of gas and electric power), at the request of the operators of communication networks, must allow use of their networks for the installation of broadband/ultra-broadband networks, anticipating possible synergies already at the design phase of construction projects.

Rules governing procurement contracts: Legislative Decree No. 50 of April 18, 2016 implementing Directives 2014/23/EU, 2014/24/EU and 2014/25/EU regarding the award of concession contracts within the framework of public contracts and tender offer procedures by entities providing services in the areas of water, energy, transportation and postal services, as well as the reconfiguration of the rules currently applicable to public construction contracts, services and procurement, was published on April 19, 2016 in Issue No. 91 of the *Official Gazette of the Italian Republic, General Series.* The regulation set forth in the code is of the self-implementation type, as an enforcement and implementation regulation will not be adopted, using instead general guidelines that will be approved with a Decree by the Ministry of Infrastructure and Transportation based on a recommendation by the National Anticorruption Authority after review by the relevant parliamentary committees, with the aim of ensuring greater transparency, consistency and timeliness of the procedures.
In addition, the code, by implementing the specific criteria set forth in the delegated law, introduces innovations in the regulations governing concessions by complying with Directive 2014/23, which introduced for the first time unified rules in this area, unifying concessions for construction projects, services and procurement. Insofar as the "special" services are concerned, which include water, energy, transportation and postal services, specific regulations with ad hoc provisions continue to apply.

Costs of large scale hydroelectric concessions: Lombardy Regional Administration Resolution No. X/5130 of May 9, 2016 and Article 53 *bis* of Lombardy Regional Administration Law No. 26 of December 12, 2003 (Rules governing local services of general economic interest. Provisions regarding the management of waste and energy and the utilization of underground resources and water resources).

With regard to the process for the renewal of large-scale hydroelectric concessions, the Lombardy Regional Administration, pursuant to Article 53 *bis* of Regional Law No. 26/2003 and exclusively for expiring concessions, has allowed outgoing concession holders to temporarily continue to operate, not beyond December 31, 2017, large scale hydroelectric facilities for the time strictly necessary to complete renewal procedures. However, this temporary extension is conditional on complying with the technical and economic conditions defined by the Regional Council with its own resolution.

During the period of temporary extension, outgoing concession holders are required to pay to the Regional Administration, in accordance with the modalities and the amounts set forth in abovementioned Resolution No. X/5130 of May 9, 2016 of the Regional Council of Lombardy, an additional concession fee above and beyond the already stipulated fees and surcharges and supply of free energy.

A portion of the proceeds from the abovementioned concession fee will be transferred to the affected provincial and municipal administrations, with special conditions for riverine locations, in an amount that shall not be less than 50% of the sums collected. The amounts thus determined will be earmarked to help finance environmental improvement measures and projects in the affected territories. In addition, during the temporary activity extension period, outgoing concession holders shall carry out, at their own expense, the necessary scheduled and extraordinary maintenance required to ensure the full efficiency of the assets and works, including necessary safety activities required by the relevant public entities. Lastly, outgoing concession holders shall communicate to the Regional Council, within the deadline and in the manner determined by the Council, a plan of the activities that need to be carried out, which shall continue to be the responsibility of the outgoing concession holders.

On July 8, 2016, Edison Spa filed a complaint with the Superior Public Waters Court asking it to void the abovementioned regional resolution. Specifically, Edison Spa argued that the requirement of a single supplemental concession fee was unlawful from several standpoints, including abuse of power due to do lack of standing and misstatement of facts, violation of the principle of legitimate award and violation of the provisions of the several laws.

Quality of sales services: In 2016, the Authority launched a program to streamline the system for the protection of end customers with regard to the handling of complaints and the extrajudicial resolution of disputes.

Resolution No. 413/2016/R/com of July 21, 2016 introduced significant amendments to the Integrated Text of the regulation governing the commercial quality of sales services, including:

- changes to the indicators of the commercial quality of sales services;
- increases of the compensation for failing to meet quality standards payable both by sellers and distributors;
- establishment of a process to reduce response time to addressed complaints from 40 to 30 days;
- a new annual report regarding complaints and disputes;
- the inclusion, starting in January 2018, of a new classification of complaints, in line with the EU recommendations, in the systems of sellers and distributors.

In addition, the Authority approved the Integrated Text regarding extrajudicial dispute resolution procedures involving customers or end-users and operators or providers in the sectors regulated by the Authority (TICO), which makes it mandatory to attempt a settlement prior to judicial action and regulates the respective procedures.

Lastly, by Consultation Document No. 621/2016/E/com of November 4, 2016, the Authority consulted the operators regarding the proposal to establish a third level of legal proceedings resting with the Authority. Specifically, the third level mechanism will be of the decision-making type and maybe activated voluntarily by end customers in the regulated sectors if the resolution mechanism available at the second level of the system should not be successful.

This mechanism, the outcome of which is an administrative finding binding on the parties, which may be challenged before the Regional Administrative Court, does not affect the right to turn to the regular judiciary.

If a customer complaint is found to have merit, the Authority may order the operator to refund amounts not owed or impose other obligations. Failure to comply with a decision would constitute a punishable violation and the decision, communicated to the parties, will be published on the Authority's website.

Alternative Dispute Resolution (ADR) Protocol: On September 27, 2016, in response to the requirements of Legislative Decree No. 130 of August 6, 2015, which implemented Directive 2013/11/EU regarding alternative resolution for consumer disputes, Edison Energia and the 19 consumer associations belonging to the National Council of Consumers and Users (CNCU) signed a protocol for the establishment of an Alternative Dispute Resolution (ADR) Entity for negotiations on an equal basis aimed at providing effective protection for the rights of consumers.
The procedure for a settlement on an equal basis through the ADR Entity is a procedure available free of charge to customers that will provide effectiveness, transparency, impartiality, competence and independence.
The ADR Entity would be comprised of an equal number of representatives of Edison and the Consumer Associations belonging to the CNCU and will operate with the goal of expeditiously handling any disputes.
Subsequent to the signing of the protocol, the ADR Entity filed with the Authority an application to be officially included in the list of recognized ADR entities.

Approval by the European Commission of the temporary mechanism for the remuneration of capacity in Greece in view of the rules governing state aid: The European Commission ruled that the temporary mechanism for the remuneration of generating capacity in Greece was compatible with the European regulations governing state aid and, consequently, by a decision dated March 31, 2016, approved the mechanism more than one year after the expiration of the previous mechanism, which ceased to remunerate, starting on December 31, 2014, the flexibility services offered by energy producers, including Elpedison's combined-cycle power plants. The system approved by the European Commission calls for the payment of 45,000 euros per MW for a total of 225 million euros over a period of 12 months counting from May 1, 2016. A subsequent decision by the Greek authorities reduced to 171 million euros the amount that will be disbursed to the 30 production units deemed eligible, including 21 operated by the incumbent PPC and 9 operated by independent producers, for a total capacity of 4,672.284 MW. In addition, negotiations are already under way between the Greek authorities and the European Commission for a future permanent mechanism to remunerate capacity, which, if defined sufficiently early, would become operational before the expiration of the 12 months duration of the temporary mechanism.

