# SEMIANNUAL REPORT

## at June 30, 2016

EDISON

# Contents

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

# GROUP PROFILE

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

Edison will continue to be a significant operator in the Italian energy sector, playing an active role in the consolidation process of the retail market and in the development of energy efficiency services. The company currently operates in more than 15 Countries worldwide with a staff of about 5,000 people, including the recently acquired Fenice.

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 the first half of 2016, 9.1 TWh, accounting for 7% of Italy's electric power production.

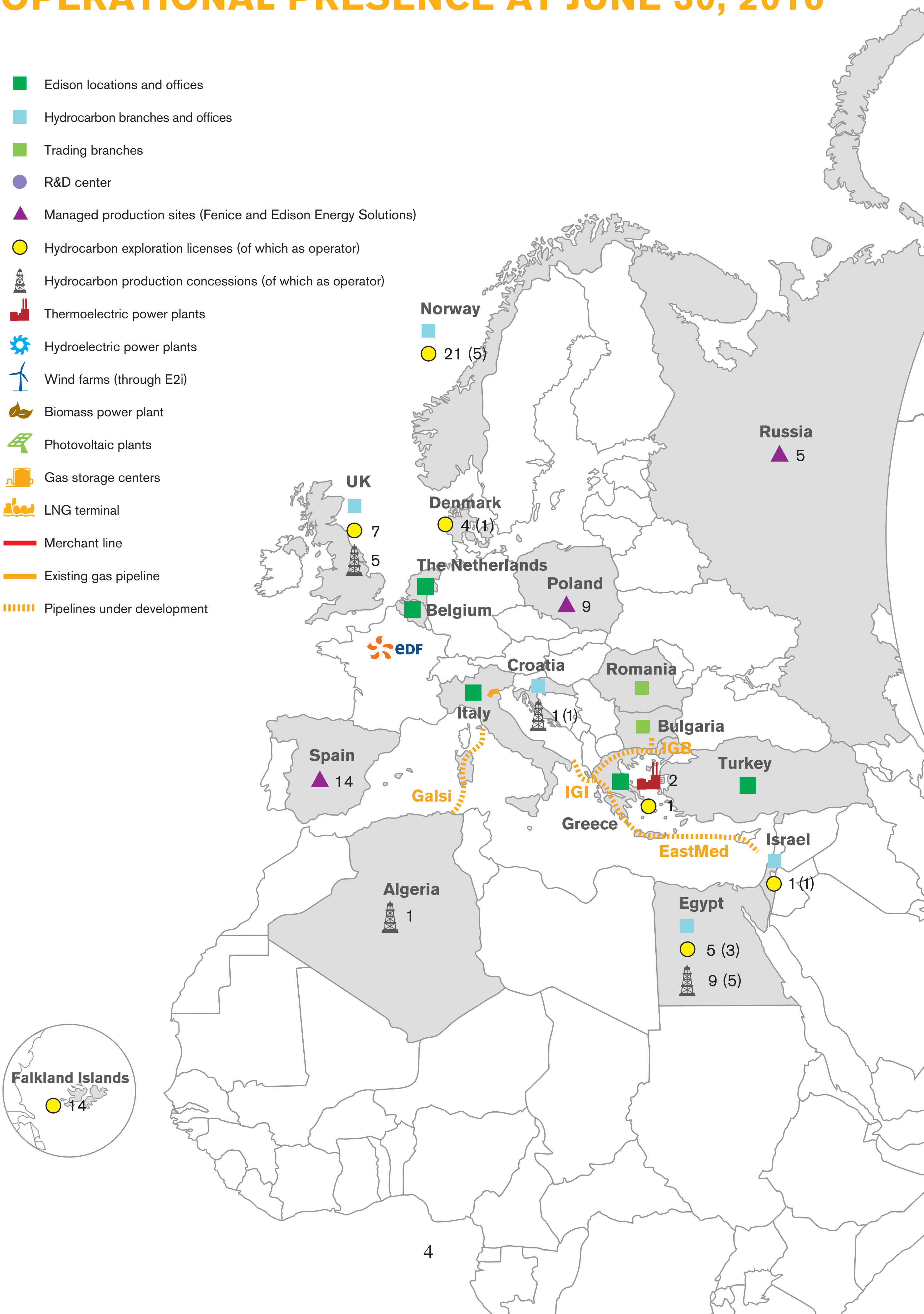
In the hydrocarbons business, Edison operates in Italy, in the Mediterranean Area and in Northern Europe, with over 100 concessions and permits for the exploration and production of natural gas and crude oil, and reserves of 257.5 million barrels of oil equivalent at December 31, 2015.
In the first half of 2016, Edison imported 7.3 billion of cubic meters of gas, covering 23% of Italy's total gas imports and contributing to the security of the national energy system.

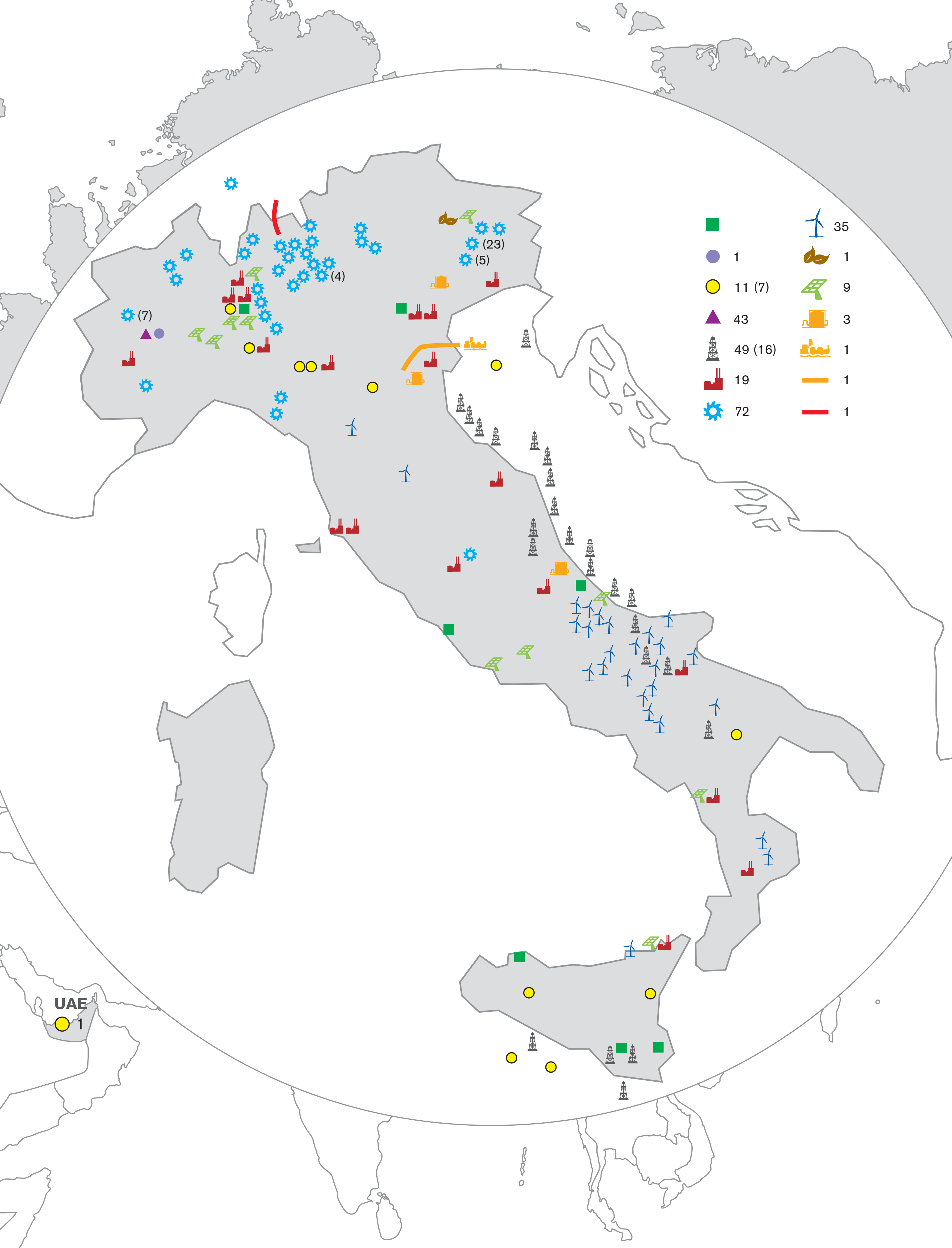
Edison offers electric power and natural gas to end customers, together with energy efficiency services and environmental solutions in particular to industrial clients. In addition supplies over 1 million retail customers in Italy and aims at the growth of its customer base through organic growth and acquisitions.

The Group is also committed to contribute 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. Moreover Edison, through its subsidiaries, 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 part of the EDF Group. Edison is listed on the Italian Stock Exchange, limited to its saving shares.

# OPERATIONAL PRESENCE AT JUNE 30, 2016





UAE
1
(7)
(4)
(23)
(5)
1
11 (7)
43
49 (16)
19
72
35
1
9
3
1
1
1

# VALUE CHAIN AT JUNE 30, 2016

## ACTIVITY

### Upstream

**ELECTRIC POWER**

**Power assets**

Management and development of generating electric facilities in Italy and abroad

**6.9** GW
net installed capacity

**1** HV
merchant power line (150 MW)

**9.1** TWh
net production

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

**HYDROCARBONS**

**257.5** MBoe
hydrocarbon reserves

**8.4** MBoe
hydrocarbon production
**2.2** MBoe Italy
**6.2** MBoe abroad

**127** concessions, permits and licenses
**60** in Italy
**67** abroad

Hydrocarbon exploration, development and production in Italy and abroad

**Exploration & Production**

### Midstream

**Energy Management**

Dispatching portfolio, optimization and energy trading

**45.2** TWh
volumes handled
**10.5** bn m$^3$

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

**Gas Midstream, energy management & optimization**

## Downstream

### Marketing & Sales Gas & Power

**1,097,000**
sites served

**5.9** TWh
electric power sold to end customers

**3.5** bn $m^3$
gas sold for residential and industrial uses

**4** gas pipeline projects

**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

**3,626** km
of low and medium pressure gas pipelines

Development of gas transmission infrastructures in Italy and abroad

Storage management, gas transmission and distribution in Italy

(Gas regulated assets)

**71**
managed production sites

**47**
cogeneration and trigeneration plants

**800**
client on site facilities

**3**
client on site photovoltaic systems

### Marketing & Sales Energy Services

## HIGHLIGHTS OF THE GROUP

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.

| 2015 full year | Income statement highlights (millions of euros) | First half 2016 | First half 2015 | % change |
|---|---|---|---|---|
| 11,313 | Sales revenues | 5,468 | 5,619 | *(2.7%)* |
| 1,261 | EBITDA | 340 | 204 | *66.7%* |
| *11.1%* | *% of sales revenues* | *6.2%* | *3.6%* | - |
| (795) | EBIT | 21 | (155) | *n.s.* |
| *n.s.* | *% of sales revenues* | *0.4%* | *n.s.* | - |
| (980) | Profit (Loss) attributable to Parent Company shareholders | (67) | (207) | *67.6%* |

| 12.31.2015 | Balance Sheet highlights (millions of euros) | 06.30.2016 | 06.30.2015 | % change |
|---|---|---|---|---|
| 389 | Capital expenditures | 146 | 188 | *(22.3%)* |
| 139 | Investments in exploration | 41 | 69 | *(40.6%)* |
| 7,023 | Net invested capital (A + B)(1) | 7,337 | 8,754 | *4,5%* |
| 1,147 | Net financial debt (A) (1)(2) | 1,067 | 1,679 | *(7.0%)* |
| 5,876 | Total shareholders' equity (B)(1) | 6,270 | 7,075 | *6.7%* |
| 5,439 | Shareholders' equity attributable to Parent Company shareholders (1) | 5,922 | 6,618 | *8.9%* |

| | Rating | 06.30.2016 | 12.31.2015 |
|---|---|---|---|
| | Standard & Poor's | | |
| | - M/L Term Rating | BBB- | BBB+ |
| | - M/L Term Outlook | Negative | Negative |
| | - S/T Rating | A-3 | A-2 |
| | Moody's | | |
| | -Rating | Baa3 | Baa3 |
| | - M/L Term Outlook | Negative | Stable |

| 12.31.2015 | Key indicators | 06.30.2016 | 06.30.2015 | % change |
|---|---|---|---|---|
| 0.20 | Debt / Equity ratio (A/B) | 0.17 | 0,24 | |
| 16% | Gearing (A/A+B) | 15% | 19% | |
| 3,066 | Number of employees (1) (3) | 5,047 | 3,086 | *64.6%* |

(1) End-of-period data. Changes are calculated with respect to December 31, 2015.
(2) The breakdown of this item is illustrated in the section "Net financial debt" of the Notes of the Condensed Consolidated Semiannual Financial Statements.
(3) Companies consolidated line by line.

| 2015 full year | Operational data | First half 2016 | First half 2015 | % change |
|---|---|---|---|---|
| 18.5 | Net production of electric power (Twh) | 9.1 | 9.0 | *1.2%* |
| 17.1 | Sales of electric power to end users (TWh) | 5.9 | 9.1 | *(34.7%)* |
| 12.7 | Gas imports (bn $m^3$) | 7.3 | 6.2 | *18.0%* |
| 17.6 | Total net gas sales in Italy (bn $m^3$) | 10.5 | 8.0 | *31.0%* |
| 1,153 | Locations served power and gas (thousands) | 1.097 | 1.256 | *(12.7%)* |
| 16.7 | Hydrocarbon production in Italy and abroad (Mboe) | 8.4 | 8.5 | *(1.2%)* |

# INFORMATION ABOUT EDISON SHARES

| Shares at June 30, 2016 | number | price |
|---|---|---|
| **Common shares** | 5,266,845,824 | (*) |
| **Savings shares** | 110,154,847 | 0.6532 |

| Shareholders with significant holdings at June 30, 2016 | % voting rights | % stake |
|---|---|---|
| **Transalpina di Energia Spa** [1] | 99.484% | 97.446% |

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

# CORPORATE GOVERNANCE BODIES

## At June 30, 2016

### Board of Directors [1]

| | | |
|---|---|---|
| **Chairman** | | Jean-Bernard Lévy [2] |
| **Chief Executive Officer** | | Marc Benayoun [3] |
| **Directors** | | Marie-Christine Aulagnon [4] |
| | | Béatrice Bigois [5] |
| | **Independent Director** | Paolo Di Benedetto [6] |
| | **Independent Director** | Gian Maria Gros-Pietro [7] |
| | | Sylvie Jéhanno |
| | **Independent Director** | Nathalie Tocci [8] |
| | | Nicole Verdier-Naves [9] |

| | |
|---|---|
| **Secretary to the Board of Directors** | Lucrezia Geraci |

### Board of Statutory Auditors [10]

| | |
|---|---|
| **Chairperson** | Serenella Rossi |
| **Statutory Auditors** | Giuseppe Cagliero |
| | Leonello Schinasi |

### Independent Auditor [11] — Deloitte & Touche Spa

(1) Appointed by the Shareholders' Meeting of March 22, 2016 for a three-year term to end with the Shareholders' Meeting convened to approve the 2018 financial statements.
(2) Confirmed as Chairman by the Shareholders' Meeting of March 22, 2016.
(3) Confirmed as Chief Executive Officer by the Board of Directors on March 22, 2016.
(4) Member of the Control and Risks Committee.
(5) Chairman of the Control and Risks Committee.
(6) Chairman of the Compensation Committee and member of the Control and Risks Committee, of the Committee of Independent Directors and of the Oversight Board.
(7) Chairman of the Committee of Independent Directors, Lead Independent Director and member of the Control and Risks Committee, the Compensation Committee and the Oversight Board.
(8) Member of the Compensation Committee and of the Committee of Independent Directors.
(9) Member of the Compensation Committee.
(10) Appointed by the Shareholders' Meeting of March 28, 2014 for a three-year term to end with the Shareholders' Meeting convened to approve the 2016 financial statements.
(11) Auditing assignment made by the Shareholders' Meeting of April 26, 2011 for the nine-year period 2011-2019.

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# SEMIANNUAL REPORT ON OPERATIONS
# at June 30, 2016

# KEY EVENTS

## Gazprom, Depa and Edison sign a Memorandum of Understanding

On February 24, 2016 Gazprom, Edison and Depa signed the Memorandum of Understanding concerning supply of natural gas from Russia through the Black Sea to Greece and Italy with the carrying out of a pipeline project between Greece and Italy in order to open a new supply route.

The agreement underscores the parties' interest in creating a new gas transport route from Russia – via the Black Sea and third countries – towards Greece and from Greece to Italy. To this end they wish to utilize to the greatest extent possible the work already carried out by Edison and Depa in the ITGI Poseidon project.

## Contribution in kind of Fenice to Edison

On March 22, 2016, the Extraordinary Shareholders' Meeting of Edison Spa approved the transfer to Edison, by the controlling shareholder, Transalpina di Energia Spa, of 100% of its stake in Fenice Spa. The operation, implemented through a capital increase by contribution in kind reserved to Transalpina di Energia Spa totalling 247 million euros, 85.3 million euros of which as an increase in authorized capital and 161.7 million euros as a share premium, became effective on April 1, 2016.

By reason of the operation, as of that date the company's results are wholly consolidated within Edison.

Fenice is an Energy Service Company (E.S.Co.) specializing in energy efficiency solutions and environmental services mainly for large industrial clients. In particular, Fenice has the solid position and expertise to offer a full range of integrated and customized solutions for energy efficiency and environmental sustainability, with an integrated offering throughout the entire value chain, including the drafting of energy diagnoses and environmental audits as well as the design, construction and "turnkey management" of complex installations and energy solutions with limited environmental impact. Fenice operates in Italy and, through three subsidiaries, in Poland, Spain and Russia.

With this transaction, Edison aims to become a key player in the Italian energy services market in line with its strategic objectives, strengthening and diversifying its offering. Through Edison's brand value and customer portfolio and capitalizing on the position and expertise of Fenice in its market segment, the Group will be able to develop and reinforce its standing in the energy services market, at the same time expanding its range of services to small and medium-sized firms, the sector of services and public administration.

## Edison strengthens its standing in the hydroelectric sector with the acquisition of 9 mini-hydro plants in Piemonte and Friuli

On May 25, 2016 Edison acquired, by the bankruptcy of IDREG Piemonte, 9 hydroelectric power plants – 7 in Piemonte and 2 in Friuli Venezia-Giulia – with a total installed power of 15 MW and an average annual output of 70 GWh. The acquisition of the plants was completed for an overall amount of 36 million euros. With this purchase, Edison's hydroelectric facilities now comprise 72 plants, ranging from large-scale to mini-hydro.

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

On May 31, 2016 Edison and Alperia concluded the transaction with the exchange of Edison's holdings in Hydros and Sel Edison in Bolzano province for the stake of Alperia in Cellina Energy, the company that owns Cellina's hydroelectric plants in Friuli Venezia-Giulia. With this agreement, following its signing on December 29, 2015 by Edison and Sel (now Alperia, subsequent to the merger with AEW), Edison extends the average life of its hydro portfolio, reducing the risks associated with licence renewals. Edison has acquired 100% of Alperia's firm Cellina Energy in exchange for its stakes of 40% in Hydros and 42% in Sel Edison. The operation allows Edison to consolidate Cellina Energy on a line by line basis.

The hydroelectric plants on the river Cellina, whose concessions will expire in 2029, comprises 23 plants ranging from large to small facilities, for an installed capacity of 90 MW.