ECONOMIC & FINANCIAL RESULTS AT DECEMBER 31, 2016

SALES REVENUES AND EBITDA OF THE GROUP AND BY BUSINESS SEGMENT

(millions of euros)	2016	2015	Change	% change
Electric Power operations [1]				
Sales revenues	5,682	6,529	(847)	(13.0%)
Reported EBITDA	386	360	26	7.2%
Adjusted EBITDA [2]	242	276	(34)	(12.3%)
Hydrocarbons operations [1]				
Sales revenues	6,031	5,512	519	9.4%
Reported EBITDA	361	995	(634)	(36.7%)
Adjusted EBITDA [2]	505	1,079	(574)	(53.2%)
Corporate Activities and Other Segments [3]				
Sales revenues	51	49	2	4.1%
EBITDA	(94)	(94)	-	-
Eliminations				
Sales revenues	(730)	(777)	47	6.0%
Edison Group				
Sales revenues	**11,034**	**11,313**	**(279)**	**(2.5%)**
EBITDA	**653**	**1,261**	**(608)**	**(48.2%)**
as a % of sales revenues	**5.9%**	**11.1%**		

(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 activities, i.e., activities that are not directly tied with a specific business and certain holding companies and real estate companies.

In 2016, the Group's net revenues totaled 11,034 million euros, or 2.5% less than the previous year. EBITDA amounted to 653 million euros (1,261 million euros in 2015), for a decrease of 608 million euros. See the sections of this Report that follow for a more detailed analysis of the performance of the individual business segments.

ELECTRIC POWER OPERATIONS

Sources

(GWh) (*)	2016	2015	% change
Edison's production:	**20,358**	**18,481**	**10.2%**
- Thermoelectric power plants	16,765	14,116	18.8%
- Hydroelectric power plants	2,490	3,378	(26.3%)
- Wind power and other renewables	1,103	987	11.7%
Other purchases (wholesalers, IPEX, etc.) (1)	**70,836**	**70,952**	**(0.2%)**
Total sources	**91,194**	**89,433**	**2.0%**

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

Uses

(GWh) (*)	2016	2015	% change
End customers (1)	11,582	17,108	(32.3%)
Other sales (wholesalers, IPEX, etc.) (2)	79,612	72,325	10.1%
Total uses	**91,194**	**89,433**	**2.0%**

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

The Group operates in accordance with a business model that calls for the separation of power generation activities (thermoelectric and renewables), sales to the end-user market (business and retail), 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 totaled 20,358 GWh, for an increase of 10.2% compared with 2015; more specifically, thermoelectric output posted a gain of 18.8% that mirrored in part the national trend for gas-fired power plants, despite the sale of Termica Milazzo on August 1, 2016. As for hydroelectric production, the trend that prevailed in 2016 resulted in a significant decrease (-26.3%) due to the change in the scope of consolidation (-22% approximately) resulting from the deconsolidation of Hydros (effective as of January 1, 2016, as stipulated in the governance agreements with the shareholder SEL), offset only in part by the contribution of the power plants of Cellina Energy and IDREG Piemonte acquired at the end of May 2016, and, for the balance, attributable to the different availability of water resources in the two periods.
On the other hand, production from wind power and other renewables increased by 11.7% mainly due to more windy weather conditions recorded during the period.
Sales to end customers were down by 32.3% chiefly as a result of lower volumes sold to the Business segment and a reduction in the number of residential customers.
Other purchases were virtually unchanged compared with the previous year, but Other sales increased by 10%. 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.

Energy Services

(GWh) (*)	**2016**	2015	% change
Production of electric power by cogeneration and trigeneration systems and other smaller facilities	797	0	n.a.

(*) One GWh is equal to one million kWh.

The production of electric power by energy services refers to the new Energy Services Market Division established through the incorporation of the activities of the Fenice Group, acquired in April 2016.

Income Statement Data

(millions of euros)	**2016**	2015	% change
Sales revenues	5,682	6,529	(13.0%)
Adjusted EBITDA (1)	242	276	(12.3%)

(1) See note on page 36.

In 2016, sales revenues amounted to 5,682 million euros and despite the inclusion of Fenice's revenues (280 million euros for the nine months of consolidation) decreased by 13% compared with 2015, due to a reduction in average sales prices driven by conditions in the benchmark scenario (PUN TWA -18%) and to a decrease in volumes sold to end customers.
Adjusted EBITDA, which include Fenice's contribution of 60 million euros, amounted to 242 million euros (276 million euros in 2015) for a decrease of 12.3%, mainly attributable to a further contraction of generating margins. More specifically, in the thermoelectric area, the spreads narrowed for forward sales executed on the OTC (over the counter) markets and for MGP/MSD sales.
The reduction in margins also occurred in the hydroelectric area due to the negative effect of lower volumes and changes in the scope of consolidation (-26 million euros) and an unfavorable scenario, offset by a one-off positive result of 33 million euros recognized in connection with the swap of Edison's equity stakes in Hydros and Sel Edison with Alperia's equity stake in Cellina Energy.

HYDROCARBONS OPERATIONS

Sources of Natural Gas

(millions of m³ of natural gas)	2016	2015	% change
Production (1)	521	485	7.4%
Imports (Pipeline + LNG)	14,615	12,722	14.9%
Other purchases	6,745	4,172	61.7%
Change in stored gas inventory (2)	0	197	n.m.
Total sources	**21,881**	**17,576**	**24.5%**
Production outside Italy (3)	**1,403**	**1,508**	**(7.0%)**

(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

(millions of m³ of natural gas)	2016	2015	% change
Residential use	2,562	2,648	(3.3%)
Industrial use	3,970	3,385	17.3%
Thermoelectric fuel use	7,320	5,671	29.1%
Other sales	8,029	5,872	36.7%
Total uses	**21,881**	**17,576**	**24.5%**
Sales of production outside Italy (1)	**1,403**	**1,508**	**(7.0%)**

(1) Counting volumes withheld as production tax.

Production of natural gas, counting the combined output of the Italian and international operations, totaled 1,924 million cubic meters in 2016, down 3.5% compared with the previous year. Production marketed in Italy was up 7.4%, thanks to the Clara North West field, which began production in April 2016; this added production offset the natural decline of production curves at other fields and a slight decrease of production outside Italy (-7%), adversely affected by maintenance stoppages at the Tors and Wenlock fields (UK).
There were substantial increases both in total gas imports (up 1,893 million cubic meters) and Other purchases (up 2,573 million cubic meters) in response to the need to meet rising sales during the year.
Gas volumes sold totaled 21,881 million cubic meters, for an increase of 24.5% compared with 2015, driven by increased sales to thermoelectric users (+29.1%, attributable to increased gas consumption by the Group's thermoelectric power plants and facilities of external customers) and industrial users (+17.3% thanks to the acquisition of new customers) and rising sales on the wholesale and spot markets (+36.7%).

Crude Oil Production

(thousands of barrels)	2016	2015	% change
Production in Italy	2,163	2,546	(15.1%)
Production outside Italy (1)	1,980	1,808	9.5%
Total production	**4,143**	**4,354**	**(4.9%)**

(1) Counting volumes withheld as production tax.

Crude oil production was down 4.9% overall in 2016; this decrease was entirely attributable to lower production by the fields in Italy due to the natural decline of the existing fields (-383,000 barrels), offset in part by an increase in production outside Italy (+172,000 barrels) that reflected the contribution of the Scott and Telford (UK) fields acquired in May 2015.