### Edison-ENI: Agreement for long-term Libyan gas contract

In the second quarter of 2016 Edison and ENI signed an agreement to revise the price formula of the long-term contract for the supply of natural gas from Libya. The new formula is applied on volumes imported from October 1, 2015 and will have effect over three years. With this agreement the price review initiated by ENI in the last quarter of 2015 is completed. The contract covers four billion cubic metres of gas per year.

### Significant events occurring after June 30, 2016

For a description of other events occurring after the end of the period concerned by the present report please see the section "Significant events occurring after June 30, 2016" in the Condensed Consolidated Semiannual Financial Statements.

# EXTERNAL CONTEXT

## Economic framework

The first months of 2016 showed a slackening in the rate of global growth, adversely affected by multiple factors of uncertainty. The slowing of the United States economy has led to doubts as to the solidity of the recovery in the world economy's prime mover, a reason for which the Federal Reserve decided to halt the process of normalization of monetary policy, keeping interest rates unchanged in the 0.25%-0.50% bracket. The most recent data published by the US government at the end of May nonetheless revised GDP estimates upwards, with a less marked fall in investment than in previous forecasts.

Some weak positive signs have begun to dispel the uncertainty in the emerging markets suffering a crisis of confidence, even if those signs are not yet reflected in the indicators of the real economy. The fears about the global economy also come from a prolonged reduction in the price of raw materials, fuelling the risk of deflation as well as penalizing growth in net exporting countries like those in Africa and the Middle East; conversely, the net importing countries benefit in terms of greater purchasing power for households and businesses.

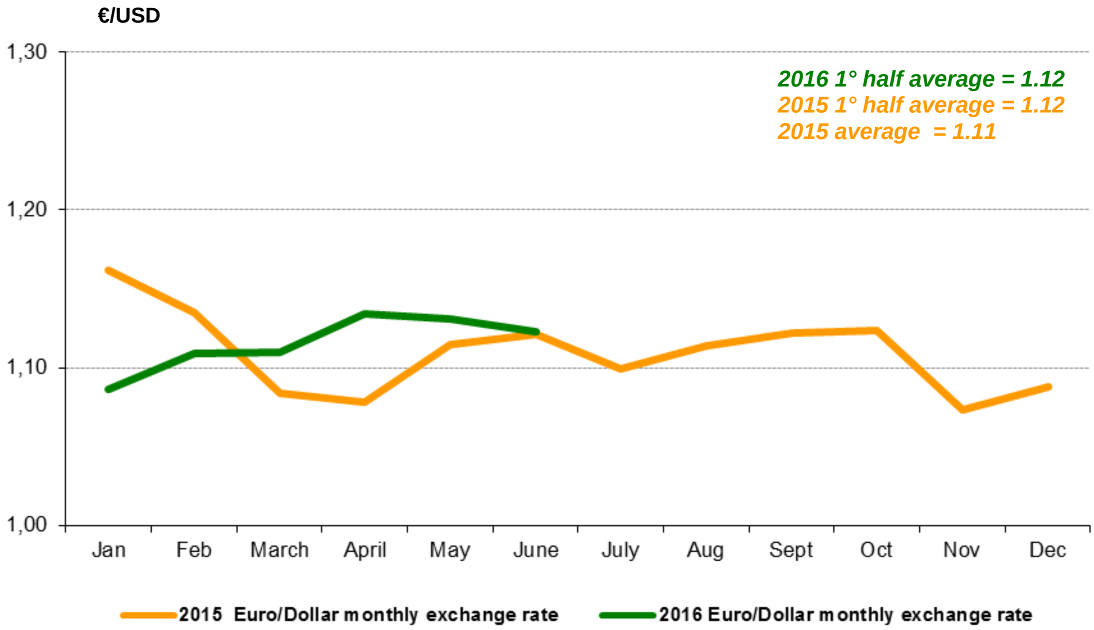
As for the Eurozone, the recovery that began in 2014 and continued slowly throughout 2015 saw a greater than expected acceleration of GDP in the first months of 2016. This inspires hopes that the ECB stimuli are beginning to strengthen the previously hampered recovery in domestic demand, which now is contributing more and more to offsetting the weakness of foreign trade.

With the outcome of the June 23 referendum in Britain, which established the United Kingdom's wish to leave the European Union, all the uncertainties (political, economic, financial and social) related to the effects that the so called Brexit will entail now bring their weigh to bear, and at the moment they are difficult to predict and quantify, including with respect to GDP dynamics both in the UK and in other countries.

The assessment of Italy's economic performance in the first half of the year is positive overall, even considering the weaknesses that still remain in some sectors and areas of the country. In fact, despite the slowdown in foreign demand holding back exports, arising from the difficult economic situation of many developing countries, domestic demand continues to be the main driver of the recovery in Italy.

In the first half of 2016 the euro/US dollar exchange rate remained broadly stable compared with the same period in 2015, reaching an average value of 1.12 USD for one euro. Conversely, an analysis of the monthly trend of the exchange rate in the period, shows a gradual appreciation of the euro between January and April (in April it reached a high of nearly 1.16 USD for one euro), despite the monetary policies followed by the two main institutions, FED and ECB, which might have been expected to lead to a weakening of the single currency.

However, in May the euro again started, albeit in an attenuated manner, to depreciate against the dollar, until reaching its lowest point since March 2016: 1.09 USD for one euro. June's downward trend was exacerbated by the Brexit effect in the final week which, having led analysts to revise downwards their assessment of recovery in a European economy without the United Kingdom, spurred investors to a massive purchase of dollars which, together with gold, have assumed the role of safe haven assets.




As for the oil markets, Brent prices in the first half of 2016 averaged 41.0 USD/barrel, down by approximately 30% on 2015. The oil market seems, however, to be moving towards a new equilibrium: in the half-year the price of crude oil in fact steadily gained ground, progressing from an average of 32.0 USD/barrel in January to 49.9 USD/barrel in June.

While the expectations in connection with a price rise bolstered by a growing demand for crude oil (especially on the part of non-OECD countries) did not materialize, on the supply side many factors led to an increase, although certain of them, mere unrealised expectations, only helped fuel the market's volatility. Indeed, the prospect of an agreement between Saudi Arabia and Russia to freeze production at levels recorded in January was thwarted at their April meeting in Doha, when the Saudis set as a condition for their acceptance the participation of Iran, intent on restoring its market share to pre-sanctions levels. In addition, in the second half of April and throughout May, interruptions of output occurred in several countries. The data on US crude oil production, which in June stood at approximately 8.6 million barrels a day – having decreased by about 7% since the beginning of the year – and on the number of active production rigs, down 40% since January, further helped sustain price levels.

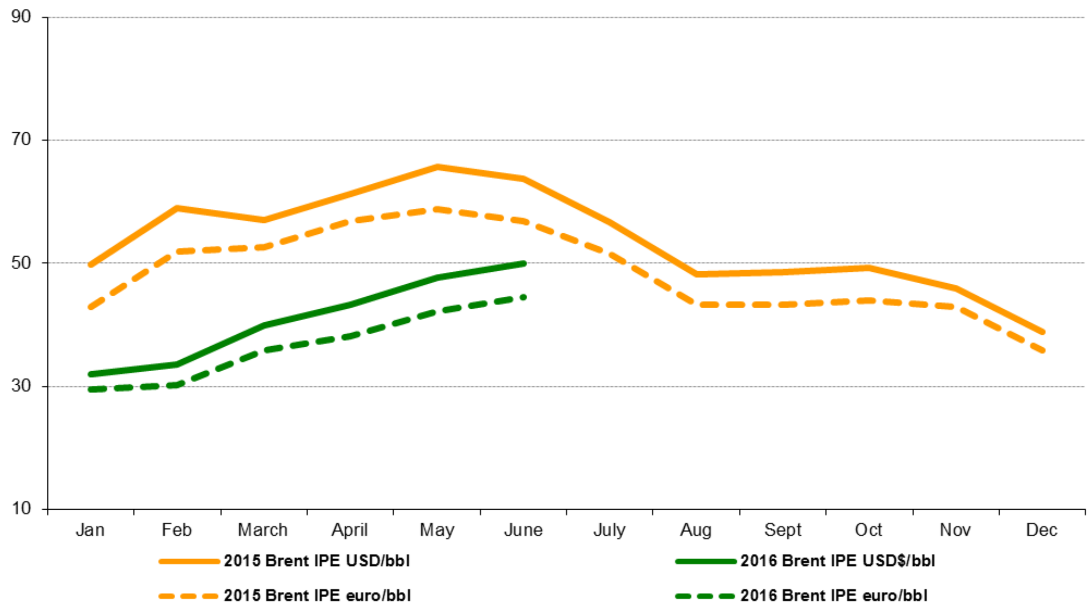
In June, with prices above the threshold of 53 USD/barrel, the highest since last August, OPEC confirmed its strategy of maintaining market share in not setting a new production ceiling due to divisions among member countries, and citing among its reasons the market's ability to regulate itself over time. At the end of the half-year, the outcome of the British referendum only temporarily stopped the upward trend of Brent, because of the country's modest weight in the oil market.

The basic stability of the euro/dollar rate was reflected in Brent prices in euros, which decreased by approximately 30% compared with the first half of 2015, registering an average of 36.7 EUR/barrel.

The table and chart below show, respectively, the average figures for six-month periods and the monthly dynamics in the current and previous years:

| 2015 full year | | 1st half 2016 | 1st half 2015 | Change % |
|---|---|---|---|---|
| 53.7 | Oil price in USD/bbl(1) | 41.0 | 59.4 | *(30.9%)* |
| 1.11 | USD/EURO exchange rate | 1.12 | 1.12 | - |
| 48.4 | Oil price in EURO/bbl | 36.7 | 53.3 | *(31.1%)* |

(1) IPE Brent



Similarly to oil, the distillates showed an upward trend compared with the first quarter of 2016: diesel marked an increase of 30%, while fuel oils grew by about 50%.

Despite the positive trend recorded in the six-month period, diesel fuel closed at 365.2 USD/metric ton (-34.2% compared with the same period in 2015) while the fuel oils reached 173.1 USD/metric ton (-43.3%) for low sulphur content products and 167.2 USD/metric ton (-44.3%) for high sulphur content products, a sign of reduced use of the latter.

The price of coal on the Atlantic market was down by about 22%, compared with the first half-year of 2015, registering an average of 46.9 USD per ton, with a slight upward tendency compared with the first quarter 2016 (+7%). The optimism linked to oil market performance certainly contributed to this rise; however, the trend was also fuelled by a number of structural factors, such as the limitation of Indonesian production due to heavy rains and expectations of a price increase by China.

Unlike other energy commodities, natural gas prices at the main European hubs showed a downward trend. However, in May and June the prices, supported by a reabsorption of the oversupply, bounced back by scoring an average increase of 30 EUR/1,000 cubic metres on 2016 first quarter prices. In the first half of 2016 prices registered an average decrease of approximately 38% on the first half of 2015.

The TTF (European gas hub of reference) marked a decrease of 38.5% on the first half of 2015 to around 138 EUR/1,000 cubic metres and a growth of 2.5% between the first and second quarter of this year. A number of planned and unplanned maintenance operations in the Norwegian production fields and their transmission systems, along with temperatures slightly lower than the average were the main causes of this movement.

Despite similar percentage changes, the different gas price levels led to a decrease in the PSV-TTF spread, which recorded an average of 17 EUR/1,000 cubic metres, compared with 23 EUR/1,000 cubic metres in the first half of 2015, an amount lower than the costs of foreign logistics. This led to a reduction of spot volumes imported from Gries Pass, offset by increasing gas flows under long-term contracts (in Mazara and Tarvisio) and LNG, by virtue of the relative cheapness of import contracts fully discounting the Brent price fall and of the derivative products to which they are indexed.

The market for $CO_2$ emission rights recorded strong fluctuations in the period, standing at 5.7 EUR/ton, a decrease of approximately 21% on the first half of 2015. In particular, in the first quarter of this year, the market had been driven downward by a number of factors on both the demand side (weakness of the electricity sector and the industrial sector) and the supply side (reduction of allowances set aside within the context of backloading). Subsequently, in April, prices were supported by higher trading volumes close to the deadline for the annual compliance on the quotas to be held by the industry. Finally, in June, prices set a new record, reaching their lowest level since April 2013 (4.5 EUR/ton). The bearish attitude was mainly inspired by fears of a possible exit by Britain from the Emissions Trading System (ETS) mechanism, which might result in an exacerbation of oversupply in the market.

# The Italian energy market

## Demand for electric power in Italy and market environment

| 2015 full year | TWh | 1st half 2016 | 1st half 2015 | Change % |
|---|---|---|---|---|
| 270.7 | Net production: | 129.7 | 132.2 | *(1.9%)* |
| 180.9 | *- Thermoelectric* | *83.8* | *83.8* | *0.0%* |
| 44.8 | *- Hydroelectric* | *21.5* | *23.6* | *(8.9%)* |
| 24.7 | *- Photovoltaic* | *11.3* | *13.0* | *(13.1%)* |
| 14.6 | *- Wind power* | *10.1* | *8.9* | *13.9%* |
| 5.8 | *- Geothermal* | *3.0* | *2.9* | *2.7%* |
| 46.4 | Net imports | 22.6 | 22.9 | *(1.7%)* |
| (1.9) | Pumping consumption | (1.2) | (0.9) | *31.4%* |
| **315.2** | **Total demand** | **151.0** | **154.2** | ***(2.0%)*** |

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

In the first half of 2016, total gross demand for electric power from the Italian grid decreased to 151.0 TWh (TWh = 1 billion kWh), or 3.1 TWh less (-2%) than in the same period last year. On a seasonally adjusted basis (i.e., eliminating the impact of changes in the number of business days), the demand level was down by 2.6%.

The downward trend of demand level remained steady during the period and was more pronounced in June, due to lower temperatures compared to the first half of 2015 and a consequent lower use of air conditioning.

National production for the first six months of the year was equal to 85% of demand, in line with the first half of 2015, with net imports covering the remaining 15%.

National production reflects a reduction in hydroelectric output, which decreased by 2.1 TWh (-8.9%). Thermoelectric production is in line with the previous year, as an effect of a significant increase in the output of gas fired plants production balanced by a drop of coal generation.

Production from other renewable sources decreased slightly (-0.4 TWh; -1.6%) compared to the first half of 2015. In particular, the period was characterized by a reduction in photovoltaic generation (-13.1%), partly balanced by the excellent performance of wind production (+13.9%) due to different weather conditions.

Pumping consumption increased substantially rising by 31.4% on the same period of 2015.

With respect to the price scenario at June 30, 2016, the Time Weighted Average (TWA) for the Single National Price (abbreviated as PUN in Italian) held steady at 37.0 EUR/MWh, registering a decrease of 26% on the same period in the previous year (49.9 EUR/MWh).

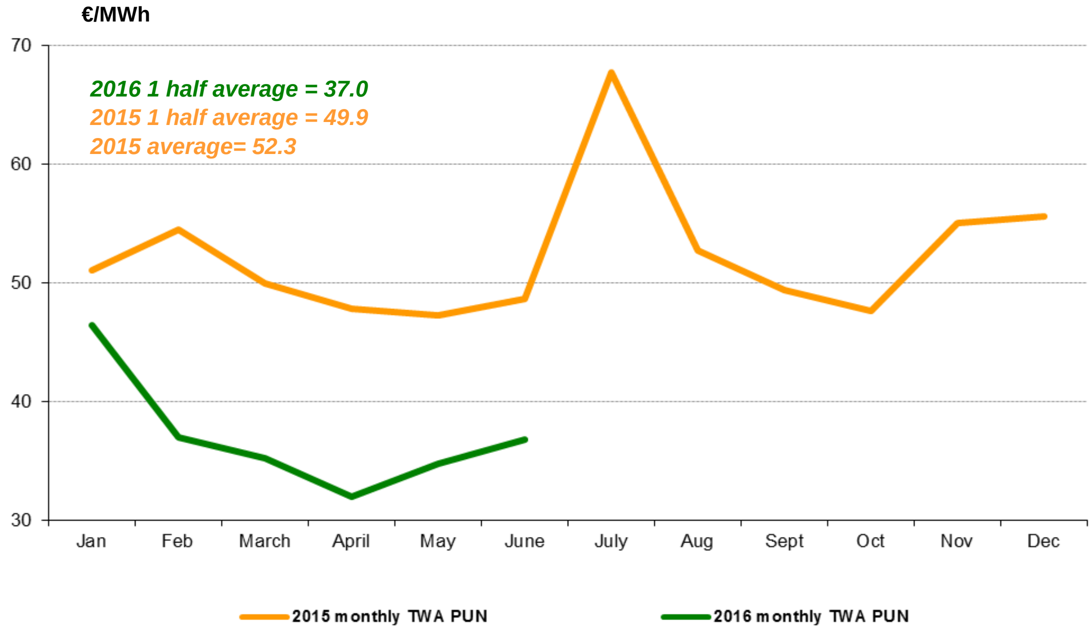
This severe decline fitted into a context of significant decrease in thermal power generation costs (gas and coal), lower demand for electricity and a great availability of renewable energy from wind power.

As for the zone prices, the first half of 2016 showed decreases of 29% in the North and 23% in the South. The entry into operation as of May 28, 2016 of the new Sorgente-Rizziconi power line, which offers a carrying capacity of up to 1,100 MW, contributed to a reduction in the differential with the South zone, which stood at 1.5 EUR/MWh in June 2016, compared with an average of 5.4 EUR/MWh in the first half of 2016 and 8.7 EUR/MWh in the same period last year. However, the effect on the PUN remained limited due to the scant weight of Sicily's load in overall demand.

With respect to the PUN monthly trend, the most significant changes were recorded in February (-32.2% on the same month last year) and April (-33.1% on the same month last year), characterized by higher average temperatures (respectively +3° C and +1.5° C than in the same months of 2015) and a significant drop in thermal power generation costs. In particular, February saw essentially stable electricity demand and high wind potential, while in April lower electricity demand combined with increased availability of renewable generation resulted in an average purchase price of 32.0 EUR/MWh, the lowest since April 2004, i.e. from the launch of the Power Exchange.

A look at the F1, F2 and F3 time brackets reveals, consistently with the foregoing, a decrease in all three of approximately 26% on the first half of 2015, a phenomenon most evident in the months of February and April.

The monthly trend compared with the previous half-year is shown in the following graph:




Similarly, foreign countries too, show a general decrease in prices: France closes first half 2016 with a -29% compared to the same period last year, at 27.3 EUR/MWh, despite the series of national strikes against the labor reform, that caused stopping of several nuclear and thermoelectric plants in May and June. Germany closes at 25.0 EUR/MWh (-21% compared to 2015), thanks to its significant production from wind farms.

## Demand for natural gas in Italy and market environment

| 2015 full year | billions of m$^3$ | 1st half 2016 | 1st half 2015 | Change % |
| --- | --- | --- | --- | --- |
| 28.4 | Services and residential customers | 16.2 | 16.9 | *(4.2%)* |
| 16.0 | Industrial users | 8.6 | 8.4 | *2.7%* |
| 20.8 | Thermoelectric power plants | 10.1 | 9.2 | *10.1%* |
| 1.8 | System usage and leaks | 0.8 | 0.8 | *2.8%* |
| **66.9** | **Total demand** | **35.7** | **35.2** | ***1.3%*** |

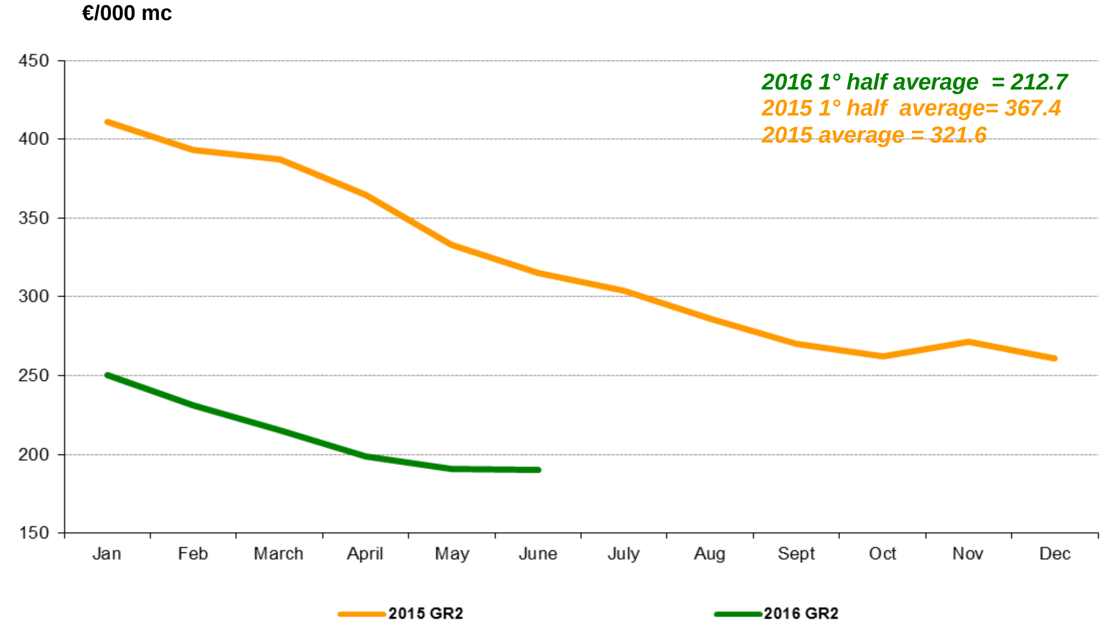
Source: 2015 and preliminary 2016 data Snam Rete Gas, Ministry for Economic Development and Edison estimates.

In the first half of 2016 demand for natural gas in Italy registered an increase of 1.3% over the same period last year, amounting to approximately 35.7 billion cubic metres, an increase of approximately 0.5 billion.
Consumption for residential services and uses decreased on that of last year by approximately 0.7 billion cubic metres (-4.2%) due to mild temperatures in February and April, with consumption in the industrial sector rising, albeit only slightly (+0.2 billion cubic metres, up 2.7%).
Despite the decline in electricity demand, thermoelectric consumption increased significantly (+0.9 billion cubic metres, up 10.1%) due to a fall in production from hydroelectric sources and a pronounced decline in production by coal plants.

In terms of supply sources the first half of 2016 saw, compared with the first half of 2015:

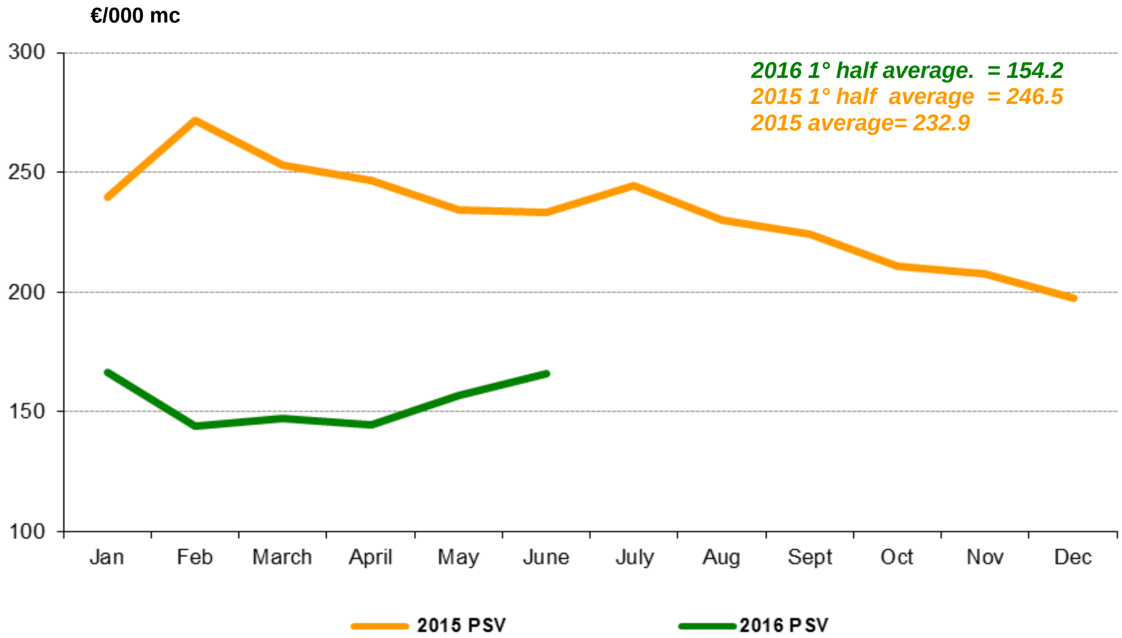
- domestic production down sharply (-0.5 billion cubic metres; -16%);
- increased gas imports (+1.8 billion cubic metres; + 6%);
- lesser volumes withdrawn from the stored gas inventory than in the previous year (1.6 billion cubic metres against 2.5 billion cubic metres in the first half of 2015; -34%).

During the period the indexed gas price (represented in the graph below, which takes as reference the Gas Release 2 formula) recorded an average of 212.7 EUR/1.000 cubic metres, marking a contraction of approximately 42% on the first six months of 2015. Despite the lower price level, the monthly trend of the formula was quite similar to that of 2015 and showed a declining tendency. Notwithstanding the upward movement registered on Brent and oil products, the formula still appeared on the decline due to the time lag with which its components’ movements pass on to the formula. Only in the month of June did the upward effect on prices in the oil market make itself felt, along with that of the euro’s slight depreciation, with indexed gas showing a decrease on May of only 0.1%.




In the first six months of 2016 the spot price of gas in Italy (illustrated in the following graph, which adopts as reference the price at the virtual point of exchange, or PSV) shows a double trend, recording first a downward trend and afterwards, in the second quarter, a slight increase. The average for the first half stands at 154.2 EUR/1,000 cubic metres (-37.4% on the same period in 2015), while the second quarter gained about 2% on the first, in countertendency with the seasonal dynamics.

In the first quarter, in a context of stable demand mainly due to the increase in the thermoelectric and industrial sectors offsetting the reduction in demand for distribution, abundant supply contributed to the drop in prices. During the following three months, however, there was a change of tendency: prices in Europe resumed growth and the PSV followed the European trend.



# Legislative and Regulatory Framework

The main legislative and regulatory measures in the first half 2016 regarding the various areas of the company's business are reviewed below, without commenting on their impacts on the Group which, if material, are the subject of specific comments in the sections dedicated to results and risks.

## Electric Power

### Environment

**Environment law -** Provisions regarding the environment to promote green economy measures and to limit the excessive use of natural resources: law no. 221 of December 28, 2015 (so-called Green Economy law) was published in issue no. 13 of the *Gazzetta Ufficiale* on January 18, 2016 and contains, *inter alia*, innovations in the field of hydrocarbons, additional fee of mountain watershed catchment, waste, land remediation, energy, EIA, air, water, procurement code and minimal environmental criteria, emissions trading, establishment of the new ENEA (national agency for new technologies, energy and sustainable economic development), with a new charter and administrative regulations, and SEU (user efficiency systems).

**Thermal account:** the Decree of the Ministry of Economic Development of February 16, 2016, which updates the thermal account mechanism, was published in issue no. 51 of the *Gazzetta Ufficiale* on March 2, 2016; it introduces a number of simplifications and new technologies promoted by incentives. The decree, which came into force on May 31, provides incentives of 900 million euros per year accessible to public authorities, businesses and individuals. The most significant changes also involve an increase in the dimension of eligible installations, simplification of the procedure of direct access for catalogued equipment, increase of the limit for allocation of incentives in a single instalment, as well as the reduction of payment timing from six to two months.

### Wholesale market

**Resolution No. 101/2016/R/eel -** Initiation of a process to create the measures regarding certain aspects of the Edison Spa network, located in Torviscosa, in accordance with the Authority's resolution No. 539/2015/R/eel: the Electric Power, Gas and Water System Authority (the Authority) initiated a process regarding the Torviscosa electrical network managed by Edison. This process aims to:

a) confirm or exclude the Torviscosa network from the RIU (internal user networks), including through identification of conditions to be met (adjustments to or redrawing of installations' boundaries to bring the network back into line with RIU requirements);

b) in accordance with the decision made pursuant to the foregoing paragraph a), determine any standards needed to quantify and pay the transmission and distribution fees, and the rate components needed to cover the general system charges paid and not due.

Responsibility for the process was given to the Manager of the Markets Division of the Authority, and must be concluded within 180 days from publication of the resolution (made on March 11, 2016).

### Retail market

**Decree of the Ministry of Economic Development of May 13, 2016, no. 94:** the Regulation, published in issue no. 129 of the *Gazzetta Ufficiale* on June 4, 2016, concerns the implementation of article 1, section 154 of the law of December 28, 2015, no. 208 (RAI licence fee included in invoice). It governs the rules for the implementation of the measure introduced by the stability law (law of December 28, 2015, no. 208), which provides for the payment of the RAI (Italian State Television) fee through electricity bills.

## Hydrocarbons

### Rates and market

**Distribution Rates:** with resolution 99/2016/R/gas of March 10, 2016, the final reference rates for gas distribution and metering services for 2015 were determined, calculated on the basis of final financial data for the year 2014. The applications to recalculate the rates and to apply the official rate starting from 2015 were taken into consideration for this determination, as were the applications to adjust volumes and balance sheet data obtaining before February 15, 2016.

With resolution 173/2016/R/gas of April 7, 2016 provisional reference rates were set for distribution services and gas metering, and bimonthly equalization advance amounts regarding the distribution of natural gas were approved for the year 2016.

With resolution 186/2016/R/gas of April 21, 2016 material errors in the Regulation of rates for gas distribution and metering services (RTDG) were rectified, with reference to the UG3 component of the mandatory fee to cover expenses for interruption of service.

**Implementation of EU Regulation no. 312/2014 regarding gas balancing:** the network code for gas balancing in transmission networks (Network Code on Balancing) was established by European Regulation 312/2014 with effect from October 1, 2015, with specific reference to all points of the transmission networks that interconnect the Member States.

On June 16, 2016 the Regulation was adopted in Italy with resolution 312/2016/R/gas, whereby the Authority has taken steps to regulate the implementation aspects of EU Regulation 312/2014, including in the integrated gas balancing text (TIBG) aspects concerning the new balancing regime. This regime will come into force on October 1, 2016, subject to the Authority's power to postpone such date should the conditions of certainty about the rules and operating procedures not obtain, or should suitable time not be accorded to users for the related adjustments.

Among its various aspects, resolution 312/2016/R/gas confirms the maintaining, on a transitional basis, of the "G Session" (ex-post) of the platform for balancing based on storage (PB-Gas). On the matter of imbalance prices, the Authority has published the value of the small adjustment to be used in determining the price of daily imbalance, amounting to 0.108 euros per MWh, and confirms the current administered prices applicable in the event of activation of the gas emergency procedures defined by the MSE (82.8 euros per MWh in case of gas shortage emergency, and zero euro per MWh for an emergency of excess gas in the grid).

Also within the implementation of the Network Code on Balancing, on April 21, 2016 the Authority published resolution 193/2016/R/gas, thus introducing, with the start of the new balancing regime, allocation by auction for storage capacities on a monthly, weekly and daily (day-ahead) basis, as well as the over-nomination (intra-

day) mechanism for the management of contractual congestions in the utilisation of storage capacity. The resolution assigns the storage firms the task of assessing the implementation aspects and, in particular, the operating times of the sessions and the over-nomination mechanisms, also stipulating transitional rules of application in the face of possible difficulties in implementation.
Completion of the framework of rules for both the transmission and storage network codes and the Regulation of GME gas markets is expected in the short term.

**Provisions concerning management of variances at the points of the national gas transmission network interconnected with other countries:** on May 26, 2016 Resolution 270/2016/R/gas was published, by which the Authority updated the regulating of transmission capacity variances at points interconnecting with other countries, in order to render the system more consistent with the product portfolio of currently available capacity.
The previous rules prescribed that in the event of deviations of more than 2 per cent between the capacity allocated and that utilised, the transmission firm should apply a fee equal to 1.125 times the amount of the annual capacity fee, multiplied by the maximum deviation recorded in the month at points interconnecting with foreign countries. Resolution 270/2016/R/gas introduces a distinction between the rules for the points in the north (Tarvisio, Gorizia and Passo Gries) and those in the south (Mazara and Gela). In particular, at the northern points the transmission firm will apply a fee equal to 1.125 times the amount of daily capacity fee, multiplied by the maximum deviation of the day. At the southern points the fee charged will be equal to 1.125 times the monthly amount of the unitary capacity fee multiplied by the maximum deviation recorded in the month. On the basis of the changes introduced by the resolution, therefore, the tolerance threshold of 2% will not be maintained. Consequently, the maximum capacity deviations in a given period (day or month) would be penalized even if less than 2%.
The new rules will be applied as of October 2016, after consultation with Snam Rete Gas for the implementation of the changes to the transmission network code.

**Commencement of a pilot project for capacity allocation at gas transmission grid redelivery points that supply electricity plants**: the Authority has initiated a pilot project for a reform of regulations on capacity allocation at redelivery points of the gas transmission grid supplying electricity plants. The project aims to realize the transition to more flexible and efficient mechanisms of allocation, and initially concerns thermoelectric plants alone, in view of their greater needs of flexibility brought on mainly by the development of renewable sources in electricity generation. Specifically, the resolution provides for the introduction of short-term capacity products, among which the daily product, which must be made available by the transmission firm by January 2017.
Users will thus be able to choose the composition of the portfolio of capacity products that best suits their production needs. Also scheduled is a brief consultation on the value of the daily factoring coefficient, equal to 10 times the amount of the re-proportioned annual payment, concerning which the interested parties may submit comments until July 11, 2016.

Finally, there will be a reduction of the penalties applicable in the event of deviation between the capacity utilised by a user and that allocated in a redelivery point supplying electricity plants (currently calculated on an annual basis).

**Dispute on transmission Rates 2010-2013**: in June the energy Authority published consultation document 321/2016/R/gas "*Compliance with the ruling of the Council of State regarding gas transmission rates for the period 2010-2013 (appeal by Enel Trade) – final guidelines*".
The Authority deemed a second meeting with operators necessary (after a consultation in January), subsequent to the Council of State's decision allowing the appeal by Enel Trade concerning the division of capacity/commodity revenues and the regulation of self-consumption of the rate period 2010-2013, held to be particularly disadvantageous for importers in the South.
Indeed, Enel Trade had appealed to the Lombardy TAR in 2010 against the resolutions establishing the gas transmission rates for the period 2010-2013. When the TAR allowed the appeal (ruling 995/13) the Authority appealed to the Council of State, which however dismissed its motion against the TAR's ruling. The Authority has therefore appealed for a revision of the Council of State's decision with regard to the division of revenues.
In the recent consultation, set to end by July 17, 2016 the Authority reiterates its position on the capacity/commodity division (pending the judge's final ruling) and instead proposes new modalities of fuel gas management for the period 2010-2013, in line with the holdings of the Council of State's decision.

## Infrastructures

**2015 Storage - Rates:** with resolution 66/2016/R/gas of February 25, 2016, the Authority definitively determined the revenues of Edison Stoccaggio for the year 2015, after a long investigation process initiated at the end of 2014, the conclusion of which was protracted because of the Authority's request for more thorough information on the progress of the S. Potito and Cotignola project, underway since 2013 and currently in full phase of organization of its services, in light of the new legislation for the fourth regulatory period (2015-2018) – established by resolution 531/2014/R/gas of October 30, 2014 –, which introduced a significant break with the previous periods.
In substance, with the recent resolution the regulator does not deem the investment made for the San Potito and Cotignola site adequately efficient compared with the services offered, these being assessed on the basis of a comparison of the services solely of space – non-binding – prescribed upon the granting of the storage concession (2009) and those actually made available with the commercial launch in 2015. Within this framework, the regulator has introduced a capex revenue reduction mechanism of the site (calculated on the basis of the ratio investments realised / space services provided), to be applied each year until the completion of the site organization (expected in 2019), while at the same time providing for a partial adjustment of the lower revenues attained, in function of the space services that the concession will ensure when fully operational.
For the year 2015 only, moreover, again on the basis of resolution 531/2014/R/gas, the Authority subordinated the recognition of certain revenue components (depreciation rates and incentive rate) to the site's beginning "commercial" operation, i.e. the date at which the site began to offer commercially its capacity for storage

services (2015), effectively shifting the recognition of said components by one year (from 2016).
In order to protect its interests, on April 20, 2016 the Company appealed against the resolution 66/2016/R/gas with an extraordinary petition to the President of the Republic, and the Authority, by resolution 257/2016/C/gas of May 26, 2016, lodged its "opposition to the extraordinary petition to the President of the Republic made by Edison Stoccaggio, requesting transposition of the matter to the TAR as an ordinary motion, i.e. to be heard in the courts.

**2016 Storage - Rates:** with resolution 265/2016/R/gas of May 26, 2016 Edison Stoccaggio's provisional revenues from storage service in the year 2016 were approved.
The company was recognized a part of the emerging operational costs requested in the rate proposal (0.7 million euros as against 1.6 million euros requested) in order to ensure coverage of costs for a level deemed by the Authority to correspond to that of a company of medium efficiency. The possibilities of legal action are being considered by the company.
The definitive 2016 rates, together with the provisional 2017 rates, on the basis of the rate proposal submitted on May 31, 2016, will be approved by a subsequent measure presumably in the second half of 2016.

**Reimbursement of revenues for storage firms:** with resolution 323/2016/R/gas of June 16, 2016 the Authority defined, as in the previous three years, the mechanisms for reimbursement of revenues by storage companies in case of grant price, in the competitive procedures of capacities allocation, different from the rates for services allocated with non-market criteria.
In addition, the Authority also confirmed for 2016 the value of 1 for the "gamma factor", i.e. the coefficient to be applied to the portion of revenue linked to the return on incentive-encouraged investments which came into operation in previous regulatory periods under the revenue guarantee mechanism.
The establishment of the mechanism that must regulate the fixing of such coefficient, the efficiency index which the storage firms register in the management procedure for capacity allocation, was postponed until after the conclusion of the investigation ordered by the same measure into the state of the services provided by the storage fields in concession to Stogit SpA.
Furthermore, May 6, 2016 saw publication of the decision to refuse Edison Stoccaggio's appeal on the incremental operating costs (CONI) following the investments made in 2009-2010 against resolutions 75/2015/R/gas (regarding 2012-2013 rates) and 126/2015/R/gas (regarding 2014 rates). The company is considering the possibility of appealing to the Council of State.

**Storage auctions for thermal year 2016/2017:** with resolution 77/2016/R/gas of February 29, 2016 the Authority regulated the manner of organization of auction procedures for allocating storage capacity, following the recent consultation 30/2016/R/gas of January 28, 2016 and implementing the Ministerial decree of February 25, 2016. The measure contains prescriptions for storage services for thermal year 2016-2017, defining the criteria for the organization of competitive procedures for the allocation of capacities with respect to the various storage services, for the calculation of reserve prices and of the fees applied to the capacities allocated, along with certain specifications on the procedure of utilisation of the same.
The general layout of the auctions for thermal year 2016/2017 is similar to that of the previous year, with the

allocation of capacities for uniform and peak services, provided by storage firms on the basis of monthly procedures, to be effected in the months up to September 2016 in accordance with a calendar published by those firms (only the calendar for the first auctions has been published by the Ministry of Economic Development). The same procedures apply also for the allocation of the uniform service on a multi-year basis (for Stogit only).