Income Statement Data

(millions of euros)	2016	2015	% change
Sales revenues	6,031	5,512	9.4%
Adjusted EBITDA [1]	505	1,079	(53.2%)
- amount from gas activities	323	836	(61.4%)
- amount from Exploration & Production	182	243	(25.1%)

(1) See note on page 36.

Sales revenues grew to 6,031 million euros in 2016, for a gain of 9.4% compared with 2015, 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 oil prices, which, while still lower than in 2015, are beginning to recover.
Adjusted EBITDA for 2016 totaled 505 million euros, or 574 million euros less than in 2015, when they were boosted by a one-off gain generated by the successful completion of the arbitration with Eni regarding gas imported from Libya.
The 182 million euros generated by the Exploration & Production activities reflected a decrease of 25.1% due to a negative trend both for the price of Brent crude and prices at the hubs, which on average were significantly lower than in 2015.

Hydrocarbon Reserves

The Group's hydrocarbon reserves (proven reserves plus 50% of probable reserves) totaled about 40.4 billion cubic meter equivalent (248.4 MBoe) at December 31, 2016, compared with 42.0 billion cubic meter equivalent (257.5 MBoe) the previous year. Therefore, net of the gross 2016 production, totaling about 2.7 billion cubic meter equivalent (16.4 MBoe), hydrocarbon reserves increased by about 1.1 billion cubic meter equivalent (7.2 MBoe). This decrease is the result of the revision or reclassification of the reserve of some concessions. The most significant downward revisions occurred at gas concessions in Italy, Reggane in Algeria and the concessions in the UK. These reductions were more than offset by the reclassification to proven reserves of a portion of the probable reserves of the Abu Qir concession in Egypt, for a total upward revision of 3.5 billion cubic meters (22 MBoe).
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

(millions of euros)	2016	2015	% change
Sales revenues	51	49	4.1%
EBITDA	(94)	(94)	-

Corporate Activities and Other Segments include those operations of Edison Spa, the Group's Parent Company, that engage in central and transversal activities, i.e., activities that are not directly tied to a specific business, and certain holding companies and real estate companies.
Both sales revenues and EBITDA were little changed compared with 2015.

OTHER COMPONENTS OF THE GROUP'S INCOME STATEMENT

(millions of euros)	2016	2015	% change
EBITDA	**653**	**1,261**	**(48.2%)**
Net change in fair value of derivatives (commodities and foreign exchange)	(166)	161	n.m.
Depreciation, amortization and writedowns	(734)	(2,194)	66.5%
Other income (expense), net	(13)	(23)	43.5%
EBIT	**(260)**	**(795)**	**67.3%**
Financial income (expense), net	(94)	(29)	n.m.
Income from (Expense on) equity investments	7	(38)	n.m.
Income taxes	(25)	(97)	74.2%
Profit (Loss) from continuing operations	**(372)**	**(959)**	**61.2%**
Profit (Loss) attributable to Parent Company shareholders	**(389)**	**(980)**	**60.3%**

Negative EBIT of 260 million euros are after depreciation, amortization and writedowns totaling 734 million euros, a negative net change in the fair value of derivatives hedging commodity and foreign exchange transactions amounting to 166 million euros (positive by 161 million euros in 2015) and net other expense of 13 million euros.
Depreciation and amortization, which totaled 478 million euros for a decrease of 182 million euros due to the asset impairments recognized in 2015 and lower exploration investments (71 million euros), include increases in net depreciation and amortization resulting from the changes in scope of consolidation for Fenice and Hydros (-27 million euros).
Writedowns of 256 million euros (1,534 million euros in 2015) include the effects of the annual impairment test of the Group's assets for 245 million euros. This writedown mainly concerned hydrocarbon concessions in Italy (180 million euros), due to a projected reduction in profitability resulting from the trend in the benchmark scenario, and hydrocarbon concessions outside Italy (63 million euros), that reflected the downward revision of hydrocarbon reserves and projected estimates of profit margins due to the trend in the benchmark scenario.
The net result from continuing operations was a loss of 372 million euros (loss of 959 million euros in 2015), after net financial expense of 94 million euros and income taxes of 25 million euros.
Despite a lower level of average indebtedness and a reduction in the cost of debt made possible by a different mix of financial resources, net financial expense was up sharply due to the net foreign exchange losses incurred in 2016 (exceptionally high net gains reported in 2015).
Please note that in 2015, income taxes included a one-off negative effect of 85 million euros resulting from the recalculation of net deferred taxes due both to the ruling of unconstitutionality of the Robin Hood Tax and the reduction of corporate income tax (IRES) rate to 24% starting from January 1, 2017.

NET FINANCIAL DEBT AND CASH FLOWS

At December 31, 2016, net financial debt amounted to 1,062 million euros, for a decrease of 85 million euros compared with the 1,147 million euros owed at the end of December 2015.
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:

(millions of euros)	2016	2015
A. Net financial (debt) at beginning of period	**(1,147)**	**(1,766)**
EBITDA	653	1,261
Elimination of non-cash items included in EBITDA	(76)	38
Net financial expense paid	(55)	(45)
Net income taxes paid (-)	(196)	(120)
Dividends collected	12	8
Other items from operating activities	(15)	(16)
B. Cash flow from operating activities	**323**	**1,126**
Change in operating working capital	649	19
Change in non-operating working capital	(177)	40
Net investments (-)	(555)	(535)
C. Cash flow after net investments and changes in working capital	**240**	**650**
Dividends paid (-)	(77)	(93)
Other items	(78)	62
D. Net cash flow for the period	**85**	**619**
E. Net financial (debt) at end of period	**(1,062)**	**(1,147)**

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

- A significant positive change in operating working capital thanks to the collection of the remaining balance on the receivable owed by ENI for the Libyan gas arbitration, for more than 500 million euros.
- An increase in net investments that absorbed cash flow totaling 555 million euros, mainly for:
  - investments in the electric power generation sector for about 66 million euros, including, in the hydroelectric area, the acquisition of nine mini-hydro power plants from IDREG Piemonte for 34 million euros.
  - Focusing on the energy services business, for a total of 224 million euros, mainly through the consolidation of Fenice for 159 million euros.
  - Investments in Exploration & Production activities for 187 million euros, net of the divestment of some facilities for 22 million euros; more specifically, investments in Italy concerned the development of the Clara North West field (17 million euros) and the Ibleo field (5 million euros).

    Outside Italy, investments were focused on Algeria to develop the Reggane concession (74 million euros); Egypt for the Abu Qir concession for the completion of the construction of the NAQ PIII platform (50 million euros) and for the North Thekah, South Idku and North Port Fouad exploration concessions with an increase in the percentage interest held (10 million euros); Norway for the Zidane concession (10 million euros) and the construction of the Polarled pipeline that will link Zidane with the mainland (10 million euros); and Great Britain for the development of the Scott and Telford oil fields (9 million euros).