The criteria for calculation of reserve prices have been conveyed with subsequent measures (for Edison Stoccaggio with resolution 85/2016/R/gas), under the obligation of confidentiality. Unlike last year, the reserve prices are determined in line with market conditions also for the multi-year product and for the integrated regasification/storage service.

Moreover, also confirmed are the criteria for the coverage of transmission costs associated with the points of interconnection with the storage units and the modalities for the definition of service and capacity of injection and dispensing, for the various modulation services, including the requirement of publication by the storage firms before the carrying out of procedures.

Edison Stoccaggio has conferred all the modulation capacity (755 million of standard cubic metres) as peak service, within the scope of the first auction concluded on March 16, 2016.

In order to increase availability for users of flexibility resources for the purposes of balancing within the national gas system, with the aforementioned resolution 193/2016/R/gas the Authority has introduced procedures for the allocation and transfer between users of the storage capacity on a short-term basis, or for periods equal to or shorter than a month.

Storage firms have updated their storage codes and submitted them to users for consultation, in order to implement the provisions regarding the new short-term allocation procedures.

The consultations will close by mid-July so as to enable the Authority to approve the aforesaid codes in time for the start of the new gas balancing system, set for October 1, 2016 (resolution 312/2016/R/gas).

## Issues affecting multiple business segment

**Legislative Decree no. 33/2016**, implementing Directive 2014/61/EU containing measures to reduce the installation costs of high-speed electronic communications networks, was published in issue no. 57 of the *Gazzetta Ufficiale* on March 9, 2016.

Said decree establishes the obligation of administrators of physical infrastructures (including gas and electricity distribution/ transmission grids), if so requested by communications network operators, to allow the use of their grids for the realization of broadband/ultra-broadband networks, providing possible synergies from the design stage of the civil engineering works.

**Rules for procurement contracts**: Legislative Decree no. 50 of April 18, 2016 for implementation of directives 2014/23/EU, 2014/24/EU and 2014/25/EU on the awarding of concession contracts, on public procurements and on the procurement procedures of entities operating in the water, energy and transport sectors and in postal services, as well as for the revision of the current rules on public contracts for works, services and supplies was published in the *Gazzetta Ufficiale Serie Generale* no. 91 on April 19, 2016. The provisions contained in the code will be of the self-applying type; there will in fact be no adoption of an execution and implementing regulation, but rather general guidelines to be approved by a decree of the Ministry of Infrastructure and Transport on the proposal of the national anti-corruption authority (ANAC) and after consultation of the competent parliamentary committees, with the aim of ensuring greater transparency, homogeneity and rapidity of the procedures.

Moreover the code, implementing the specific criteria established by the enabling law, innovates the governance of concessions, transposing Directive 2014/23 (which bears, for the first time, a unitary regime) unifying the concessions for works, services and supplies. For so-called “special” sectors, in which are included water, energy, transport, and postal services, there remains a specific regime with ad hoc rules.

**Hydroelectric concession fees for large-scale derivations: Lombardy Region Resolution no. X/5130 of May 9 , 2016 and Lombardy Region Law of December 12 , 2003, no. 26, article 53-*bis*** (Governing of local services of general economic interest. Rules on waste management, energy, use of the subsoil and water resources).

With reference to the process of renewal of large-scale hydroelectric concessions, Lombardy Region has prescribed in art. 53-*bis* of Region law 26/2003, for expiring concessions only, the temporary continuation by the outgoing concessionaire not beyond December 31, 2017 of the operation of the large-scale hydroelectric installations for the time strictly necessary for the completion of the renewal procedures. However, the temporary continuation is subject to compliance with the technical and economic conditions established by resolution of the Regional Council.

In the period of temporary continuation the outgoing concessionaire is thus required to pay to the Region, in the manner and amounts established by the aforesaid Lombardy Region Council’s Resolution no. X/5130 of May 9, 2016, an additional fee apart from the fees, the extra fees and the free supply of power as previously established.

A part of the proceeds of said additional fee shall be transferred to the provinces and municipalities concerned (special conditions applying for those which are riparian) amounting to not less than 50 per cent of the sums collected. The amounts so fixed are intended to contribute to the financing of measures and actions of environmental improvement for the territories concerned. Moreover, an obligation is prescribed for the outgoing concessionaire, during the period of temporary continuation of exercise, to carry out at its own expense the ordinary and extraordinary maintenance operations needed to ensure the full efficiency of facilities and works, inclusive of the operations necessary for safety as specified by the competent bodies. The outgoing concessionaire is required, finally, to convey to the Regional Council, by the dates and in the manner established by the latter, the schedule of the operations to be carried out, expenses for which shall be borne by the outgoing concessionaire.

On July 8, 2016 Edison Spa lodged an appeal with the High Court of Public Waters requesting the invalidation of the aforementioned regional resolution. In particular, it alleged that the estimate of the additional single fee was unlawful in several respects including that of abuse of power by failure to meet preconditions, distortion of facts, violation of the principle of legitimate expectations and violation of several provisions of law.

# ECONOMIC & FINANCIAL RESULTS AT JUNE 30, 2016

## Sales Revenues and EBITDA of the Group and by Business Segment

| 2015 full year | millions of euros | 1st half 2016 | 1st half 2015 | Change | % Change |
|---|---|---|---|---|---|
| | **Electric power operations[1]** | | | | |
| 6,529 | Sales revenues | 2,650 | 3,284 | *(634)* | *(19.3%)* |
| 360 | Reported *EBITDA* | 189 | 203 | *(14)* | *(6.9%)* |
| 276 | Adjusted EBITDA[2] | 122 | 208 | *(86)* | *(41.3%)* |
| | **Hydrocarbons operations[1]** | | | | |
| 5,512 | Sales revenues | 3,111 | 2.717 | *394* | *14,5%* |
| 995 | Reported *EBITDA* | 193 | 47 | *146* | *n.s.* |
| 1,079 | Adjusted EBITDA[2] | 260 | 42 | *218* | *n.s.* |
| | **Corporate Activities and Other Segments[3]** | | | | |
| 49 | Sales revenues | 25 | 24 | *1* | *4.2%* |
| (94) | EBITDA | (42) | (46) | *4* | *8.7%* |
| | **Eliminations** | | | | |
| (777) | Sales revenues | (318) | (406) | *88* | *21.7%* |
| | **Edison Group** | | | | |
| **11,313** | **Sales revenues** | **5,468** | **5.619** | ***(151)*** | ***(2.7%)*** |
| **1,261** | **EBITDA** | **340** | **204** | ***136*** | ***66,7%*** |
| ***11.1%*** | ***% of sales revenues*** | ***6.2%*** | ***3.6%*** | **-** | **-** |

(1) See Value Chain, page 6
(2) Adjusted EBITDA reflect the reclassification of the results of commodities and foreign exchange hedges executed in connection with contracts to import natural gas from the Hydrocarbons Operations to the Electric Power Operations for the portion of gains and losses attributable to them. This reclassification is being made to provide an operational presentation of the industrial results.
The Adjusted EBITDA amount was not audited.
(3) Includes the activities of the parent company Edison Spa not pertinent to the central and transversal management, or not directly linked to a specific business, and certain holding and property companies.

In the first half of 2016 the Group's sales revenues totalled 5,468 million euros, down 2.7% on the same period last year.

EBITDA amounted to 340 million euros (204 million euros in the first half of 2015), an increase of 136 million euros.

Please see the following sections for a more detailed analysis of the individual segments.

## Electric power operations

### Sources

| 2015 Full Year | GWh (*) | 1st half 2016 | 1st half 2015 | % Change |
|---|---|---|---|---|
| **18,481** | **Edison Production:** | **9,079** | **8,969** | ***1.2%*** |
| 14,116 | *- thermoelectric* | *7,260* | *6,713* | *8.1%* |
| 3,378 | *- hydroelectric* | *1,174* | *1,640* | *(28.4%)* |
| 987 | *- wind and other renewable* | *645* | *616* | *4.7%* |
| **70,952** | **Other purchases (wholesalers, IPEX, etc.)(1)** | **36,122** | **35,089** | ***2.9%*** |
| **89,433** | **Total sources in Italy** | **45,201** | **44,058** | ***2.6%*** |

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

### Uses

| 2015 full year | GWh (*) | 1° half 2016 | 1° half 2015 | %change |
|---|---|---|---|---|
| **17,108** | **End customers (1)** | **5,922** | **9,073** | ***(34.7%)*** |
| **72,325** | **Other sales (wholesalers, IPEX, etc.)(2)** | **39,279** | **34,985** | ***12.3%*** |
| **89,433** | **Total uses in Italy** | **45,201** | **44,058** | ***2.6%*** |

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

The Group operates in accordance with a business model prescribing separation of the management of generation (thermal and renewable), sales to end users (business and retail), proprietary trading and purchases and sales activities, meant to ensure appropriate policies for segregation and risk coverage on the portfolios mentioned and to maximize profitability through the optimization thereof.
Within this model Edison's output in Italy totalled 9,079 GWh, a slight increase on the first half 2015; in particular, thermoelectric production showed a rise of 8.1% which reflects the national trend, as for gas fired power plants. As for hydroelectric production, the first half performance showed a significant decrease (-28.4%) due to lower availability of water resources and, in part, to the deconsolidation of the firm Hydros (with effect from January 1$^{st}$, 2016, as already established in the governance agreements with partner SEL), only partly attenuated by the contribution of the Cellina Energy and IDREG Piemonte plants acquired in late May 2016. On the other hand, an increase of approximately 5% in wind power generation and other renewables was registered, thanks to greater windiness in the period.
Sales to end customers were down by 34.7% mainly due to lower volumes sold to the Business and Public Administration segments.
The value of other purchases and sales increased on the same period of 2015; it will, however, be recalled that these items include, in addition to purchases and sales on the wholesale market, purchases and sales on IPEX, characterized by lower unit margins linked to plants' operational bidding modes, the balancing of portfolios and "make or buy" activities.

## Income Statement data

| 2015 full year | millions of euros | 1st half 2016 | 1st half 2015 | % change |
|---|---|---|---|---|
| 6,529 | Sales revenues | 2,650 | 3,284 | *(19.3%)* |
| 276 | Adjusted *EBITDA* (1) | 122 | 208 | *(41.3%)* |

(1) See note on page 29.

Sales revenues for the first half of 2016 amounted to 2,650 million euros and, despite a slight increase in volumes as well as the sales revenues of Fenice (94 million euros), consolidated as of April 1st, 2016, were down 19.3% on the first half of 2015 due to the decline in average sale prices, weighed down by the benchmark scenario (PUN TWA -26%).

The adjusted EBITDA of the first half, which include the Fenice contribution of 18 million euros, totaled 122 million euros (208 million euros in the same period of 2015), registering a decrease of 86 million euros mainly due to further contraction of generation margins. Specifically the thermoelectric sector recorded a significant decline in profitability linked to the contraction in spreads on OTC (over the counter) and MGP/MSD markets, as well as the effect of the phasing linked to some maintenance and to the income from green certificates of some Group's plants.

Also the hydroelectric generation sector was affected by a strong reduction in margins due to the decrease of the PUN as well as to the aforementioned changes in scope (-10 million of euros); these effects were partially compensated by the net income recorded as a result of the exchange of shares of Edison in Hydros and Sel Edison for full ownership of Alperia's firm Cellina Energy.

## Hydrocarbons operations

### Sources of natural gas

| 2015 full year | millions of $m^3$ of natural gas | 1st half 2016 | 1st half 2015 | % change |
|---|---|---|---|---|
| 485 | Production (1) | 241 | 253 | (4.8%) |
| 12,722 | Imports (Pipeline + GNL) | 7,309 | 6,196 | 18.0% |
| 4,172 | Other purchases | 2,914 | 1,255 | n.s. |
| 197 | Change in stored gas inventory (2) | 74 | 339 | (78.1%) |
| **17,576** | **Total sources in Italy** | **10,538** | **8,043** | ***31.0%*** |
| **1,508** | **Production outside Italy (3)** | **758** | **780** | ***(2.8%)*** |

(1) Net of self-consumptions and stated 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 addition to the stored gas inventory.
(3) Counting volumes withheld as production tax.

### Uses of natural gas

| 2015 full year | millions of $m^3$ of natural gas | 1st half 2016 | 1st half 2015 | % change |
|---|---|---|---|---|
| 2,648 | Residential uses | 1,503 | 1,589 | *(5.4%)* |
| 3,385 | Industrial uses | 1,983 | 1,656 | *19.8%* |
| 5,671 | Thermoelectric fuel use | 3,066 | 2,423 | *26,5%* |
| 5,872 | Other sales | 3,986 | 2,375 | *67.8%* |
| **17,576** | **Total uses** | **10,538** | **8.043** | ***31.0%*** |
| **1,508** | **Sales of production outside Italy (1)** | **758** | **780** | ***(2.8%)*** |

(1) Counting volumes withheld as production tax.

Gas production in the first half, including both in Italy and abroad, amounted to 999 million cubic metres, down 3.3% on the same period last year. Production distributed in Italy and that distributed abroad contracted by 4.8% and 2.8% respectively due to natural decline of the production curves.

Total imports of gas (increasing by 1,113 million cubic meters) and, in particular, the Other purchases (increasing by 1,659 million cubic meters) rose strongly to meet the period's higher sales.

Volumes sold totalled 10,538 million cubic meters, an increase of 31% on the first half of 2015. In particular, while sales to residential customers fell by 5.4% (the result of milder temperatures than in 2015), sales for thermoelectric uses posted an increase of 26.5% attributable to greater gas consumption by the Group's and third parties' thermoelectric plants. Sales for industrial uses were 19.8% higher thanks to the acquisition of new customers.

## Crude oil production

| 2015 full year | thousands of barrels | 1st half 2016 | 1st half 2015 | % change |
|---|---|---|---|---|
| 2,546 | Production in Italy | 1,125 | 1,320 | *(14.8%)* |
| 1,808 | Production outside Italy (1) | 1,100 | 805 | *36.6%* |
| **4,354** | **Total production** | **2,225** | **2,125** | ***4.7%*** |

(1) Counting volumes withheld as production tax.

Production of crude oil registered an overall increase of 4.7% in the first half, thanks to an offsetting effect of foreign production (+295,000 barrels, mainly by virtue of output from the UK Scott and Telford fields acquired in May 2015) with respect to Italian production (-195,000 barrels).

## Income Statement data

| 2015 full year | millions of euros | 1st half 2016 | 1st half 2015 | % change |
|---|---|---|---|---|
| 5,512 | Sales revenues | 3,111 | 2,717 | *14.5%* |
| 1,079 | Adjusted *EBITDA* (1) | 260 | 42 | *n.s.* |
| *836* | *- of which gas activities* | *180* | *(103)* | *n.s.* |
| *243* | *- of which Exploration&Production* | *80* | *145* | *(44.8%)* |

(1) See note on page 29.

Sales revenues in the first half of 2016 amounted to 3,111 million euros, an increase of 14.5% on the first half of 2015, thanks to an increase in sales volumes which more than offset the decrease in average selling prices that reflected the downward trend in the oil market.

Adjusted EBITDA for the first half were 260 million euros, up 218 million euros on the first half of 2015. This change is ascribable to the margin achieved by the natural gas buying and selling activities, which resumed posting positive results thanks to the combined effects of the general trend, greater volumes sold and revision of the purchase price of gas imported from Libya following conclusion of the arbitration procedure and the subsequent agreement with ENI from October 2015.

These effects more than offset the decline in margins of the Exploration & Production business by reason of the trend in oil prices which, although showing a slight recovery, remained below 2015 levels.

## Corporate Activities and Other segments

### Income Statement data

| 2015 Full year | millions of euros | 1st half 2016 | 1st half 2015 | change % |
|---|---|---|---|---|
| 49 | Sales revenues | 25 | 24 | *4.2%* |
| (94) | EBITDA | (42) | (46) | *8.7%* |

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

Sales revenues for the first half of 2016 were essentially unchanged from those of the same period of last year while the EBITDA improved by 4 million euros, thanks to the phasing of operating expenses.

## Other components of the Group's Income Statement

| 2015 full year | millions of euros | 1st half 2016 | 1st half 2015 | % change |
|---|---|---|---|---|
| **1.261** | **EBITDA** | **340** | **204** | ***66.7%*** |
| 161 | Net change in fair value of derivatives (commodities and foreign exchange) | (77) | (48) | *(60.4%)* |
| (2,194) | Depreciation, amortization and writedowns | (241) | (300) | *19.7%* |
| (23) | Other income (expense), net | (1) | (11) | *90.9%* |
| **(795)** | **EBIT** | **21** | **(155)** | ***n.s.*** |
| (29) | Financial income (expense), net | (60) | 6 | *n.s.* |
| (38) | Income from (Expense on) equity investments | 3 | (3) | *n.s.* |
| (97) | Income taxes | (20) | (40) | *50.0%* |
| **(959)** | **Profit (Loss) from continuing operations** | **(56)** | **(192)** | ***70.8%*** |
| **(980)** | **Profit (Loss) attributable to Parent Company shareholders** | **(67)** | **(207)** | ***67.6%*** |

EBIT, which totalled 21 million euros, reflects depreciation, amortization and write-downs of 241 million euros and the net change of fair value relative to hedging activities on commodities and on foreign exchange negative for 77 million euros (negative for 48 million euros in the first half of 2015).

Depreciation, amortization and write-downs decreased by 59 million euros in the period, a change mainly attributable to lesser depreciation as a result of write-downs of assets recorded in 2015, to lesser investment in exploration (28 million euros) and to greater net depreciation with respect to the aforementioned changes of scope for Fenice and Hydros (-9 million euros).

The net result from continuing operations was negative for 56 million euros (negative for 192 million euros in the first half of 2015), reflecting net financial expenses of 60 million euros and income taxes of 20 million euros.

Despite a lower level of average debt and a smaller cost of debt, attributable to a diverse mix of financial resources, net financial expenses greatly worsened due to the net foreign exchange losses recorded in the first half of 2016 (after a net profit in the first half of 2015) and 20 million euros as breakage costs for the advance settlement of a long-term loan of a residual value of 400 million euros, granted to Edison Spa by EDF IG Sa.

It will be recalled that income taxes of the first half of 2015 included the negative effect of 68 million euros arising from the ruling of unconstitutionality of the "Robin Hood" tax, following which the deferred tax assets and the provision for deferred taxes relative to the IRES (corporate income tax) surcharge of 6.5% were eliminated.

## Net financial debt and cash flows

Net financial debt at June 30, 2016 stood at 1,067 million euros, down by 80 million euros from the 1,147 million euros recorded at the end of December 2015.

More detailed information about the main components is provided in the section "Net Financial Debt" in the Condensed Consolidated Semiannual Financial Statements.

The following table gives a view of the change in net financial debt:

| 2015 full year | millions of euros | 1st half 2016 | 1st half 2015 |
|---|---|---|---|
| **(1,766)** | **A. NET FINANCIAL (DEBT) AT BEGINNING OF PERIOD** | **(1,147)** | **(1,766)** |
| 1,261 | EBITDA | 340 | 204 |
| 38 | Elimination of non-cash items included in EBITDA | (47) | 11 |
| (45) | Net financial expense paid | (44) | (7) |
| (120) | Net income taxes paid (-) | (221) | (45) |
| 8 | Dividends collected | 11 | 5 |
| (16) | Other items from operating activities | (39) | (89) |
| **1,126** | **B. CASH FLOW FROM OPERATING ACTIVITIES** | **0** | **79** |
| 19 | Change in operating working capital | 495 | 469 |
| 40 | Change in non-operating working capital | (27) | (140) |
| (535) | Net investments (-) | (382) | (261) |
| **650** | **C. CASH FLOW AFTER NET INVESTMENTS AND CHANGES IN WORKING CAPITAL** | **86** | **147** |
| (93) | Dividends paid (-) | (32) | (54) |
| 62 | Other items | 26 | (6) |
| **619** | **D. NET CASH FLOW FOR THE PERIOD** | **80** | **87** |
| **(1,147)** | **E. NET FINANCIAL (DEBT) AT END OF PERIOD** | **(1,067)** | **(1,679)** |

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

- the change in working capital which registered a strong improvement thanks mainly to the collection of remaining credit resulting from the arbitration with ENI concerning Libyan gas for more than 500 million euros.
- The change in net investments, which absorbed cash for -382 million euros mainly attributable to:
  - the consolidation of Fenice (-159 million euros).
  - The deconsolidation of the net liquidity of Hydros (-34 million euros).
  - The conclusion of the swap of Edison's stakes in Hydros and Sel Edison for full ownership of Alperia's firm Cellina Energy (net positive impact of 32 million euros).
  - The acquisition of nine mini-hydro plants from IDREG Piemonte for 36 million euros.
  - Investment business of 187 million euros, mainly regarding the Exploration & Production segment. In particular, investments in Italy concerned development activities in the north-west Clara field (15 million euros) and Ibleo (3 million euros).

    Investments abroad concerned: Algeria for development activities for the Reggane concession (40 million euros), Egypt for the Abu Qir concession, where construction works continued on the NAQ PIII platform (26 million euros), Egypt for exploration licences for North Thekah, South Idku and North Port Fouad for an increase of shareholding (10 million euros); Norway for the Zidane concession, for construction of the Polarled pipeline which will link Zidane with the mainland (6 million euros); Britain for development works in the Scott and Telford oil fields (6 million euros).

    Investments for exploration of approximately 41 million euros were also made: in Egypt (16 million euros) for activities in the East Med areas and the onshore Nile Delta; in Norway for the drilling of the Aurelia exploration well (7 million euros) and the Ornen well (2 million euros); in the Falkland Islands for exploration for hydrocarbons in the North area (3 million euros); in Greece for studies regarding the Gulf of Patras exploration licence (3 million euros).

## Outlook and expected year-end results

Taking into account the results for the first half of the year and considering current market conditions, 2016 EBITDA are confirmed at approximately 650 million euros, including Fenice contribution for 9 months, equal to about 60 million euros. It should be recalled that the 2016 EBITDA will not benefit from the extraordinary components recorded in 2015 (Libyan contract arbitration).

# Edison Spa

## Financial Highlights

| 2015 full year | millions of euros | 1st half 2016 | 1st half 2015 | % Change |
|---|---|---|---|---|
| 5,517 | Sales revenues | 3,125 | 2,664 | *17.3%* |
| 662 | EBITDA | 63 | (148) | *n.s.* |
| *12.0%* | *% on Sales Revenues* | 2.0% | *n.s.* | - |
| (535) | EBIT | (52) | (323) | *83.9%* |
| *n.s.* | *% on Sales Revenues* | *n.s.* | *n.s.* | - |
| (776) | Net profit (loss) from continuing operations | (20) | (203) | *90.1%* |
| - | Net profit (loss) from discontinued operations | - | - | - |
| (776) | Net profit (loss) | (20) | (203) | *90.1%* |
| 120 | Capital expenditures | 69 | 45 | *53.3%* |
| 5,029 | Net invested capital | 4,767 | 6,374 | *(5.2%)* |
| 410 | Net financial debt | (297) | 867 | *n.s.* |
| 4,619 | Shareholders' equity | 5,064 | 5,507 | *9.6%* |
| 0.09 | Debt/Equity ratio | n.a. | 0.16 | - |
| 1,473 | Number of employees | 1,473 | 1,500 | - |

Pursuant to Consob Communication No. DEM/6064293 of July 28, 2006, the tables that follow provide a reconciliation of profit (loss) attributable to the Group for the period and the shareholders' equity attributable to Shareholders of the controlling company at June 30, 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 | 1st half 2016 | 1st half 2015 |
|---|---|---|
| **Net result of Edison Spa** | **(20)** | **(203)** |
| Intra-Group dividends eliminated in the consolidated financial statements | (48) | (62) |
| Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa | 69 | 85 |
| Valuation of investments in associates measured by the equity method | 4 | - |
| Other consolidation adjustments | (72) | (27) |
| **Group interest in net result** | **(67)** | **(207)** |

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

| millions of euros | 06.30.2016 | 12.31.2015 |
|---|---|---|
| **Shareholders' Equity of Edison Spa** | **5,064** | **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 | (1,250) | (944) |
| - Recognition of the shareholders' equities of consolidated companies | 2,170 | 1,914 |
| Valuation of investments in associates measured by the equity method | 43 | 41 |
| Other consolidation adjustments | (105) | (191) |
| **Shareholders' equity attributable to the shareholders of the controlling company** | **5,922** | **5,439** |

# Risks and uncertainties

## Risk management at the Edison Group

Edison has developed an integrated corporate model of risk management based on the international principles of Enterprise Risk Management (ERM), particularly the COSO framework, whose main purpose is to adopt a systematic approach in identifying a company's priority risks, assessing their potential adverse effects and taking the appropriate actions to mitigate them.

To this end Edison has adopted a methodology for risk mapping and risk scoring, which classes a given risk in a relevance index in function of global impact assessment, probability of occurrence and level of control, and a Business Risk Model, developed on the basis of the industry's, and international, best practices, which comprises within an integrated framework the various types of risks inherent in the Group's business:

- risks linked to the external environment, depending on the market conditions and the competitive environment in which the Group operates, as well as on the evolution of the political, legislative and regulatory context;
- operational risks, linked to company processes, structures and management systems, in particular with respect to production and marketing activities;
- strategic risks, related to the establishment and implementation of the Company's strategic guidelines.

In particular, under the coordination of the Risk Office, the heads of the various departments identify and assess their respective risks through a Risk Self-Assessment process, providing an early indication of the mitigation actions associated with such risks. The results of the process are then consolidated at the central level in a mapping, in which the risks are prioritised on the basis of the resultant scoring and aggregated in order to facilitate coordination of the mitigation plans consistent with an integrated risk management approach.

The process of Enterprise Risk Management is closely linked to the medium and long-term planning process with the aim of associating the Group's overall risk profile with prospective profitability resulting from plan/budget. The ERM results are conveyed on predetermined dates during the meetings of the Control and Risk Committee and the Board of Directors, and are used by the Internal Audit Department as elements of information for the preparation of specific risk-based audit plans.

The overall results of the process as concerns the half-year just ended are illustrated below in the section "Risk Factors" are while the section "Financial risks" shows the main elements relating to risks deriving from commodity prices, foreign exchange rates, credit, liquidity and interest rates, for which specific tools have been developed over the years to manage and limit the impact on the Group's economic-financial equilibrium.

For more details on these risks please refer to the information for IFRS 7 purposes in the section "Financial Risk Management" in the Condensed Consolidated Semiannual Financial Statements at June 30, 2016.

# Risk Factors

## 1. Risks related to the external environment

### Legislative and regulatory risks

A potential source of uncertainty for Edison is the constant evolution of the legislative and regulatory framework affecting the functioning of markets, rate planning, requisite service quality levels and technical and operational compliance.

In this regard Edison is involved in continuous monitoring and constructive dialogue with the national and local institutions in order to develop opportunities for discussing and promptly assessing regulatory modifications, mindful of minimizing their economic impact.
Amidst the current regulatory evolution, described in the section “Legislative and Regulatory Framework”, the most significant risk factors are:

- the renewal of the large-scale hydroelectric concessions, the governing of which was extensively revised by art. 37 of Decree-Law no. 83 of June 22, 2012 on “urgent measures for the growth of the country” (converted into Law no. 134/2012). In particular, studies are now underway at the Ministry of Economic Development in order to complete the regulatory framework and the detailed governance of the procedures for renewal of hydroelectric concessions;
- the new system of remuneration of production capacity, and in particular the transitional system for which the Authority has proposed to the Ministry of Development, with resolution 95/2015/I/eel, to bring forward to 2017 the effects of the mechanism, whose criteria are still being defined.

### Market and competitive environment

The energy markets in which the Group operates have for the past few years been experiencing conditions of excess supply and persistent contraction energy commodities prices, putting considerable pressure on volumes and distribution margins, adversely affected also by high competitive pressure.
In the Italian electricity market the situation of overcapacity mainly affects gas thermal power generation, which accounts for a significant share of the Group’s production mix. The Group, for that part of generation related to hydroelectric concessions of major diversions, is exposed as well to risks inherent in the aforementioned revision of the regulatory framework and in the competitive tenders for the renewal of expired or expiring concessions. In addition, technological changes in the electricity sector could make certain technologies/services more competitive than those which constitute the Company’s activities. In order to mitigate this risk, Edison constantly monitors and assesses the development of new technologies; for an in-depth discussion of these please refer to the section “Innovation, research and development”, of this Semiannual Report on Operations at June 30, 2016.
In the natural gas market, demand is confirmed to be at low levels. Specifically, in the first half of 2016 the drop in consumption in the residential sector due to mild weather was offset by greater consumption in the thermoelectric sector, which, in turn, benefited from a decrease in the supply of water. In this context, an important element of mitigation of the changes in the energy scenario and in market conditions, is represented by the price renegotiation clauses of long-term gas supply contracts. With respect to such contracts, Edison has successfully completed both the first and the second cycle of price renegotiation; moreover, during the first

half of 2016 it signed an agreement with ENI for a revision of the price formula in the long-term contract for gas supply from Libya, as part of the price review initiated by the supplier late in 2015.

### Country risk

The Edison Group's presence in international markets, involving activities of electricity distribution as well as those of exploration for and production of hydrocarbons, exposes the Company to a set of risks deriving predominantly from differences of a political, economic, social, regulatory and financial type with respect to the home country. Currently, the areas of greatest importance for the Group are Greece – where Edison, through Elpedison Sa, produces and distributes electricity in a joint venture with Greek partner Hellenic Petroleum – and Egypt, where the company is as an operator in the production of natural gas and oil through its exercise of the Abu Qir offshore concession.

- In Greece, political and financial stability is heavily dependent on aid from European and international institutions, the granting of which is conditional on the government's implementation of a programme of reforms. As regards the energy sector, the European Commission and the Greek Parliament have recently approved the adoption of a temporary mechanism, to last for one year, for the remuneration of production capacity for certain types of electricity generation plants, including those of Elpedison Sa with combined gas cycles offering an installed capacity of approximately 800 MW. Definitive plans for a permanent similar system are expected in 2017. In this context, the Company constantly monitors the political and economic context of the country, in which the Group was exposed as follows at June 30, 2016:

| | **millions of euros** |
|---|---|
| Financial credit with the investee | 79 |
| Guarantees provided | 27 |
| Holdings | 6 |
| **Total** | **112** |

- In Egypt there has been a deterioration in the political and economic situation as a result of the expansion of the Islamic State in strategic zones of the region and the occurrence of protests and unrest due to the continuing economic difficulties. The financial assistance provided by some Gulf countries, crucial in recent years in order to avoid a default by the country, may, in view of the trend in oil prices, be subject to reductions in the coming months. In this context the Group constantly monitors the political and economic framework, regarding which the most significant uncertainties relate to the depreciation of the local currency and the security conditions in which the Company operates, taking the most appropriate measures.

## 2. Operational risks

### Processes, structures and business management systems

Edison's core business involves the construction and operation of plants producing electricity and technologically complex hydrocarbons, interconnected along the entire value chain, the management of storage centres, the development of gas infrastructures, the sale of energy efficiency services and solutions and the sale of electricity and gas on the end and wholesale markets. These activities, which may also call for the involvement of third parties, expose the Company to risks deriving from the possible inadequacy of internal processes and organizational support structures, or from external events such as malfunctions or unavailability of equipment and machinery. These risks may have potential repercussions on the profitability, efficiency of operations and/or reputation of the Company itself.

The policy for managing these risks calls for the adoption of specific security and quality standards, compliance with international and domestic legislation and with local bodies' requisites regarding the business, tasks for improving the quality of processes in the various company departments, with particular attention to services offered to the customer. Any crisis events are managed in accordance with specific internal guidelines aimed at achieving the rapid and effective mastering of situations liable to result in harm to persons and the environment or to the facilities and reputation of the Company.

As for the management of environmental and security risks, please see the section "Health, Safety and Environment" of this Semiannual Report on Operations at June 30, 2016.

### Information Technology

The Group's various activities and business processes are supported by complex information systems. Risk aspects concern the adequacy of such systems, the availability and the integrity/confidentiality of data and information.

With regard to the first point, 2016 has seen the start of the "Digital Transformation" programme for the Marketing, Sales & Energy Services Division with the aim of providing instruments constantly more in line with the needs of customers. This programme, divided in different project streams, will continue for approximately two years. In addition, in the second half of 2016 certain large projects launched in 2015 will be finalized; among these are the adjustment of the management systems of the gas and power business in line with the new directives and the development of a new computer system to support the rolling forecast process.

As regards the risk of unavailability in the event of a systems fault, Edison is equipped with hardware and software architectures of high reliability configuration for applications to support critical activities, as well as a business continuity solution. Particularly important with respect to this risk is the complex project of migration of the company's IT system from the present data center to that of EDF, which will be concluded in 2017 and for which the preliminary tasks were completed in the first half of 2016.

Finally, the risk to the integrity/confidentiality of company data and information and availability in the face of a cyber attack is mitigated with the adoption of high standards and security solutions; subsequent to a study carried out in 2015, on January 1, 2016 an SOC (Security Operation Center) service, designed to prevent and deal with new forms of cyber-attacks, was activated.

## 3. Strategic risks

The development of the Edison Group's core business involves recourse to investments, acquisitions and certain targeted divestments, as part of a rationalization strategy for the overall portfolio and a constant adjustment to the competitive environment: the ability of the Group to strengthen its core activities in the markets in which it operates depends on the effective implementation of such initiatives.

In particular, with regard to direct investments, these typically carry a risk of possible increases in operating and investment costs, as well as of possible delays in starting commercial operations, partly due to uncertainties about authorizations, with consequent impact on the profitability of the initiatives involved.

On the other hand, the strategy of development through acquisitions depends on the availability in the market, on acceptable terms, of opportunities conducive to the development of the Group's core business and on the Company's ability to identify them promptly, efficiently integrating the assets so acquired into the Group's activities.

In order to minimize such risks, the Company has adopted a number of internal procedures to monitor the various investigative and assessment phases of investment initiatives. These include, in addition to the appropriate formalized procedures, due diligence operations, binding contracts, multilevel internal authorization processes, tasks of project risk assessment, project management and project control.

## Financial risks

### Commodity price risk

The Edison Group is exposed to the risk of fluctuations in the prices of all energy commodities handled, which act both directly and indirectly through indexing mechanisms contained in pricing formulas. In addition, since some of the aforementioned commodity prices are denominated in foreign currency, the Group is also exposed to currency risk.

The tasks of managing and controlling these risks are governed by the Energy Risk Policy, which provides for the establishment of specific risk limits in terms of economic capital and the use of financial derivative instruments commonly utilized in the market in order to contain exposure within the fixed limits.

Also within the Edison Group's core business, physical and financial commodities trading activities have been approved, authorized in accordance with appropriate procedures and segregated at their inception in special trading portfolios, monitored on the basis of stringent risk limits, compliance with which is verified by an organizational unit independent of those carrying out the transactions.

### Foreign exchange risk

The Group's operations in currencies other than the euro, along with its development strategies in international markets, expose the Company to the effects of variations in exchange rates. The guidelines regarding the governance and strategies for mitigating exchange rate risk generated by such business are outlined in specific policies, which describe the objectives in managing exchange rate risk in function of its different nature.

The Company employs a management model of the centralized type, whereby the parent company ensures a constant overseeing of the Group's economic-financial equilibrium thanks to a steady monitoring of exposures, and the implementation of suitable hedging strategies and currency provisions aimed at containing them.

### Credit risk

With respect to potential losses arising from non-fulfilment of obligations assumed by the various counterparties with which the Company does business, the Group has for some time employed procedures and tools for assessment and selection of its counterparties on the basis of credit standing, continuous monitoring of exposure to the various counterparties and implementation of appropriate mitigation measures, mainly aimed at recovery and transfer of receivables.

### Interest rate risk

The Edison Group, exposed to fluctuations in interest rates predominantly with regard to the size of debt servicing costs, regularly assesses its exposure to the risk posed by interest rate changes and manages it mainly by determining, during negotiations, the characteristics of financing.

### Liquidity risk

Liquidity risk lies in the possibility that the financial resources available to the Company will not be sufficient to meet financial and commercial obligations within established conditions and dates. The policy for managing this risk, integrated at EDF group level, aims both to ensure availability of sufficient credit for the Edison Group to meet short-term financial maturities and to consolidate the sources of the provision.

### Provisions for Risks and Charges

In addition to the disclosures provided above concerning risk management and mitigation activities, whenever it incurs current obligations arising from past events, which can be of a legal or contractual nature or implied by Company declarations or conduct such as to create in a third party a valid expectation that the Company will be responsible or assume responsibility for the performance of an obligation, the Edison Group sets aside appropriate amounts in special provisions for risks and charges, which are shown among the liabilities on the balance sheet (see also the Notes to the Condensed Consolidated Semiannual Financial Statements). Specifically, Group companies have become parties to judicial proceedings and tax disputes, a description of which is provided in the section entitled “Risks and Contingent Liabilities Associated with Legal and Tax Disputes,” within the “Commitments, Risks and Contingent Assets” chapter of the Condensed Consolidated Semiannual Financial Statements at June 30, 2016.

# OTHER RESULTS FROM OPERATIONS

## Innovation, research and development

The activities portfolio of the Research, Development & Innovation department (RD&I), concerning both the electricity sector and that of hydrocarbons, is focused on the challenges arising from the continually changing context of the business.

Identifying and evaluating innovative solutions that will be applicable not only in the short term is the mission pursued by RD&I through studies, experimentation, assessment and development, carried out in close coordination with other departments and with the Research and Development structure of the EDF Group.

These activities may be grouped in the themes of growing digitalization (also in the energy sector), an ever broader adoption of smart solutions and the recognition of energy efficiency as an important driver of new services. By way of example, for the first theme one may cite the work based on Computational Intelligence techniques, for the second the tests on storage systems paired with photovoltaic installations and, for the third, the development of solutions to improve the efficiency and qualification of consumption that make possible new services for residential customers and for micro and small businesses.

As part of the policy on innovation recently adopted by Edison, RD&I has assumed the role of guiding and monitoring the initiatives, contributing with its expertise to support the development of projects through the Innovation Lab; this is a set of teams born spontaneously of the initiative of Edison associates which, in order to propose and develop innovative ideas and projects, gather together, on a voluntary basis, other human resources and specialist skills. RD&I proposes and manages techniques and operational methods to gauge and objectify the Innovation Lab’s results.
RD&I’s competencies are enhanced by numerous collaborations with industrial and academic partners, as well as with the international research structure of the EDF Group.

# Health, safety and environment

Below are the main results achieved in the first half of 2016 and the projects under development:

## Safety performance trend

As in past years, there has been a firming up of the choice to manage accident prevention and the promotion of a health and safety culture in the workplace with a global and integrated approach, taking into account both Edison and supplier personnel and broadly assigning to all managers objectives for improving on the average results of the last three years.

Following the consolidation of Fenice in Edison, which occurred in April, it was agreed to consolidate the overall safety indicators considering, however, the entire year concerned and, therefore, starting from the month of January 2016 and reconstructing a datum of reference for 2015.