- In addition, investments in exploration totaled about 68 million euros, including 24 million euros for exploration activities in the East Med and Nile onshore areas in Egypt; 16 million euros to drill the Aurelia exploratory well and 2 million euros for the Ornen well in Norway; 1 million euros for hydrocarbon exploration activities in the North and South areas in the Falkland Islands; 3 million euros for studies conducted in connection with the exploration license in the Gulf of Patras in Greece; and 3 million euros for exploration activities at North Sea permits in the United Kingdom.

Lastly, as part of the strategic revision of the Group's activities, some portfolio readjustments were carried out in 2016, including: the divestment of the equity investments in Fenice Rus Llc and Termica Milazzo Srl, the deconsolidation of Hydros and the subsequent completion of the swap of the interest held by Edison Spa in Hydros and Sel Edison for Cellina Energy, which was owned by Alperia, and, in the wind power area, the acquisition of an equity stake in Alerion, for a net positive effect of 17 million euros.

OUTLOOK AND EXPECTED RESULTS IN 2017

In the context of a market environment expected to remain stable, notwithstanding some recovery signs recorded in January, Edison estimates that 2017 EBITDA will be in line with 2016.

EDISON SPA

Financial Highlights

(millions of euros)	2016	2015	% change
Sales revenues	6,154	5,517	11.5%
EBITDA	27	662	n.m.
as a % of sales revenues	0.4%	12.0%	
EBIT	(438)	(535)	18.1%
as a % of sales revenues	n.m.	n.m.	
Net profit (loss) from continuing operations	(250)	(776)	n.m.
Net profit (loss)	(250)	(776)	n.m.
Capital expenditures	94	120	(21.7%)
Net invested capital	5,155	5,029	2.5%
Net financial debt	66	410	(83.9%)
Shareholders' equity	5,089	4,619	10.2%
Debt/Equity ratio	0.01	0.09	
Number of employees	1,419	1,473	(3.7%)

Pursuant to Consob Communication No. DEM/6064293 of July 28, 2006, the schedules below 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, 2016 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

(millions of euros)	2016	2015
Net result of Edison Spa	**(250)**	**(776)**
Intra-Group dividends eliminated in the consolidated financial statements	(199)	(212)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	112	135
Valuation of investments in associates measured by the equity method	(1)	9
Other consolidation adjustments	(51)	(136)
Group interest in net result	**(389)**	**(980)**

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

(millions of euros)	12/31/16	12/31/15
Shareholders' equity of Edison Spa	**5,089**	**4,619**
Carrying value of investments in associates eliminated against the corresponding interests in the shareholders' equities of the investees companies, including:		
- Elimination of the carrying values of the consolidated investments in associates	(1,202)	(944)
- Recognition of the shareholders' equities of consolidated companies	2,086	1,914
Valuation of investments in associates measured by the equity method	48	41
Other consolidation adjustments	(66)	(191)
Equity attributable to the shareholders of the controlling company	**5,955**	**5,439**

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 Audit 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, 2016 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, with regard to which the Authority, by Resolution No. 95/2015/I/eel, asked the Ministry of Economic Development to put forward to 2017 its effects through the adoption of a provisional mechanism, the criteria of which are currently still being defined. More specifically, the Authority made available for consultation a document concerning aspects of the system that have not yet been addressed in the proposals developed by Terna and must be defined for a prompt implementation of capacity auctions.

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, 2016.
In the natural gas market demand remained at relatively low levels and the outlook for the industry continues to be uncertain, even though consumption increased in 2016, compared with the previous year, mainly due to the crisis affecting French nuclear power plants and, in the closing months of the year, weather that was colder than the seasonal average. In this context, an important tool to mitigate the effect of changes in the energy scenario and market conditions is provided by clauses allowing the renegotiation of prices of long-term gas procurement contracts. With regard to these contracts, Edison successfully completed both a first round and a second round of price renegotiations and in 2016 signed other important agreements for the revision of long-term natural gas supply contracts.

Country Risk

The Group's presence in the international markets involving 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, operating through Elpedison Spa, 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. On the other hand, there appear to be no significant problems regarding the hydrocarbon exploration and production activities carried out by the Group in the North Sea due to the exit of the United Kingdom from the European Union, endorsed by the national referendum held in June.

- In Greece, political and financial stability are heavily dependent on the assistance provided by European and international institutions, the disbursement of which is conditional on the implementation of a program of reforms by the government. Insofar as the energy sector is concerned, the European Commission and the Greek Parliament approved the adoption of a temporary mechanism, starting on May 1, 2016 and with a duration of one year, for the remuneration of production capacity for certain types of electric power generating facilities, including the gas-fired, combined-cycle power plants operated by Elpedison Sa, for an installed capacity of 800 MW. The definition of a similar permanent system is expected in 2017. In this context the Company monitors on an ongoing basis Greece's political and economic environment. The table below details Group's exposure to this country at December 31, 2016:

	(millions of euros)
Loan receivable from the affiliate	77
Guarantees provided	27
Equity investments	6
Total	**110**

- In Egypt, the political and economic situation remains unstable, due to the expansion of the Islamic State in strategic areas of the region and the occurrence of protests and unrest. The recent agreement between the Egyptian government and International Monetary Fund for a loan program represents an important signal for the restart of economic growth. A decisive factor in securing this facility was the decision by the Egyptian Central Bank to liberalize the exchange rate of the local currency, allowing the exchange rate to fluctuate freely. This agreements, coupled with those executed with the World Bank and the African Development Bank (AfDB), also serve as positive signals for foreign investors and help rebalance the currency market. The Group monitors the political and economic environment on an ongoing basis, with regard to which the main uncertainties include the commercial exposure with the government owned Egyptian General Petroleum Corporation (EGPC) for over 300 million USD at December 31, 2016, the volatility of the exchange rate (even though the amount of liquid assets held in the local currency at the end of the year was extremely small) and the security conditions under which the Company operates and implements the most appropriate risk mitigation programs.

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 inefficiency 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, 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 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, 2016 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, a Digital Transformation program was launched

in 2016 for the Gas & Power Market Division, with the aim of providing tools that are increasingly aligned with customer needs. This program, divided into several project streams, will run for about two years. In addition, important programs started in 2015 were finalized in the second half of 2016; these programs included making the systems to manage the gas and power businesses compliant with new directives and 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 a high reliability hardware and software configurations and a business continuity solution for those applications that support critical activities. A highly significant development with regard to this risk is a complex project to migrate the Company's information system from the current data center to EDF's data center. The migration will be completed in 2017 and preparatory activities and the first two migration waves were completed in 2016.
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. Further to a study carried out in 2015, a Security Operation Center (SOC) service was activated on January 1, 2016 with the aim of preventing and managing 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 and constantly responding to the competitive environment: the Group's ability to strengthen its core businesses 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 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.

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.

PROVISIONS FOR RISKS AND CHARGES

In addition to the risk management and mitigation activities described above, when faced with present obligations deriving from past events, which can be of a legal or contractual nature or result from statements or conduct of the Company such as to engender in third parties a valid expectation that the Company is responsible or assumes responsibility for fulfilling an obligation, the Edison Group recognized over the years adequate accruals to special provisions for risks and charges listed among the liabilities in the financial statements (see also the accompanying Notes to the Consolidated Financial Statements). More specifically, the companies of the Group are parties to judicial proceedings and some tax disputes a description of which is provided in the section entitled "Risks and contingent liabilities associated with legal and tax disputes" in the "Commitments, Risks and Contingent Assets" chapter of the Consolidated Financial Statements at December 31, 2016.