Consequently, the first half of 2016 ended with the overall Injury Incidence rate for activities in Italy and abroad of 1.8, an improvement on the 2015 figure (2.4). In detail, the Injury Incident rate for Company personnel stood at 1.5 (1.8 in 2015) while that for employees of external companies was 2.6 (4.3 in 2015).

The Lost workday incidence rate in the first half of 2016 was 0.14, essentially in line with that of 2015 (0.13).

## Management of health, safety and the environment

Below is a description of the main activities in the first half 2016.

- All duties as per the regulations covering the field of health, safety and environment were discharged, in particular the updating of risk assessments and the holding of regular safety meetings, at which the state of progress of training processes and the macro results of health supervision carried out on employees were presented. In addition, the deadlines set by national environmental laws, concentrated in the first six months of the year, were respected in terms of both time and quality.
- There was successful completion of certain of the required visits for inspection and/or renewal of management systems certified in accordance with standards UNI EN 14001 (for the environment), BSI OHSAS 18001 (for health and safety) and UNI EN ISO 9001 (for quality). In addition, where applicable, the required audit visits regarding the keeping of EMAS environmental records were received. In particular, external audits were carried out in the Hydroelectric Division, the Thermoelectric Division and the Research and Development Division (integrated system for environment and safety), the Engineering Department (integrated system for quality, environment and safety), and the management sites of common use (safety management system).
- February saw a full internal review of the management systems for environment and safety, in line also with the organizational model and the specific protocols of Legislative Decree 231/2001; the targets for 2016 were set and the internal audit programme and the cross-training activity of the Environmental Protection, Safety and Quality (PASQ) professional family were approved. One of the important commitments to begin in 2016 concerns the launch of the PASQ academy, through workshops on specific matters supported by digitizing tools.
- There were no accidents with impact on environmental matrices (soil, subsoil, surface water and biodiversity) in the first half of 2016

- Tasks continued for the characterization and the rendering safe and reclaiming of sites, most of them high profile industrial areas, potentially polluted by past activities, sold and/or decommissioned. In this context it will be noted that, following the authorization obtained in 2015 from the respective authorities, activities for the operational remediation project at the firm Nuova Alba's site in Dogaletto have started; this project, which involves biodegradation of the contaminants present, will be completed in the course of 2016.
- The process of gathering and analysing the environment and health and safety data required for the preparation and release of sustainability reports, either by Edison or by the EDF Group, was completed.

# Human resources and industrial relations

## Human resources

The total number of employees of the Edison Group at June 30, 2016 stood at 5,047, as against the 3,066 at December 31, 2015. The increase of 1,981 was due mainly to changes in scope, particularly:

- acquisition of the Fenice Group, 2,067 employees;
- acquisition of Cellina Energy Srl, 29 employees;
- acquisition of business unit from Idreg Piemonte Spa (company in liquidation), 10 employees;
- deconsolidation of the company Hydros Srl, 76 employees.

## Industrial relations

In the first half of 2016 the activities regarding the difficult situation in the thermoelectric sector continued, with particular reference to the impact in terms of management and organization.

In particular:

- on February 9, 2016, after thorough discussion with the area trade unions, a written agreement was signed providing for the introduction of a new organization of work at the Marghera Levante plant, and in the subsequent months numerous monitoring meetings were held so as to make possible its effective operation;
- on March 31, 2016, expiry date of the extraordinary redundancy fund, the reassignment programme for workers of the San Quirico plant (PR), placed in a state of preservation in 2015, was successfully completed;

In June 2016 agreements were signed regarding:

- the final recording of company results for the year 2015 (profitability and productivity) as prescribed by the agreements on Result/Productivity bonuses of the Electricity, Energy-Oil & Gas-Water sectors;
- the new working hours, consistent with the legislative amendments requested by the Authority for Electricity, Gas and Water Systems, for the personnel of the Milan office assigned to the tasks of Nomination and Balancing of the Short Term Gas Supply & Logistics business unit.

Also during the first half of the year negotiations continued for the renewal of the national collective agreement for the Electricity, Energy-Oil & Gas-Water sector (which formally expired on December 31, 2015).

## Organization and employee services

The main organizational changes during the period were as follows:

- completion in January 2016 of the corporate, organizational and managerial restructuring of Edison's exploration and production activities in the UK, now entrusted to the firms Edison E&P UK Ltd and Euroil Exploration Ltd.
- the firm Edison DG Spa, adapting to the regulatory requisites with respect to the unbundling of regulated gas business, became Infrastrutture Distribuzione Gas Spa.
- in April 2016 Edison, in the context of a more comprehensive reorganization of EDF's activities in Italy, completed the acquisition of 100% of the share capital of the company Fenice Qualità per l'Ambiente Spa, which in turn is the parent firm of other subsidiaries and affiliates comprising the EDF Fenice Group.
- in the Gas Midstream, Energy Management & Optimization Division the structures and responsibilities of the Short Term Gas Portfolio Management & Logistics business unit were redefined.
- on May 10, 2016 the Board of Directors of Edison Spa adopted an updated version of the Company's Organization and Management Model, pursuant to Legislative Decree no. 231/2001 (231 Model). Its Protocols were modified to include new environmental crimes as well as a number of updates with respect to the management and use of company IT systems and accounting and financial reporting.
- At the end of May 2016 Edison Spa acquired the business unit of the firm Idreg Piemonte Spa made up of small hydroelectric plants in various localities of Piemonte and Friuli Venezia-Giulia, and completed the acquisition of Cellina Energy Srl, which holds and operates a set of twenty-three hydroelectric plants in Friuli Venezia-Giulia. These plants have been integrated into the Power Asset Management Division and entrusted to its Hydroelectric department.

With regard to services for employees, the Company has kept on with its commitment to the social programme "Edison per Te", which seeks to help balance employees' personal and professional needs in order to improve their quality of life. The programme continues to receive a very positive assessment from employees: more than 94% find it highly useful, very useful or quite useful, as evidenced by the results of the annual My EDF survey of 2015, presented in the first months of this year. Through the same survey, conducted by the firm IPSOS, the range of services and the pension coverage and health and casualty insurance offered to employees attained a very high level of satisfaction – 84% –, higher than the average at other major Italian companies.

## Training and development

Development and training activities in the first half of 2016 saw the usual start of institutional training tracks dedicated to young graduates and professionals. Among these was the advanced course in Energy Business and Utilities, a programme created by Edison in collaboration with MIP Politecnico of Milan, designed for a group of 28 young Edison professionals with the aim of strengthening their skills by providing an integrated view of the company and the markets in which it operates, with a renewed perspective on the final customer and on innovation.

Also launched was the training programme on the new Anticorruption Guidelines, which aims to disseminate the principles and rules of conduct for all Edison employees in Italy and abroad through innovative and dynamic e-learning structured around "case studies" which highlight some of the possible instances of corrupt behaviour liable to occur in company activities.

Management training saw the start of a programme dedicated to newly appointed leaders, with a view to consolidating the company's management training platform, Ecampusmanagers, especially focused on the substance of the current economic panorama and on innovation. Also, the collaboration with the Group's Corporate University, active in all leadership and managerial programmes, continued.

As for the "professional family" competencies, in addition to the structural activities of the Market Academy, there was a continuation of certain specialized training programmes, in particular Nautilus, encompassing the geosciences and subsurface studies and involving professionals in Exploration and Production and Research and Development at the international level.

Also created was the internal teaching programme on the Edison procurement process, aiming to provide participants with an overview of the company's procurement process and systems, consolidating activities on the SAP operating system by means of practical simulations.

Finally, to aid in familiarization with and understanding of the operational logics of the Company's new Intranet, launched in May 2016, a physical and digital training campaign was organized to illustrate the possibilities and opportunities offered by the new digital collaborative tools.

# OTHER INFORMATION

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

- at June 30, 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 period, either directly or indirectly through nominees or other third parties;
- in the period the Group executed transactions with related parties, a description of the most significant is provided in the section "Intercompany transactions and transactions with related parties" contained in the Condensed Consolidated Semiannual Financial Statements;
- no secondary registered offices were established in the period.

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.

# CONDENSED CONSOLIDATED SEMIANNUAL FINANCIAL STATEMENTS

## at June 30, 2016

## Income Statement

| (in millions of euros) | See Note | 1st half 2016 | of which related parties | 1st half 2015 | of which related parties |
|---|---|---|---|---|---|
| Sales revenues | 1 | 5,468 | 314 | 5,619 | 235 |
| Other revenues and income | 2 | 96 | 1 | 70 | 1 |
| **Total net revenues** | | **5,564** | **315** | **5,689** | **236** |
| Raw materials and services used (-) | 3 | (5,089) | (242) | (5,372) | (147) |
| Labor costs (-) | 4 | (135) | | (113) | |
| **EBITDA** | 5 | **340** | | **204** | |
| Net change in fair value of commodity derivatives | 6 | (77) | | (48) | |
| Depreciation, amortization and writedowns (-) | 7 | (241) | | (300) | |
| Other income (expense), net | 8 | (1) | | (11) | |
| **EBIT** | | **21** | | **(155)** | |
| Net financial income (expense) | 9 | (60) | (7) | 6 | 76 |
| Income from (Expense on) equity investments | 10 | 3 | (2) | (3) | (5) |
| **Profit (Loss) before taxes** | | **(36)** | | **(152)** | |
| Income taxes | 11 | (20) | | (40) | |
| **Profit (Loss) from continuing operations** | | **(56)** | | **(192)** | |
| Profit (Loss) from discontinued operations | | - | | - | |
| **Profit (Loss)** | | **(56)** | | **(192)** | |
| Broken down as follows: | | | | | |
| Minority interest in profit (loss) | | 11 | | 15 | |
| **Group interest in profit (loss)** | | **(67)** | | **(207)** | |
| Earnings (Loss) per share (in euros) | 12 | | | | |
| Basic earnings (loss) per common share | | (0.0132) | | (0.0406) | |
| Basic earnings per savings share | | 0.0250 | | 0.0250 | |
| Diluted earnings (loss) per common share | | (0.0132) | | (0.0406) | |
| Diluted earnings per savings share | | 0.0250 | | 0.0250 | |

## Other Components of the Comprehensive Income Statement

| (in millions of euros) | See Note | 1st half 2016 | 1st half 2015 |
|---|---|---|---|
| **Profit (Loss)** | | **(56)** | **(192)** |
| **Other components of comprehensive income:** | | | |
| **A) Change in the Cash Flow Hedge reserve** | 24 | **287** | **189** |
| - Gains (Losses) arising during the period | | 424 | 276 |
| - Income taxes | | (137) | (87) |
| **B) Change in reserve for available-for-sale investments** | 24 | **-** | **1** |
| - Gains (Losses) not realized | | - | 1 |
| - Income taxes | | - | - |
| **C) Differences on the translation of assets in foreign currencies** | | **11** | **15** |
| - Gains (Losses) not realized | | 10 | 20 |
| - Income taxes | | 1 | (5) |
| **D) Pro rata interest in other components of comprehensive income of investee companies** | | **-** | **-** |
| **E) Actuarial gains (losses) (*)** | | **(2)** | **1** |
| - Actuarial gains (losses) | | (2) | 1 |
| - Income taxes | | - | - |
| **Total other components of comprehensive income net of taxes (A+B+C+D+E)** | | **296** | **206** |
| **Total comprehensive profit (loss)** | | **240** | **14** |
| Broken down as follows: | | | |
| Minority interest in comprehensive profit (loss) | | 11 | 15 |
| **Group interest in comprehensive profit (loss)** | | **229** | **(1)** |

(*) Items not reclassifiable in Income Statement.

## Balance Sheet

| (in millions of euros) | See Note | 06.30.2016 | of which related parties | 12.31.2015 | of which related parties |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment | *13* | 4,198 | | 3,678 | |
| Investment property | *14* | 5 | | 6 | |
| Goodwill | *15* | 2,357 | | 2,355 | |
| Hydrocarbon concessions | *16* | 452 | | 480 | |
| Other intangible assets | *17* | 134 | | 118 | |
| Investments in associates | *18* | 74 | 74 | 67 | 67 |
| Available-for-sale investments | *18* | 163 | | 167 | |
| Other financial assets | *19* | 16 | 4 | 31 | 4 |
| Deferred-tax assets | *20* | 655 | | 702 | |
| Other assets | *21* | 249 | | 280 | |
| **Total non-current assets** | | **8,303** | | **7,884** | |
| Inventories | | 171 | | 253 | |
| Trade receivables | | 1,679 | 34 | 2,367 | 50 |
| Current-tax assets | | 14 | | 20 | |
| Other receivables | | 1,406 | 35 | 1,654 | 28 |
| Current financial assets | | 120 | 81 | 113 | 83 |
| Cash and cash equivalents | | 198 | 14 | 279 | |
| **Total current assets** | *22* | **3,588** | | **4,686** | |
| **Assets held for sale** | *23* | **-** | | **212** | |
| **Eliminations of assets from and to discontinued operations** | | **-** | | **-** | |
| **Total assets** | | **11,891** | | **12,782** | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | | 5,377 | | 5,292 | |
| Reserves and retained earnings (loss carryforward) | | 979 | | 1,790 | |
| Reserve for other components of comprehensive income | | (367) | | (663) | |
| Group interest in profit (loss) | | (67) | | (980) | |
| **Total shareholders' equity attributable to Parent Company shareholders** | | **5,922** | | **5,439** | |
| Shareholders' equity attributable to minority shareholders | | 348 | | 437 | |
| **Total shareholders' equity** | *24* | **6,270** | | **5,876** | |
| Provision for employee severance indemnities and provisions for pensions | *25* | 44 | | 31 | |
| Provision for deferred taxes | *26* | 62 | | 32 | |
| Provisions for risks and charges | *27* | 1,139 | | 1,123 | |
| Bonds | *28* | 600 | | 599 | |
| Long-term financial debt and other financial liabilities | *29* | 235 | 70 | 640 | 467 |
| Other liabilities | *30* | 150 | | 315 | |
| **Total non-current liabilities** | | **2,230** | | **2,740** | |
| Bonds | | 34 | | 28 | |
| Short-term financial debt | | 516 | 367 | 306 | 170 |
| Trade payables | | 1,311 | 45 | 1,623 | 51 |
| Current taxes payable | | 8 | | 25 | |
| Other liabilities | | 1,522 | 37 | 2,177 | 202 |
| **Total current liabilities** | *31* | **3,391** | | **4,159** | |
| **Liabilities held for sale** | *32* | **-** | | **7** | |
| **Eliminations of liabilities from and to discontinued operations** | | **-** | | **-** | |
| **Total liabilities and shareholders' equity** | | **11,891** | | **12,782** | |

## Cash Flow Statement

The table below analyzes the **cash flow** as it applies to short-term liquid assets (i.e., due within 3 months) in the first half of 2016. In order to provide a better understanding of the Group's cash generation and utilization dynamics, the information provided below is supplemented by the data presented in a separate statement, included in the Report on Operations, which shows the changes in the Group's net financial debt.

| (in millions of euros) | | 1st half 2016 | | 1st half 2015 | |
|---|---|---|---|---|---|
| | *See Note* | | of which related parties | | of which related parties |
| **Profit (Loss) before taxes** | | **(36)** | | **(152)** | |
| Depreciation, amortization and writedowns | *7* | 241 | | 300 | |
| Net additions to provisions for risks | | (37) | | (9) | |
| Interest in the result of companies valued by the equity method (-) | | 2 | 2 | 5 | 5 |
| Dividends received from companies valued by the equity method | | 7 | 7 | 3 | 3 |
| (Gains) Losses on the sale of non-current assets | | (32) | | 1 | |
| Change in the provision for employee severance indemnities and provisions for pensions | *25* | (2) | | (1) | |
| Change in fair value recorded in EBIT | | 77 | | 52 | |
| Change in operating working capital | | 495 | 10 | 469 | (4) |
| Change in non-operating working capital | | (27) | - | (140) | 26 |
| Change in other operating assets and liabilities | | 19 | (1) | (68) | |
| Net financial (income) expense | *9* | 60 | 7 | (6) | (76) |
| Net financial income (expense) paid | | (44) | (2) | (7) | 76 |
| Net income taxes paid | | (221) | (171) | (45) | |
| **A. Cash flow from continuing operations** | | **502** | | **402** | |
| Additions to intangibles and property, plant and equipment (-) | *13-17* | (187) | | (257) | |
| Additions to non-current financial assets ( -) | | - | | (6) | (6) |
| Net price paid on business combinations | | (4) | | - | |
| Cash and cash equivalents from contribution in kind | | 52 | | - | |
| Proceeds from the sale of intangibles and property, plant and equipment | | - | | - | |
| Proceeds from the sale of non-current financial assets | | 2 | | - | |
| Repayment of capital contribution by non-current financial assets | | 2 | | 2 | |
| Change in other current financial assets | | (7) | (1) | 2 | 2 |
| **B. Cash used in investing activities from continuing operations** | | **(142)** | | **(259)** | |
| Receipt of new medium-term and long-term loans | *28, 29, 31* | 101 | 100 | 250 | 250 |
| Redemption of medium-term and long-term loans (-) | *28, 29, 31* | (582) | (570) | (761) | (250) |
| Other net change in financial debt | | 72 | 66 | 170 | 220 |
| Dividends paid to controlling companies or minority shareholders (-) | | (32) | (4) | (54) | |
| **C. Cash used in financing activities from continuing operations** | | **(441)** | | **(395)** | |
| **D. Net currency translation differences** | | **-** | | **-** | |
| **E. Net cash flow for the period from continuing operations (A+B+C+D)** | | **(81)** | | **(252)** | |
| **F. Net cash flow for the period from discontinued operations** | | **-** | | **-** | |
| **G. Net cash flow for the period (continuing and discontinued operations) (E+F)** | | **(81)** | | **(252)** | |
| **H. Cash and cash equivalents at the beginning of the year from continuing operations** | | **279** | - | **473** | |
| **I. Cash and cash equivalents at the beginning of the year from discontinued operations** | | **-** | | **-** | |
| **L. Cash and cash equivalents at the end of the period (continuing and discontinued operations) (G+H+I)** | | **198** | 14 | **221** | |
| **M. Cash and cash equivalents at the end of the period from discontinued operations** | | **-** | - | **-** | |
| **N. Cash and cash equivalents at the end of the period from continuing operations (L-M)** | | **198** | 14 | **221** | |

## Changes in Consolidated Shareholders' Equity

| (in millions of euros) | | | Reserve for other components of comprehensive income | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Reserves and retained earnings (loss carry-forward) | Cash Flow Hedge reserve | Reserve for available-for-sale investments | Differences on the translation of assets in foreign currencies | Interest in other components of comprehensive income of investee companies | Actuarial gains (losses) | Group interest in profit (loss) | Total shareholders' equity attributable to Parent Company shareholders | Shareholders' equity attributable to minority shareholders | Total shareholders' Equity |
| **Balance at December 31, 2014** | **5,292** | **1,746** | **(458)** | **-** | **11** | **-** | **(4)** | **40** | **6,627** | **510** | **7,137** |
| Appropriation of the previous year's profit (loss) | - | 40 | - | - | - | - | - | (40) | **-** | - | **-** |
| Dividends and reserves distributed | - | - | - | - | - | - | - | - | **-** | (66) | **(66)** |
| Other changes | - | (8) | - | - | - | - | - | - | **(8)** | (2) | **(10)** |
| Total comprehensive profit (loss) | - | - | 189 | 1 | 15 | - | 1 | (207) | **(1)** | 15 | **14** |
| of which: | | | | | | | | | | | |
| - Change in comprehensive income | - | - | 189 | 1 | 15 | - | 1 | - | **206** | - | **206** |
| - Profit (Loss) from 01.01.2015 to 06.30.2015 | - | - | - | - | - | - | - | (207) | **(207)** | 15 | **(192)** |
| **Balance at June 30, 2015** | **5,292** | **1,778** | **(269)** | **1** | **26** | **-** | **(3)** | **(207)** | **6,618** | **457** | **7,075** |
| Dividends and reserves distributed | - | - | - | - | - | - | - | - | **-** | (27) | **(27)** |
| Other changes | - | 12 | - | - | - | - | - | - | **12** | 1 | **13** |
| Total comprehensive profit (loss) | - | - | (408) | (1) | (11) | - | 2 | (773) | **(1,191)** | 6 | **(1,185)** |
| of which: | | | | | | | | | | | |
| - Change in comprehensive income | - | - | (408) | (1) | (11) | - | 2 | - | **(418)** | - | **(418)** |
| - Profit (Loss) from 07.01.2015 to 12.31.2015 | - | - | - | - | - | - | - | (773) | **(773)** | 6 | **(767)** |
| **Balance at December 31, 2015** | **5,292** | **1,790** | **(677)** | **-** | **15** | **-** | **(1)** | **(980)** | **5,439** | **437** | **5,876** |
| Appropriation of the previous year's profit (loss) | - | (980) | - | - | - | - | - | 980 | **-** | - | **-** |
| Dividends and reserves distributed | - | - | - | - | - | - | - | - | **-** | (35) | **(35)** |
| Increase of share capital and reserves | 85 | 162 | - | - | - | - | - | - | **247** | - | **247** |
| Change in scope of consolidation | - | - | - | - | - | - | - | - | **-** | (66) | **(66)** |
| Other changes | - | 7 | - | - | - | - | - | - | **7** | 1 | **8** |
| Total comprehensive profit (loss) | - | - | 287 | - | 11 | - | (2) | (67) | **229** | 11 | **240** |
| of which: | | | | | | | | | | | |
| - Change in comprehensive income | - | - | 287 | - | 11 | - | (2) | - | **296** | - | **296** |
| - Profit (Loss) from 01.01.2016 to 06.30.2016 | - | - | - | - | - | - | - | (67) | **(67)** | 11 | **(56)** |
| **Balance at June 30, 2016** | **5,377** | **979** | **(390)** | **-** | **26** | **-** | **(3)** | **(67)** | **5,922** | **348** | **6,270** |

# NOTES TO THE CONDENSED CONSOLIDATED SEMIANNUAL FINANCIAL STATEMETS AT JUNE 30, 2016

## ACCOUNTING PRINCIPLES AND CONSOLIDATION CRITERIA

### Content and Presentation

The Edison Group's Condensed Consolidated Semiannual Financial Statements at June 30, 2016 was prepared in accordance with Article 154-ter of Legislative Decree No. 58 of February 24, 1998, as amended, and the interim financial disclosures it provides are consistent with the provisions of IAS 34 - Interim Financial Reporting. The abovementioned report is consistent with the requirements of the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as published in the Official Journal of the European Union (O.J.E.U.).

#### Methods applied to the Preparation of the Financial Statements

Please note that the international accounting principles applied are consistent with those used for the 2015 Consolidated Financial Statements, which should be referenced for additional details.
It is worth of mentioning that, with the reference to the "Financial Instruments", the Group, whenever possible, uses hedge accounting, provided the transactions comply with the requirements of IAS 39. In the first half of 2016 some Cash Flow Hedge hedging relationships on commodity have been revoked and, in certain cases, have been carried out, prospectively, new hedging relationships both Cash Flow Hedge and, for the first time, Fair Value Hedge; this in the light of indexing formula and risk factor included. It should be noted that the fair value recorded at the date of revocation was maintained in the Cash Flow Hedge Reserves and from time to time reflected in the income statement in line with the effects of the hedged item.
The Board of Directors, meeting on July 27, 2016, authorized the publication of the Condensed Consolidated Semiannual Financial Statements at June 30, 2016, which were the subject of a limited audit by Deloitte & Touche Spa in accordance with an assignment awarded by Shareholders' Meeting of April 26, 2011 for a period of nine years (2011-2019), pursuant to the Legislative Decree No. 39 of January 27, 2010.
Unless otherwise stated, all amounts in these accompanying notes are in millions of euros.

### Use of Estimated Values

The preparation of Edison Group's Condensed Consolidated Semiannual Financial Statements at June 30, 2016 and the accompanying notes requires the use of estimates and assumptions both in the measurement of certain assets and liabilities and in the valuation of contingent liabilities. The actual results that will arise upon the occurrence of the relevant events could differ from these estimates. The estimates and assumptions used are revised on an ongoing basis, and the impact of any such revision is immediately recognized in the income statement. Generally the use of estimates is particularly significant for amortization and depreciation, valuation of derivatives, provision for risks and allowance for doubtful accounts, advances paid under long-term natural gas supply contracts (take-or-pay) as well as the impairment test.
For a more detailed description of the valuation processes with a more significant impact on the Group, unchanged compared to previous year, please consult the section of the 2015 Consolidated Financial Statements entitled "Use of Estimated Values".

### Significant assumptions in determining control in accordance with IFRS 12

With regard to the definition of control set forth in IFRS 10, please note that the Edison Group consolidates line by line two companies even though it does not hold a majority equity stake; more specifically, Dolomiti Edison Energy Srl, owned at 49%, in the hydroelectric area and E2i Energie Speciali Srl owned at 30% through Edison Partecipazioni Energie Rinnovabili Srl in the renewable energy area. A more detailed description of these issues is provided in the 2015 Consolidated Financial Statements.

The company Hydros (owned at 40% at December 31,2015) from January 1, 2016 has been deconsolidated and valued by the equity method because the requirements for control have been expired pursuant to IFRS 10; it was sold on May 31, 2016 as described in the following disclosures.

## Changes in the Scope of Consolidation compared with December 31, 2015 - Acquisition and Disposal of Assets

**Electric Power:**

- On March 22, 2016, the Extraordinary Shareholders' Meeting of Edison Spa approved the contribution in kind, by its controlling shareholder Transalpina di Energia, of 100% of its equity stake in Fenice Spa (an EDF Group company specialized in energy solutions and environmental services); the transaction was carried out with effect from April 1, 2016. Since that date Fenice group is consolidated line by line in Edison group.
- On May 31, 2016, with effect from June 1, 2016, Edison and Alperia have completed the transaction to swap Edison stakes in Hydros (40%) and Sel Edison (42%) (already considered as Disposal Group at December 31, 2015) with Alperia participation in Cellina Energy, the company which owns Cellina hydroelectric plants in the Friuli Venezia Giulia Region; Cellina Energy is fully consolidated from June 1, 2016.
- On May 25, 2016 Edison acquired a branch of business by the bankruptcy of IDREG Piemonte Spa which mainly includes small-size hydroelectric power plants. The branch of business was acquired in its factual and legal status which it is without any guarantees by the bankruptcy. It also worth of mentioning that the inherited liabilities related to the bankruptcy remaining to be borne by itself.
- Merger by incorporation into Edison Spa of Shen Spa, already held at 100%, effective vis-à-vis third parties as of March 1, 2016; this transaction had not impact on the Group.

## Information pursuant to IFRS 3 revised

The first half of 2016 was characterized by some business combination's transactions related to:

- Fenice Spa;
- Cellina Energy Spa;
- Branch of business IDREG Piemonte;

These transactions are reflected in the consolidated financial statements in accordance with IFRS 3 revised "Business Combinations," recognizing the acquired assets, liabilities and contingent liabilities at fair value at the acquisition date. The resulting allocation should be viewed at the moment as temporary.

A brief description of the abovementioned transactions is provided below.

### 1) Contribution in kind of Fenice group

Edison, following the resolution of the Extraordinary Shareholders' Meeting on March 22, 2016, approved the in kind share capital increase reserved to the parent company Transalpina di Energia, for 247 million euros (of which 85 million euros in the form of capital increase and 162 million euros in the form of share premiums) which was affected via the conferment of the equity stake equal to the 100% share capital of Fenice Spa. The contribution value of Fenice was determined by an independent advisor, as the fair value of Edison was determined by the support of an independent appraiser. Moreover because of Transalpina di Energia is the parent company of Edison, the transfer of Fenice's assets result in a related-party transaction, was requested and obtained a favourable opinion by the Committee of Independent Directors, rendered based on a fairness opinion provided by an independent appraiser.

Fenice Spa is a company of EDF Group specialized in energy and environmental services which operates in Italy and, through some subsidiaries, in Poland, Spain and Russia.

The transaction's effect was effective from April 1, 2016 and Fenice group was fully consolidated in Edison Group as from that date.

The contribution of Fenice group at income statement level from April 1, 2016 to June 30, 2016 was the following:

INCOME STATEMENT

| (in milions of euros) | 1st half 2016 |
|---|---|
| Sales revenues | 94 |
| EBITDA | 18 |
| Depreciation, amortization and writedowns (-) | (16) |
| EBIT | 2 |
| Net financial income (expense) | (2) |
| Income taxes | (2) |
| Profit (Loss) | (2) |

The acquisition of Fenice will allow Edison to achieve a more important position in the energy efficiency sector in Italy from an industrial and business point of view. The transaction will make possible, on the one hand, through the brand value and the customer portfolio of Edison and, on the other hand, capitalizing on the position and the skills of Fenice in its market segment, to develop and enhance its position in energy efficiency market, increasing at the same time the services to small and medium companies, service sectors and Public Administration. These were in keeping with the development plan of the Group.

The values of Purchase Price Allocation were the following:

| (in millions of euros) | Fair Value of acquired assets and liabilities |
| --- | --- |
| **Non-current assets** | |
| Property, plant and equipment | 377 |
| Other intangible assets | 9 |
| Deferred-tax asset | 61 |
| **Current assets** | |
| Inventories | 9 |
| Trade receivables | 73 |
| Other receivables | 24 |
| Cash and cash equivalents | 52 |
| **Total assets** | **605** |
| **Non-current liabilities** | |
| Provision for deferred taxes | 1 |
| Provision for risk and charges | 39 |
| Provision for employee severance indemnities and provision for pensions | 12 |
| Long-term financial debt and other financial liabilities | 11 |
| **Current liabilities** | |
| Trade payables | 78 |
| Short-term financial debt | 185 |
| Other liabilities | 32 |
| **Total liabilities** | **358** |
| **Fair Value of net acquired assets** | **247** |
| *- % attributable to Edison (100%)* | 247 |
| **Total contribution value** | **247** |

## 2) Hydroelectric Activities Reorganization - Cellina Energy Spa Acquisition

On May 31, 2016 and with effect from June 1, 2016, Edison and Alperia have completed the transaction to swap Edison stakes in Hydros and Sel Edison with Alperia stake in Cellina Energia, the company which owns Cellina hydroelectric plants in the Friuli Venezia Giulia Region, following up on the agreement signed on December 29, 2015 between Edison and SEL (now Alperia). Thank to this transaction Edison has acquired the 100% of Cellina Energy, consolidating line by line from June 1, 2016, in exchange for its stakes in Hydros (40%) and Sel Edison (42%).

The hydroelectric plants on Cellina river, whose concessions expire in 2029, includes 23 plants between large and small hydro for a total installed power capacity of about 90 MW.

With this transaction, Edison strengthens in the hydroelectric sector, which is key for the Group development strategy, and extends the average life of its hydroelectric portfolio reducing the risks related to the renewal of concessions.

Overall, the transaction had a net positive economic effect of 33 million euro, recorded in EBITDA, in consideration both of the positive result of the sale of shares held in Hydros and Sel Edison, occurred for an amount of about 195 million of euros, and of the results of the evaluation of Cellina Energy in accordance with IFRS 3 revised. The fair value evaluation of assets, liabilities and contingent liabilities of Cellina Energy is shown in the following table:

| (in millions of euros) | Fair Value of acquired assets and liabilities |
| --- | --- |
| **Non-current assets** | |
| Property, plant and equipment | 154 |
| **Current assets** | |
| Trade receivables | 3 |
| Other receivables | 1 |
| Cash and cash equivalents | 35 |
| **Total assets** | **193** |
| **Non-current liabilities** | |
| Provision for deferred taxes | 16 |
| Provision for risk and charges | 5 |
| **Current liabilities** | |
| Trade payables | 1 |
| Other liabilities | 0 |
| **Total liabilities** | **22** |
| **Fair Value of net acquired assets** | **171** |
| *- % attributable to Edison (100%)* | 171 |
| **Total acquisition cost** | **198** |

**3) Acquisition of the branch of business IDREG Piemonte**

In the month of May 2016, Edison acquired the branch of business by the bankruptcy of IDREG Piemonte, for an amount of 36 million euros, which mainly includes small-size hydroelectric power plants. The carrying value were the following:

| (in millions of euros) | Fair Value of acquired assets and liabilities |
|---|---|
| **Non-current assets** | |
| Property, plant and equipment | 36 |
| **Fair Value of net acquired assets** | **36** |
| *- % attributable to Edison (100%)* | 36 |
| **Total acquisition cost** | **36** |

# SEGMENT INFORMATION

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

| **INCOME STATEMENT** (in millions of euros) | *Electric Power Operations* | | *Hydrocarbons Operations* | | *Corporate Activities and Other Segments* | | *Adjustments* | | *EDISON GROUP* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***1st half 2016*** | *1st half 2015* | ***1st half 2016*** | *1st half 2015* | ***1st half 2016*** | *1st half 2015* | ***1st half 2016*** | *1st half 2015* | ***1st half 2016*** | *1st half 2015* |
| **Sales Revenues** | **2.650** | **3.284** | **3.111** | **2.717** | **25** | **24** | **(318)** | **(406)** | **5.468** | **5.619** |
| - third parties sales revenues | 2.634 | 3.278 | 2.831 | 2.339 | 3 | 2 | - | - | 5.468 | 5.619 |
| - Intra-Group sales revenues | 16 | 6 | 280 | 378 | 22 | 22 | (318) | (406) | - | - |
| **EBITDA** | **189** | **203** | **193** | **47** | **(42)** | **(46)** | **-** | **-** | **340** | **204** |
| *as a % of sales revenues* | *7,1%* | *6,2%* | *6,2%* | *1,7%* | *n.m.* | *n.m.* | | | *6,2%* | *3,6%* |
| Net change in Fair Value of Commodity derivatives | - | 6 | (77) | (54) | - | - | - | - | (77) | (48) |
| Depreciation, amortization and writedowns | (102) | (115) | (135) | (181) | (4) | (4) | - | - | (241) | (300) |
| Othet income (expense),net | - | - | - | - | (1) | (11) | - | - | (1) | (11) |
| **EBIT** | **87** | **94** | **(19)** | **(188)** | **(47)** | **(61)** | **-** | **-** | **21** | **(155)** |
| *as a % of sales revenues* | *3,3%* | *2,9%* | *(0,6%)* | *(6,9%)* | *n.m.* | *n.m.* | | | *0,4%* | *(2,8%)* |
| Net financial income (expense) | | | | | | | | | **(60)** | **6** |
| Interest in result of companies valued by equity method | | | | | | | | | **(2)** | **(5)** |
| Income taxes | | | | | | | | | **(20)** | **(40)** |
| **Profit (Loss) from continuing operations** | | | | | | | | | **(56)** | **(192)** |
| **Profit (Loss) from discontinued operations** | | | | | | | | | **-** | **-** |
| **Minority interest in profit (loss)** | | | | | | | | | **11** | **15** |
| **Group interest in profit (loss)** | | | | | | | | | **(67)** | **(207)** |

| **BALANCE SHEET** (in millions of euros) | *Electric Power Operations* | | *Hydrocarbons Operations* | | *Corporate Activities and Other Segments* | | *Adjustments* | | *EDISON GROUP* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***06.30.2016*** | *12.31.2015* | ***06.30.2016*** | *12.31.2015* | ***06.30.2016*** | *12.31.2015* | ***06.30.2016*** | *12.31.2015* | ***06.30.2016*** | *12.31.2015* |
| **Total current and non-current assets** | **6.123** | **5.672** | **5.450** | **6.861** | **4.054** | **3.445** | **(3.736)** | **(3.408)** | **11.891** | **12.570** |
| **Assets held for sale** | - | **212** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | 212 |
| **Total assets** | **6.123** | **5.884** | **5.450** | **6.861** | **4.054** | **3.445** | **(3.736)** | **(3.408)** | **11.891** | **12.782** |
| **Total current and non-current liabilities** | **1.911** | **1.586** | **4.192** | **5.056** | **2.119** | **2.699** | **(2.601)** | **(2.442)** | **5.621** | **6.899** |
| **Liabilities held for sale** | **-** | **7** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | 7 |
| **Total liabilities** | **1.911** | **1.593** | **4.192** | **5.056** | **2.119** | **2.699** | **(2.601)** | **(2.442)** | **5.621** | **6.906** |
| **Net Financial Debt** | | | | | | | | | **1.067** | **1.147** |

| **OTHER INFORMATION** (in millions of euros) | *Electric Power Operations* | | *Hydrocarbons Operations* | | *Corporate Activities and Other Segments* | | *Adjustments* | | *EDISON GROUP* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***1st half 2016*** | *1st half 2015* | ***1st half 2016*** | *1st half 2015* | ***1st half 2016*** | *1st half 2015* | ***1st half 2016*** | *1st half 2015* | ***1st half 2016*** | *1st half 2015* |
| Capital expenditures | 24 | 12 | 105 | 126 | 2 | 1 | - | - | **131** | **139** |
| Investments in exploration | - | - | 41 | 69 | - | - | - | - | **41** | **69** |
| Investments in intangibles | 1 | - | 13 | 49 | 1 | - | - | - | **15** | **49** |
| **Total capital investments** | **25** | **12** | **159** | **244** | **3** | **1** | **-** | **-** | **187** | **257** |

| | *Electric Power Operations* | | *Hydrocarbons Operations* | | *Corporate Activities and Other Segments* | | *Adjustments* | | *EDISON GROUP* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***06.30.2016 (*)*** | *12.31.2015 (**)* | ***06.30.2016*** | *12.31.2015* | ***06.30.2016*** | *12.31.2015* | ***06.30.2016*** | *12.31.2015* | ***06.30.2016*** | *12.31.2015* |
| **Number of employees** | **3.041** | ***1.030*** | **1.382** | **1.414** | **624** | **622** | **-** | **-** | **5.047** | **3.066** |

(*) Includes 2,067 employees referred to Fenice group

*(**) Includes 76 employees of companies classified as Assets held for sale.*

The Group does not view **geographic area** segment information as meaningful. At June 30, 2016 the net non-current assets of its foreign operations, referred to the Hydrocarbons Operations, totaled 1,110 million euros and accounted for about 15.1% of net invested capital. Specifically abroad it worth of mentioning the Exploration & Production activities located in Egypt.

The contribution of the Exploration & Production business, although significant, was penalized by the trend in the reference scenario compared with the same period of previous year.

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Change | % change |
| --- | --- | --- | --- | --- |
| **Sales revenues** | **199** | 268 | (69) | (25.7%) |
| **EBITDA reported** | **83** | 145 | (62) | (42.8%) |
| *as % of sales revenues* | *41.7%* | *54.1%* | | |
| **EBIT** | **(40)** | (25) | (15) | (60.0%) |
| *as % of sales revenues* | *(20.1%)* | *(9.3%)* | | |

**Major customers as defined by IFRS 8**

The Group's sales are generally not concentrated. In the Electric Power Operations there is one major customer with sales revenues totaling about 508 million euros in the period, equal to 19.2% of the total sales revenues of the Electric Power Operations and to 9.3% of the total sales revenues of the Group.