OTHER RESULTS FROM OPERATIONS

INNOVATION, RESEARCH AND DEVELOPMENT

In 2016, the Research, Development & Innovation Department pursued a series of activities concerning both the electric power and hydrocarbon areas, aimed at addressing 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 just over the short-term, is the mission that the Research, Development & Innovation (RD&I) Department is pursuing through study, testing, assessment and development activities, carried out in close coordination with other Company departments.

The main areas targeted by the RD&I Department's activities in 2016 included the growing digitalization of the energy sector, the adoption of smart product and process solutions based on data analytics techniques and energy efficiency.

In addition, the RD&I Department provided guidance and monitoring for Edison's innovation initiatives, offering and monitoring operational techniques and modalities to accelerate and make structural this important process.

The competencies of the RD&I Department were enhanced by numerous and established collaborative relationships with industrial and academic partners and with the international research organization of the EDF Group.

Edison's concern for the academic world and young researchers is also demonstrated by the Edison Volta Physics Prize, which was awarded on October 8, 2016 to Professor Michel Orrit, for his pioneering research in the field of molecular spectroscopy, which for the first time made it possible to observe a single molecule.
On the same occasion, an Edison scholarship was awarded to Gennaro Sepede, a graduate of University of Molise and currently a Renewable Energy doctoral candidate at the University of Cartagena, in Spain. The scholarship will enable the winner to pursue more in-depth research on heath transfer and geothermal fluid dynamics and develop specific computation codes at the Applied Physics Department at the University of Cartagena.

HEALTH, SAFETY AND THE ENVIRONMENT

The main achievements of 2016 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 effects of prevention programs to promote a culture of occupational health and safety, 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.
Following the consolidation of Fenice into Edison, which occurred this past April, accident indicators were consolidated within the scope of activity of the Edison Group for the full reporting year. As a result, 2016 ended with a combined Injury Incidence Rate for activities in Italy and abroad that, at 1.96, showed an improvement compared with the end of 2015 (2.4 considering Edison's new scope of activity with Fenice). More specifically, following the same reporting logic, the Injury Incidence Rate was 1.6 for Company employees and 2.7 for employees of contractor companies in 2016.
The combined Lost Workday Incidence Rate was 0.14 in 2016, substantially in line with the rate at the end of 2015 (0.13 considering the new scope of activity).

ACTIVITIES CONCERNING HEALTH, SAFETY AND THE ENVIRONMENT

The main activities carried out in 2016 in this area are reviewed below.

- The requirements of the applicable regulations concerning health, safety and the environment were satisfied and verified also with special audits to test legislative compliance, 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, which fall for the most part in the second half of the year, were complied with.
- All of the required inspections and/or renewal visits for the management systems certified in accordance with the UNI EN 14001 environmental standard, the BSI OHSAS 18001 health and safety standard, the UNI EN ISO 9001 quality standard and the UNI EN ISO 5001 energy standard were successfully completed. In addition, when applicable, scheduled audits for maintaining the EMAS environmental registrations were also performed.

It is also worth mentioning that Edison Energy Solutions, a company that operates within the new Energy Services Market Division, received UNI EN ISO 14001:2015 certification. This certification is valid for also for all operational locations managed by this company. Also within the Energy Services Market Division, EDF-Fenice extended its UNI EN ISO 5001 energy certification to 18 of its locations, including 16 in Italy and two in Spain, and obtained renewed eligibility for listing in the National Register for activities involving installation, maintenance or repairs of fixed equipment containing fluorinated gases with greenhouse effect.

- An overall company-wide review of the environmental and safety systems was carried out in February in accordance with the Organizational Model and the relevant protocols pursuant to Legislative Decree No. 231/2001; on that occasion, the targets for 2016 were defined and communicated, as was the internal auditing plan and cross-functional training activities for the Environmental Protection, Safety and Quality (PASQ) professional family. One of the most significant endeavors launched in 2016 concerns the activation of a professional academy for the PASQ family that includes laboratories on specific issues supported by new digital tools.
- Special attention and effort was devoted, at all Company levels, to the dissemination of a culture of safety with activities aimed at informing, making more conscious and empower employees through the weekly publication of the Safety Message, participation in the Safety Week promoted by the European Agency for Occupational Health and Safety (EU-OHSA), identification, analysis, communication and resolution of dangerous situations or events existing at the various production units, and systematic and periodic training of all employees on health and safety issues, while launching specific training programs to improve the competencies of Health and Safety managers in analyzing non-conforming events and situations with systems to assess the underlying causes.
- Work continued on effectively managing intrinsic workplace risks by managing activities in confined spaces or areas with limited traffic or access through identification of potentially dangerous situations and definition of adequate preventive actions.
- There were no accidents with an impact on the environmental matrices (soil, subsoil, surface waters and biodiversity) in 2016. It is worth mentioning that two procedures for the communication of potential pollution resulting from oil leaks from wind towers at a site owned by E2i launched in 2016 were completed without any evidence of environmental damage. Lastly, there were two fires that affected part of the system that treats the aquifer at the Dogaletto reclamation site and part of the biomass facility in Castellavazzo, without damages to people or the surrounding area.
- Site characterization, safety assurance and environmental remediation work continued. Most of these activities involved highly significant industrial sites potentially polluted by activities carried out in the past by businesses that were part of the former Montedison Group sold a long time ago and/or closed. In this area, please note that some important activities were completed in 2016, including the closing of the remediation project for the sites in Muggia (Trieste province) and at Via Grazioli in Milan, while the issuance of the final certificate for the Stazione Prima site in Porto Marghera is pending, in addition to completion of the barriers that will allow the biological degradation phase of the contaminants present at the Nuova Alba's Dogaletto site. Lastly, the relevant authorities authorized investigative activities in preparation for the possible launch of a remediation project for some areas at the Bussi site of national interest, which used to belong to the former Montedison Group and was later sold to external buyers.
- The process of collecting and analyzing the environmental and health and safety data needed to prepare and publish the Sustainability Reports of Edison and the EDF Group was completed within the timeframes and with the modalities required by the reference standards.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

HUMAN RESOURCES

At December 31, 2016, the Edison Group had a total of 4,949 employees compared with 3,066 employees at December 31, 2015, for an overall increase of 1,883 employees. This increase primarily reflects the significant changes in scope of consolidation that occurred during the year, including:

- the consolidation of the Fenice Group as of April 1, 2016 (2,045 employees);
- the acquisition of Cellina Energy Spa as of June 1, 2016 (29 employees);
- the acquisition of the business operations of Idreg Piemonte Spa (company in liquidation) as of June 1, 2016 (10 employees);
- the deconsolidation of Hydros Spa as of January 1, 2016 (76 employees);
- the sale of the Milazzo power plant (16 employees);
- the sale of the Piombino power plant (16 employees);
- the sale of the water distribution business operations in the municipality of Pomezia (5 employees).

Based on a scope of consolidation comparable with 2015, the staff shows a decrease of 76 employees, including 38 made redundant in Egypt and rest due to efficiency gains at operating units in Italy.
Total labor costs for the year amounted to 295 million euros, including 72 million euros due to the consolidation of the Fenice Group in 2016. Excluding the Fenice Group, labor costs decreased by 3.7% compared with the previous year, including 2.2% related to international activities and 1.5% for activities in Italy.

INDUSTRIAL RELATIONS

The transactions for the sale of the Piombino and Milazzo production sites to companies operating in the respective territories were completed in 2016, ensuring continued employment for all employee through tools defined in special agreements executed with the labor unions.
During the year, Edison acquired the business operations of Idreg Piemonte Spa and the company Cellina Energy Srl, thereby strengthening its presence in the hydroelectric sector. With regard to these transactions, after completing the initial phase of welcoming the employees, work groups were established with the respective local labor unions to define issues related to the harmonization of wage and benefit levels.
In October, the Funding Sources of the Montedison Supplementary Benefits Fund (Fiprem) executed an agreement launching the process for the Fund's dissolution. The resolution adopted by the Extraordinary Meeting of December 21, 2016 officially began the liquidation process effective as of January 1, 2017. The decision to proceed with the dissolution of the Fund was dictated by the need to guarantee sustainability over the long term and will be implemented with the priority of ensuring maximum protection of individual positions, preferably through transfers of these positions to existing industry benefit funds, without interruption of coverage.
The Result/Productivity bonuses for the electric power, hydrocarbons and gas-water sectors for 2016 were renewed at the end of the year through the signing of a single agreement for all of the various sectors. This agreement introduced unifying elements for the various sectors, such as a new profitability indicator equal for all Group companies (EBITDA), except for those subject to gas unbundling regulations. This agreement also offers the possibility of converting the amount of the bonus into "welfare services" through a further specific agreement that will be signed with the labor unions in the early months of 2017.
As for the main national collective bargaining agreements applied by the Group, negotiations for their respective renewals continued in 2016.
Lastly, the following developments concerned the activities operated by Fenice in Italy:

- the process of reorganizing the operational units at the Termoli and Foggia sites functional to reducing operating costs and improving customer service was completed during the year;
- a contraction in the services delivered by the Rivalta operating unit and the resulting staff downsizing was addressed in the closing months of the year; all redundant employees were relocated at other operating units in the province of Turin;
- in the second half of the year, the Solidarity Contract established to handle staff redundancies at Rendina Ambiente Srl, a subsidiary that operates the Melfi waste-to-energy facility, was extended to April 2017;

- in December, negotiations began with the national labor unions of the automotive sector for the renewal of the supplemental company contract of Fenice Spa, also further to the renewal of the national collective bargaining agreement for the metalworking sector.

ORGANIZATION AND EMPLOYEE SERVICES

The main organizational changes that occurred in 2016 are reviewed below:

- The organizational and managerial restructuring of the Edison Group got under way in September with a redefinition of the Group's first-level macrostructure and the new executive committee (COMEX) and, consequently, the redefinition of the specific organizational structures also began:
  - a new Energy Services Market Division was established with the mission of contributing to the Company's growth in the end-user market through the development, sale and management of energy and environmental services combining the activities of the Fenice Group, acquired in April 2016, with those operated by Edison;
  - the structure and responsibilities of the Exploration and Production Division, which contributes to Edison's growth and to the implementation of its strategy through the development and management of hydrocarbon exploration and production activities and the exploitation of Edison's reserves in the various countries while safeguarding and developing competencies and knowhow for various upstream activities, were redefined;
  - the structure and responsibilities of the Power Asset & Engineering Division were redefined; this Division's mission is to contribute to the achievement of Edison's objectives through the development and management of electric power generating assets (hydroelectric, other renewable sources and thermoelectric) and provide a single centralized hub for engineering activities providing support and services to all business areas within the scope of activity of the Edison Group;
  - a special Transformation Team was established with the mission of orienting and guiding the Company's transformation, supporting Edison in facing the new challenges posed by changing markets and digitalization. This team focuses on issues and initiatives that, by acting on the evolution and innovation of the Company's operating models, increase their flexibility, efficiency and effectiveness, in terms both of internal cooperation and service and responses to the market.
- On November 2, 2016, 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). The respective protocols were revised to include the new types of environmental crimes and include a series of upgrades regarding the management and use of the Company's IT systems and the handling of accounting records and financial statement preparation.

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. Employees continue to give highly positive ratings to this program, with more than 94% finding it extremely, very or fairly useful, as shown in the results of the annual My Edf survey, which were presented at the Company in the early part of the year.

TRAINING AND DEVELOPMENT

In 2016, Edison implemented a training plan that included Fenice, acquired in April, for a total of more than 125,000 hours. The plan covered 3,626 employees, for a teaching cost of more 7 million euros, financed in part through the training account of the Fondimpresa and Fondirigenti interprofessional funds. Compared with the previous year, on a comparable scope of consolidation basis, there was a reduction in terms of total hours due to the downsizing of the staff in Egypt.

Training and development activities carried out in 2016 included, as usual, the implementation of institutional program devoted to recent college graduates and professionals, which included an Energy Business and Utilities specialization course developed by Edison in cooperation with MIP Politecnico in Milan, designed for a group of 28 Edison young professionals that, by emphasizing professional competencies and focusing on end customers and innovation, provides an integrated vision of the Company and the markets in which it operates.

Other activities included the launch of a training program on the new Anticorruption Guidelines aimed at disseminating the principles and rules of conduct for all Edison employees in Italy and abroad, with an innovative e-learning method.

In addition, in order to increase employee awareness of the importance of a mindful, effective and safe use of the main social networks, an e-learning program designed to promote the protection of the Company's and personal e-reputation was activated.
Activities in the area of management training included the start of a program for newly appointed supervisors and the consolidation of the Ecampusmanagers management training platform specifically focusing on the economic scenario and innovation content. In addition, collaboration with the Group's Corporate University, active in all leadership and management programs, continued and, in 2016, focused on the issues of innovation and digital transformation. Lastly, a new development was the launch of the first training program concerning women's leadership and devoted to a group of women manager.
During the year, consistent with past practice, the Company continued to deliver training program specifically designed for Edison's Young Community.
Insofar as professional family competencies are concerned, in addition to the structural activity of the Market Academy, some specialized training programs continued in 2016, including the Nautilus program on geosciences and the strata below ground, which involves at the international level professionals in the Exploration & Production and Research and Development areas. In addition, a program carried out with internal instructors was carried out on the procurement process, with the aim of providing the participants with an understanding of the overall system, through a practical simulation with the SAP system.
Lastly, to support familiarization with and understanding of the operating logics of the new Company intranet launched in May 2016, a training campaign was launched to explain the functionalities and opportunities provided by these new digital collaboration tools.

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 2016, Edison reduced by about 4% the total value of purchase orders compared with the previous year: a reduction in Group operating costs accounts for most of this decrease.
The percentage of purchases supplied by qualified vendors was about 93%, slightly higher than the previous year; calls for tenders were carried out through the Tenders Portal of the EDF Group, active since 2015.

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.
In addition to the "Sustainable Supply Chain Self-Assessment Platform" as launched in 2014 as part of the Ten Principles (TenP) Project with the aim of focusing the attention of suppliers on human rights, work issues, the environment and the fight against corruption, asking all suppliers to fill out the self-assessment questionnaire and enter the result in the qualification application, the Company defined activities to increase the collection of information for the purpose of assessing the sustainability policies of suppliers during the qualification process, which in 2017 will make it possible to update the supplier qualification portal.

OTHER INFORMATION

Please consult Edison's 2016 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, 2016, 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 2016, the Group executed transactions with related parties. A description of the most significant transactions 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.

In light of the changes in the reference legislative framework that occurred during 2016, the Company decided, in line with the best practices followed by other companies with listed financial instruments and in continuity with the legislation previously in effect, that it will continue to abide by the choice made since 2016 to communicate to the market quarterly financial information on a consolidated basis, in addition to its semiannual and annual financial reports.
Differently from the past, the information provided will be in a more condensed form and focused on business issues and, for publication, the Company will continue to comply with the same deadlines that existed under the repealed regulations.

MOTION FOR A RESOLUTION

Dear Shareholders,

Your company's separate financial statements at December 31, 2016 show a loss of 249,942,725 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 resolutions:

First resolution

"The Shareholders' Meeting,

- having reviewed the Company's separate financial statements and the Group's consolidated financial statements at December 31, 2016, 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, 2016;

resolves

to approve the Company's separate financial statements for the year ended December 31, 2016, and the individual items contained therein, which show a loss of 249,942,725 euros."

Second resolution

"The Shareholders' Meeting,

- being cognizant that the separate financial statements for the year ended December 31, 2016 show a loss of 249,942,725 euros;
- having been informed that in the above-mentioned separate financial statements there are no available reserves that can be used for the coverage of the loss;

resolves

to bring forward the loss of 249,942,725 euros."

Milan, February 13, 2017

The Board of Directors
By: Marc Benayoun
Chief Executive Officer

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF EDISON S.P.A. PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998

Dear Shareholders:

In the year ended December 31, 2016, 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 DAC/RM/97001574 of February 20, 1997 and 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 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 as a minimum, it participated in the meetings of the Control and Risk Committee, the Compensation Committee and the Oversight Board and, as a rule, 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 3, of Legislative Decree No. 39/2010 and the independence confirmation declaration required pursuant to Article 17, Section 9, 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 9, 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 2016 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 was publicly disclosed in the manner required pursuant to law;
- It was informed that the Company is continuing to publish, on a voluntary basis, Quarterly Reports within the deadline required under the old regulations.

Further to the enactment of the amendments made to Article 19 of Legislative Decree No. 39/2010 by Legislative Decree No. 135/2016 (effective as of the 2017 reporting year), the Board of Statutory Auditors, in its capacity as Internal Control and Auditing Committee, performs the specific information, monitoring, control and review functions set forth in the abovementioned decree and performs all of the obligations and tasks required by it.

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.

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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 2016, including those implemented through subsidiaries, all of which are discussed in the Report on Operations, are summarize below:
   - On March 22, 2016, the Extraordinary Shareholders' Meeting of Edison S.p.A. approved the conveyance to Edison of the 100% equity stake held in Fenice S.p.A. by Transalpina di Energia S.p.A., Edison's controlling shareholder. This transaction, carried out by means of a capital increase in kind reserved for Transalpina

di Energia S.p.A. totaling 247 million euros, including an increase of 85.3 million in par value capital and 161.7 million in additional paid-in capital, went into effect as of April 1, 2016.

- In the second quarter of 2016, Edison and Eni S.p.A. signed an agreement revising the pricing formula for the long-term contract to supply natural gas from Libya for a period of three years, counting from October 1, 2015; the proposed agreement and amended contract were approved by the Company's Board of Directors on April 20, 2016.
- On September 1, 2016, Edison and RasGas signed an agreement revising the price for the long-term contract to supply natural gas from Qatar, bringing it in line with current market terms; the proposed agreement and amended contract were approved by the Company's Board of Directors on July 27, 2016.
- On October 12, 2016, Edison's Board of Directors approved the launch of a voluntary tender offer for all of the 43,579,004 common shares of Alerion Clean Power S.p.A., corresponding to 100% of Alerion's share capital, at a price of 2.46 euros per share, promoted by Eolo Energia s.r.l., a newly established company controlled by Edison Partecipazioni Energie Rinnovabili s.r.l. (shareholders: Edison 83.3% and 16.7% Edf EN Italia S.p.A.) for 51% and E2i Energie Speciali s.r.l. (30% Edison Partecipazioni Energie Rinnovabili and 70% F2i) for 49%, pursuant to Article 102, Section 1, and Article 106, Section 4, of Legislative Decree No. 58/1998 and the implementation provisions of Consob Regulation No. 11971/99. Upon the conclusion of the voluntary tender offer, counting also the shares acquired independently of the offer, the interest held by Eolo Energia s.r.l. in the share capital of Alerion Clean Power S.p.A. was equal to 22.840%, which, when added to the interest held by F2i (company with which a shareholders' agreement concerning, inter alia, the governance guidelines of Eolo Energia and Alerion was executed on October 12, 2016) equal to 16.030%, brought the aggregate interest held by Eolo Energia s.r.l. and F2i at December 31, 2016 to a total of 38.870% of the share capital, which grew to 38.931% as a result of the mandatory tender offer promoted by Eolo Energia that ended in January 2017.

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.

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 2016, the parties involved and their financial effects are explained in the section of the 2016 Consolidated Financial Statements entitled "Intercompany and Related-party Transactions," which should be consulted for additional information. In that document, the Company specifies that all transaction 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. 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, considering that they are monitored by the Company on an ongoing basis, taking also into account the Company's ownership structure.
   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 2016, the Company, acting both directly and through subsidiaries, carried out five related-

party transactions that qualified as "Less Material" transactions pursuant to the abovementioned Procedure concerning, respectively, the conveyance in kind by Transalpina di Energia S.p.A. to Edison of its interest in Fenice S.p.A., described more in detail in Section 1 above; a contract between Edison and EDF GS2 for the management of the IT infrastructure; a renewal of the decision to be included in the national consolidated tax return filed by Transalpina di Energia S.p.A., regarding the corporate income tax for the 2016-2018 three-year period; the sale of an equity investment (100% of Fenice RUS LLC) by Fenice S.p.A. to Dalkia SA (a wholly owned subsidiary of the EDF Group); and a licensing agreement between Edison and EDF SA for the use of the EDF brand.
The required opinion by the Committee of Independent Directors was obtained for all of the abovementioned transactions.
In 2016, the Company carried out, directly and through subsidiaries, additional related-party transactions that did not qualify either as Highly Material or Less Material Transactions pursuant to the Procedure, some of which were reviewed and assessed by the Committee of Independent Directors.
The Board of Statutory Auditors verified that all of the abovementioned related-party transactions were carried out in accordance with the approval and implementation modalities set forth in the abovementioned Procedure.

4. On February 14, 2017, 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, 2016 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 required by Article 123-*bis,* Section 4, of Legislative Decree No. 58/1998 provided in the Report on Corporate Governance and the Company's Ownership Structure (in the text applicable to the 2016 reporting year) 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 meetings that the Board of Statutory Auditors held with the Independent Auditors, as required by Article 150, Section 3, of Legislative Decree No. 58/1998.

5. In 2016, 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. In 2016, according to information provided by the Independent Auditors, the Independent Auditors Deloitte & Touche S.p.A. were awarded the following additional assignments by Edison:
   1. Issuance of 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., for a fee of 200,000 euros.
   2. Performance of certain activities consisting of additional reviews, consistent with agreed upon assumptions and procedures, related to the acquisition of Fenice-Qualità per l'Ambiente S.p.A., for a fee totaling 40,000 euros.
   3. Technical analysis of the adoption of fair value hedge accounting for long-term gas procurement contracts; verification of the correct implementation of fair value hedge accounting at January 31, 2016; and verification of the correct implementation of fair value hedge accounting at March 31, 2016, for a fee totaling 20,000 euros.

   While acknowledging that some services provided in 2016 by the Independent Auditors to Edison derived from earlier assignments, the Board of Statutory Auditors rendered its opinion regarding the assignment awarded by Edison in 2016 to the Independent Auditors, as listed above, ensuring that they were compatible with the laws in effect during the reporting year and, specifically, with the provisions of Article 17 of Legislative Decree No. 39/2010, as required by Consob Communication DAC/RM/97001574 of 1997.
   After the end of the 2016 reporting year, specifically at a meeting of the Board of Directors held on February 13, 2017, the Company awarded to the Independent Auditors the assignment to perform a limited audit of the 2016 Sustainability Report, for a fee of 19,000 euros. The Board of Statutory Auditors verified the compatibility

of this assignment with the laws currently in effect and, specifically, with the provisions of Article 17 of Legislative Decree No. 39/2010, as amended by Legislative Decree No.135/2016, and with the prohibitions set forth in Article 5 of European Regulation No. 537/2014, as cited therein. Based on these reviews, it rendered its opinion, as required by Consob Communication DAC/RM/97001574 of 1997 and the laws currently in effect.

7. In 2016, according to information provided by the Independent Auditors, the Independent Auditors Deloitte & Touche S.p.A. were awarded, by some Edison's subsidiaries, auditing and attestation assignments required by the regulatory authorities and other compulsory accomplishments for fees totaling 162,313 euros.

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 currently in effect and compatible with the limitations imposed pursuant to law on the provision to Edison and its subsidiaries of 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 2016 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 2015 MBO data for the Chief Executive Officer and top management;
   b. the compensation awarded by the Board of Directors to Directors who perform special functions (Chairman and Chief Executive Officer);
   c. the compensation awarded to members of the Board Committees (Control and Risk Committee, Compensation Committee, Committee of Independent Directors) and the Oversight Board;
   d. the proposal concerning the definition of the 2016 targets upon which the variable component of the compensation of the Chief Executive Officer will be based, while also being informed of the proposed 2016-2018 LTI Plan for top management;
   e. the award to the Independent Auditors of the additional assignment listed in Section 6 of this Report.

   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 2016:
    - it met seven 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 nine 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 22, 2016;
    - 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 all 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 as a minimum, it attended seven of ten 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 specified 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).

    In the course of 2016, effective as of September 1, 2016, the organizational structure of the Company and the Group was revised. Some operating Divisions were restructured and reorganized, with an impact on the COMEX that reduced to nine the number of its members, including the Chief Executive Officer, who are supported by three senior advisors for some issues. In addition, a new Transformation Committee was established, responsible for providing consulting support to the COMEX and the Chief Executive Officer in the areas of management innovation, corporate culture and change management.

    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 currently in effect, 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.
Consistent with past practice, the Board of Statutory Auditors verified, for the areas under its jurisdiction, 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.
Periodically, the Board of Statutory Auditors, working with managers of the relevant department, reviewed changes in the risk map based on ERM methods.
The Board of Statutory Auditors also monitored the adequacy of the organizational structure and the correct implementation of the safeguards adopted by the Company to ensure compliance with provisions of the EMIR Regulation.
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. On May 10, 2016, by a resolution of the Board of Directors, the Company updated its 231 Model with regard to environmental crimes (Law No. 68/2015), also updating the Protocol for managing environmental risks. The Protocol for managing and using the Company's IT systems and the Protocol for managing the accounting system and preparing the financial statements were also updated. By a resolution of the Board of Directors dated December 6, 2016, the Company also updated its Code of Ethics.

In 2016, the Oversight Board, with the support of the Internal Auditing Department, updated the 231 Model and the respective Protocols and implemented programs to provide employees with training on the principles and requirements of the 231 Model, the Code of Ethics and the implementation of the new whistleblowing system, in connection with which the Company created a new dedicated internet platform for reporting violations and published a specific Policy governing the use of this tool. It also monitored changes in the relevant regulations concerning Legislative Decree No. 231/2001 and the completion of the activities required

to update the 231 Models of the subsidiaries, ensuring that anticorruption guidelines were adopted by them. 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. The Company updated this Procedure in October 2016 to take into account new E.U. regulations (Regulation No. 596/2014, Directive 57/2014 – Rules governing market abuse and second level provisions in effect as of July 3, 2016). After the end of 2016, the Company also revised the corresponding 231 Protocol (Protocol on Insider Information).
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 adopted rules governing the obligation to refrain from executing transactions that involve financial instruments issued the Company that are listed on regulated markets, as required by E.U. Regulation No. 596/2014 on market abuse, making the prohibition requirement applicable only to mandatory financial documents and specifying the timing and duration of this prohibition, in accordance with the provisions of the abovementioned Regulation.
In 2016, 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 13, 2017. 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 one of its members 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 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 nine members, including three independent Directors. Its composition is compliant with gender parity rules. The Directors were elected by Shareholders' Meeting on March 22, 2016 and their term of office will end with the Shareholders' Meeting convened to approve the Financial Statements at December 31, 2018.
In 2016, 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 13, 2017 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 13, 2017, 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 2016, there were no instances in which the members of the Board of Statutory Auditors were required to make such a disclosure.
The following committees have been established within the framework of the Board of Directors:
    - The <u>Control and Risk Committee</u>, 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 2016. 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 Report on Corporate Governance and the Company's Ownership Structure.
    - The <u>Compensation Committee</u>, which is comprised of four non-executive Directors, three independent, met three times in 2016.
    - The <u>Committee of Independent Directors</u>, which is comprised of three independent Directors, held 10 meetings in 2016 during which it reviewed and assessed several related-party transactions, including five transactions that qualified as Less Material transactions in accordance with the Procedure for Related-party Transactions (discussed in Section 3 of this Report), with regard to which the Committee of Independent Directors 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 13, 2017 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 13, 2017, resolved to submit to the Shareholders' Meeting and declares that it has no specific remarks in this regard.

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, 2016, 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 S.p.A. at December 31, 2016 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.

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Based on the foregoing considerations, which provide an overview of its activities in 2014, 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.
The office of this Board of Statutory Auditors, elected by the Shareholders' Meeting of March 28, 2014, will end with the Shareholders' Meeting convened to approve the financial statements at December 31, 2016.
The Board of Statutory Auditors therefore asks the Shareholders to adopt the relevant resolutions in order to renew the control body.

Milan, February 21, 2017

The Board of Statutory Auditors

Serenella Rossi	Chairperson
Leonello Schinasi	Statutory Auditor
Giuseppe Cagliero	Statutory Auditor

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