# NOTES TO THE INCOME STATEMENT

In the first half of 2016, in unfavorable scenario and in an economic situation in slight recovery, national demand for electricity decrease compared with the first half of 2015 (-2.0%; -2.6% on a seasonally adjusted basis); the reduced availability of water resources in the period compared with the first half of 2015 resulted in a sharp reduction of hydroelectric generation, the output from thermoelectric sources is broadly in line. Italian consumption of natural gas increased by 1.3% compared with the first half of 2015, mainly due to the combined effects of higher thermoelectric consumption and lower consumption for services and residential uses.

In this scenario, Group **EBITDA** were positive by 340 million euros (204 million euros in the first half of 2015), more specifically:

- The adjusted EBITDA[1] of the **Electric Power Operations**, amounting to 122 million euros, which included the contribution of Fenice group from April 1, 2016 (18 million euros) and the non-recurring positive results generated by the transactions of hydroelectric activities reorganization (33 million euros), decreased compared with the same period last year (208 million euros) as a consequence of the reduction in generation margins, in particular in thermoelectric sector, of the reduction in hydroelectric generation due to a reduced availability of water resources during the period and due to the decrease in sales price.
- The adjusted EBITDA[1] of the **Hydrocarbons Operations** totaled 260 million euros, up compared with the first half of 2015 (42 million euros). The performance for the period benefited from the improved margin realized by the activities engaged in the procurement and sale of natural gas, thanks to the successful conclusion of the arbitration with ENI for the contract to import natural gas from Libya occurred in November 2015 and to the new agreement occurred in the first half of 2016. The contribution of Exploration & Production activities, although significant, continue to be penalized as a result of the persisting negative scenario of the oil market.

The **Group's interest in the net result** was negative by 67 million euros (negative by 207 million euros in the first half of 2015).
In addition to the industrial margin dynamics discussed above, the main factors affecting the result for the period included:

- a net negative change in the fair value of derivatives amounting to 77 million euros (negative by 48 million euros in the first half of 2015);
- depreciation, amortization and writedowns for 241 million euros (300 million euros in the first half 2015);
- net financial expenses of 60 million euros, against net financial income of 6 million euros recorded in the first half 2015 which benefited of extraordinary positive effect on exchange rates.

Moreover it should be noted that income taxes in the first half 2015 were affected by the negative one-off effect related to the application of the repeal of the Robin Hood tax (68 million euros).

[1] Adjusted EBITDA reflect the reclassification of the results of commodity and foreign exchange hedges executed in connection with contracts to import natural gas from the Hydrocarbons Operations to the Electric Power Operations for the portion of gains and losses attributable to them (-67 million euros in 2016, +5 million euros in 2015). This reclassification is being made to provide an operational presentation of the industrial results. The Adjusted EBITDA amount was not audited.

## 1. Sales Revenues - 5,468 million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Change | % change |
|---|---|---|---|---|
| Electric power | 2,063 | 2,446 | (383) | (15.7%) |
| Natural gas | 2,046 | 2,039 | 7 | 0.3% |
| Steam | 30 | 34 | (4) | (11.8%) |
| Oil | 64 | 97 | (33) | (34.0%) |
| Green certificates | 5 | 108 | (103) | (95.4%) |
| Other sales revenues | 5 | 9 | (4) | (44.4%) |
| **Sub-total** | **4,213** | **4,733** | **(520)** | **(11.0%)** |
| Transmission revenues | 489 | 714 | (225) | (31.5%) |
| Realized commodity derivatives | 612 | 93 | 519 | n.m. |
| Margin on trading activities | 3 | 4 | (1) | (25.0%) |
| Storage services | 39 | 45 | (6) | (13.3%) |
| Revenues from services provided | 4 | 4 | - | - |
| Other revenues from sundry services | 108 | 26 | 82 | n.m. |
| **Total for the Group** | **5,468** | **5,619** | **(151)** | **(2.7%)** |

| Breakdown by Business Segment | 1st half 2016 | 1st half 2015 | Change | % change |
|---|---|---|---|---|
| Electric Power Operations | 2,650 | 3,284 | (634) | (19.3%) |
| Hydrocarbons Operations | 3,111 | 2,717 | 394 | 14.5% |
| Corporate and Other Segments | 25 | 24 | 1 | 4.2% |
| Eliminations | (318) | (406) | 88 | (21.7%) |
| **Total for the Group** | **5,468** | **5,619** | **(151)** | **(2.7%)** |

Sales revenues are booked for the most part in the Italian market.

The sales revenues of the **Electric Power Operations**, which from April 1, 2016 include the contribution of Fenice group (94 million euros), decreased by 19.3% compared with the previous year, mainly due to a decline in average sales prices, driven by the benchmark scenario.

The sales revenues of the **Hydrocarbons Operations,** which were up by 14.5% compared with the first half of 2015, reflect an increase in sales volumes to industrial and thermoelectric users that offset the reduction of sales prices.

The income from **Realized commodity derivatives**, 612 million euros, which should be analyzed together with the corresponding item included in **Raw materials and services used** (799 million euros), primarily reflects the results of commodities and foreign exchange hedges executed to mitigate the risk of fluctuation in the cost of natural gas used by the Edison group's facilities portfolios and gas earmarked for direct sales.

## Margin on Trading Activities

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Change | % change |
|---|---|---|---|---|
| **Margin on physical contracts included in trading portfolios** | | | | |
| Sales revenues | 1,122 | 1,311 | (189) | (14.4%) |
| Raw materials and services used | (1,113) | (1,317) | 204 | (15.5%) |
| **Total included in sales revenues** | **9** | **(6)** | **15** | **n.m.** |
| **Margin on financial contracts included in trading portfolios** | | | | |
| Sales revenues | 33 | (1) | 34 | n.m. |
| Raw materials and services used | (39) | 11 | (50) | n.m. |
| **Total included in sales revenues** | **(6)** | **10** | **(16)** | **n.m.** |
| **Total margin on trading activities** | **3** | **4** | **(1)** | **(25.0%)** |

A comprehensive review of the effects linked to derivatives is provided in a special disclosure, reported in the Section titled "Group Financial Risk Management".

## 2. Other Revenues and Income - 96 million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Change | % change |
|---|---|---|---|---|
| Recovery of costs from partners in hydrocarbon exploration projects | 11 | 15 | (4) | (26.7%) |
| Net reversals in earnings of provisions for risks on receivables and other risks | 15 | 1 | 14 | n.m |
| Hydroelectric activities reorganization | 33 | - | 33 | n.m |
| Out of period and sundry items | 37 | 54 | (17) | (31.5%) |
| **Total for the Group** | **96** | **70** | **26** | **37.1%** |

## 3. Raw Materials and Services Used - 5,089 million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Change | % change |
|---|---|---|---|---|
| Natural gas | 1,570 | 2,026 | (456) | (22.5%) |
| Electric power | 1,404 | 1,648 | (244) | (14.8%) |
| Green certificates | - | - | - | n.m. |
| $CO_2$ emissions rights | 13 | 15 | (2) | (13.3%) |
| Utilities and other materials | 38 | 36 | 2 | 5.6% |
| **Sub-total** | **3,025** | **3,725** | **(700)** | **(18.8%)** |
| Transmission of electric power and natural gas | 853 | 1,074 | (221) | (20.6%) |
| Maintenance | 101 | 79 | 22 | 27.8% |
| Regasification fee | 60 | 60 | - | 0.0% |
| Professional services | 45 | 58 | (13) | (22.4%) |
| Writedowns of trade and other receivables | 24 | 44 | (20) | (45.5%) |
| Realized commodity derivatives | 799 | 14 | 785 | n.m. |
| Additions to provisions for miscellaneous risks | 13 | 11 | 2 | 18.2% |
| Change in inventories | 37 | 131 | (94) | (71.8%) |
| Use of property not owned | 45 | 55 | (10) | (18.2%) |
| Sundry items | 87 | 121 | (34) | (28.1%) |
| **Total for the Group** | **5,089** | **5,372** | **(283)** | **(5.3%)** |
| **Breakdown by Business Segment** | **1st half 2016** | 1st half 2015 | Change | % change |
| Electric Power Operations | 2,454 | 3,065 | (611) | (19.9%) |
| Hydrocarbons Operations | 2,914 | 2,672 | 242 | 9.1% |
| Corporate Activities and Other Segments | 45 | 47 | (2) | (4.3%) |
| Eliminations | (324) | (412) | 88 | 21.4% |
| **Total for the Group** | **5,089** | **5,372** | **(283)** | **(5.3%)** |

## 4. Labor Costs - 135 million euros

The increase of 22 million euros compared with the first half of 2015 (113 million euros) is due to the contribution of Fenice group for 24 million euros, consolidated from April 1, 2016.

## 5. EBITDA – 340 million euros

| (in millions of euros) | 1st half 2016 | as a % of sales revenues | 1st half 2015 | as a % of sales revenues |
|---|---|---|---|---|
| **Reported EBITDA** | | | | |
| Electric Power Operations | 189 | 7.1% | 203 | 6.2% |
| Hydrocarbons Operations | 193 | 6.2% | 47 | 1.7% |
| Corporate Activities and Other Segments | (42) | n.m. | (46) | n.m. |
| **Total for the Group** | **340** | **6.2%** | **204** | **3.6%** |
| **Adjusted EBITDA** | | | | |
| Electric Power Operations | 122 | 4.6% | 208 | 6.3% |
| Hydrocarbons Operations | 260 | 8.4% | 42 | 1.5% |
| Corporate Activities and Other Segments | (42) | n.m. | (46) | n.m. |
| **Total for the Group** | **340** | **6.2%** | **204** | **3.6%** |

The adjusted EBITDA reflect the reclassification to the Electric Power Operations of a portion of the result from transactions executed to hedge natural gas importation contracts, since, from an operational standpoint, the margins earned on sales of electric power also benefit from these hedges.

The performance of the Group's businesses is reviewed below:

- the adjusted EBITDA of the **Electric Power Operations**, although benefiting by the contribution of Fenice group and by the positive effect resulting from the transaction of hydroelectric activities reorganization, reflect the contraction in generation margins and the lower contribution of hydroelectric sector recorded in the period compared with the extraordinary level of 2015;
- the improvement of adjusted EBITDA of the **Hydrocarbons Operations** is referred, in particular, to the activities engaged in the procurement and sale of natural gas which benefited from the positive conclusion of the arbitration with Eni (November 2015) for the contract to import natural gas from Libya and to the new agreement occurred in the first half of the year, instead the Exploration & Production activities were negatively affected by the reference scenario.

## 6. Net Change in Fair Value of Commodity Derivatives – (77) million euros

| (in millions of euros) | **1st half 2016** | 1st half 2015 | Change | % change |
|---|---|---|---|---|
| **Change in fair value in hedging the price risk on energy products:** | **78** | **(63)** | **141** | **n.m.** |
| - definable as hedges pursuant to IAS 39 (CFH) (*) | 24 | (13) | 37 | n.m. |
| - definable as hedges pursuant to IAS 39 (FVH) | 117 | - | 117 | n.m. |
| - not definable as hedges pursuant to IAS 39 | (63) | (50) | (13) | 26.0% |
| **Change in fair value in hedging the foreign exchange risk on commodities:** | **(46)** | **15** | **(61)** | **n.m.** |
| - definable as hedges pursuant to IAS 39 (CFH) (*) | (10) | 3 | (13) | n.m. |
| - definable as hedges pursuant to IAS 39 (FVH) | (10) | - | (10) | n.m. |
| - not definable as hedges pursuant to IAS 39 | (26) | 12 | (38) | n.m. |
| **Change in fair value in physical contracts** | **(109)** | - | **(109)** | **n.m.** |
| **Total for the Group** | **(77)** | **(48)** | **(29)** | **60.4%** |

(*) Referred to the ineffective portion.

This line item reflects the change in fair value for the period on commodity and foreign exchange derivatives executed as economic hedges of the Industrial Portfolio; it is worth mentioning that the Group, while applying hedge accounting where possible, manages the risk of energy commodities and related exchange rate also through forward transactions and derivative instruments not definable as hedges pursuant to IAS 39, the effects of which, therefore, are charged to the Income Statement. This item also includes the ineffective portion of changes in fair value of derivatives eligible to Cash Flow Hedges.

It is worth of mentioning that, starting from January 1, 2016, some hedging relationships have been revoked in order to carry out prospectively new hedging relationship of Fair Value Hedge.

## 7. Depreciation, Amortization and Writedowns – 241million euros

| (in millions of euros) | **1st half 2016** | 1st half 2015 | Change | % change |
|---|---|---|---|---|
| **Depreciation and amortization of:** | **241** | **289** | **(48)** | **(16,6%)** |
| - property, plant and equipment | 166 | 182 | (16) | (8,8%) |
| - exploration costs | 41 | 69 | (28) | (40,6%) |
| - hydrocarbon concessions | 26 | 30 | (4) | (13,3%) |
| - other intangible assets | 8 | 8 | - | - |
| **Writedowns of:** | - | **11** | **(11)** | **n.m.** |
| - property, plant and equipment | - | 11 | (11) | n.m. |
| **Total for the Group** | **241** | **300** | **(59)** | **(19,7%)** |

| **Breakdown by Business Segment** | **1st half 2016** | 1st half 2015 | Change | % change |
|---|---|---|---|---|
| **Electric Power Operations:** | **102** | **115** | **(13)** | **(11,3%)** |
| - depreciation and amortization | 102 | 115 | (13) | (11,3%) |
| **Hydrocarbons Operations:** | **135** | **181** | **(46)** | **(25,4%)** |
| - depreciation and amortization | 135 | 170 | (35) | (20,6%) |
| - writedowns of property, plant and equipment | - | 11 | (11) | n.m. |
| **Corporate Activities and Other Segments:** | **4** | **4** | - | - |
| - depreciation and amortization | 4 | 4 | - | - |
| **Total for the Group** | **241** | **300** | **(59)** | **(19,7%)** |

The decrease reflects, *inter alia*, the depreciation and amortization of Fenice group (16 million euros from April 1, 2016), and also the effects of the writedowns resulting from impairment test performed in December 2015.

## 8. Other Income (Expense), Net – (1) million euros

This item had negative balance by 1 million euros (net expense of 11 million euros in the first half of 2015). They reflect nonrecurring items that are not directly related to the current Group's industrial operations.

## 9. Net Financial Income (Expense) – (60) million euros

| (in millions of euros) | **1st half 2016** | 1st half 2015 | Change |
| --- | --- | --- | --- |
| **Financial income** | | | |
| Financial income from financial derivatives | 6 | 14 | (8) |
| Interest earned on bank and postal accounts | 2 | - | 2 |
| Interest earned on trade receivables | 4 | 5 | (1) |
| Other financial income | 7 | 9 | (2) |
| **Total financial income** | **19** | **28** | **(9)** |
| **Financial expense** | | | |
| Interest accrued on bond issues | (12) | (16) | 4 |
| Fair Value Hedge adjustment on bonds | 6 | 7 | (1) |
| Financial expense from financial derivatives | (4) | (13) | 9 |
| Interest accrued to banks | (1) | (2) | 1 |
| Fees | (7) | (9) | 2 |
| Financial expense on decommissioning projects and provisions for risks | (15) | (13) | (2) |
| Interest accrued to other lenders | (33) | (18) | (15) |
| Other financial expense | (1) | (4) | 3 |
| **Total financial expense** | **(67)** | **(68)** | **1** |
| **Net foreign exchange translation gains (losses)** | **(12)** | **46** | **(58)** |
| **Net financial income (expense) for the Group** | **(60)** | **6** | **(66)** |

The financial expense benefited by a lower level of indebtedness and by lower cost resulting from a different mix of financial resources; it should be noted that expense of 20 million euros was recorded as breakage costs for the reimbursement in advance of the loan provided by EDF Investissments Groupe Sa.

Concerning the Net foreign exchange translation gains (losses) it is worth of mentioning that in the first half 2015 the trend of EUR/USD exchange rate recorded exceptionally positive results, in particular on derivative executed to hedge the foreign exchange risk associated with payment of invoices for fuel procurement activities.

## 10. Income from (Expense on) Equity Investments - 3 million euros

| (in millions of euros) | **1st half 2016** | 1st half 2015 | Change |
| --- | --- | --- | --- |
| **Income from Equity Investments** | | | |
| Dividends | 5 | 2 | 3 |
| Revaluations of trading securities | - | - | - |
| Capital gain from investments disposal | - | - | - |
| Revaluations and valuations of investments by the equity method | 4 | 6 | (2) |
| **Total income from equity investments** | **9** | **8** | **1** |
| **Expenses on Equity Investments** | | | |
| Writedowns and valuations of investments by the equity method | (6) | (11) | 5 |
| Writedowns of available for sale investments | - | - | - |
| **Total expenses on equity investments** | **(6)** | **(11)** | **5** |
| **Total Group income from (expenses on) equity investments** | **3** | **(3)** | **6** |

## 11. Income Taxes – 20 million euros

| (in millions of euros) | **1st half 2016** | 1st half 2015 | Change |
| --- | --- | --- | --- |
| Current taxes | 23 | 34 | (11) |
| Net deferred-tax liabilities (assets) | (11) | 17 | (28) |
| Income taxes attributable to previous years and other taxes | 8 | (11) | 19 |
| **Total for the Group** | **20** | **40** | **(20)** |

It should be noted that the net deferred tax liabilities and assets of the first half 2015 included the one-off negative effect, for 68 million euros, as result of the application of the repeal, decision handed down on February 11, 2015, of the Robin Hood tax, an IRES surcharge levied on companies in the oil and energy sector.

## 12. Earnings (Loss) per Share

| (in millions of euros) | 1st half 2016 Common shares | 1st half 2016 Savings shares (1) | 1st half 2015 Common shares | 1st half 2015 Savings shares (1) |
|---|---|---|---|---|
| Group interest in profit (loss) | (67) | (67) | (207) | (207) |
| Profit (Loss) attributable to the different classes of shares (A) | (70) | 3 | (210) | 3 |
| Weighted average number of shares outstanding (common and savings) determined for the purpose of computing earnings (loss) per share: | | | | |
| - basic (B) | 5,266,845,824 | 110,154,847 | 5,181,545,824 | 110,154,847 |
| - diluted (C) (2) | 5,266,845,824 | 110,154,847 | 5,181,545,824 | 110,154,847 |
| Earnings (Loss) per share (in euros) | | | | |
| - basic (A/B) | (0.0132) | 0.0250 | (0.0406) | 0.0250 |
| - diluted (A/C) (2) | (0.0132) | 0.0250 | (0.0406) | 0.0250 |

(1) 5% of par value for the higher dividend paid to the savings shares compared with the common shares. Savings shares are treated as common shares, since the portion of net income attributable to the savings shares has been deducted from Group interest in profit (loss).

(2) When the Group reports a loss, potential shares are deemed to have no dilutive effect.

# NOTES TO THE BALANCE SHEET

## Assets

### 13. Property, Plant and Equipment - 4,198 million euros

| (in millions of euros) | Land and buildings | Plant and machinery | Assets transferable at no cost (*) | Assets acquired under finance leases (**) | Manufact. and distrib. equipment | Other assets | Constr. in progress and advances | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 12.31.2015 (A)** | **384** | **2,740** | **54** | **4** | **3** | **7** | **486** | **3,678** |
| Changes in 2016: | | | | | | | | |
| - Additions | - | 34 | - | - | - | - | 97 | 131 |
| - Additions (IFRS 3 revised) | 65 | 369 | 97 | - | - | 2 | 34 | 567 |
| - Disposals (-) | - | (2) | - | - | - | - | - | (2) |
| - Depreciation (-) | (6) | (151) | (8) | - | - | (1) | - | (166) |
| - Other changes | (2) | 84 | - | - | - | - | (92) | (10) |
| **Total changes (B)** | **57** | **334** | **89** | **-** | **-** | **1** | **39** | **520** |
| **Balance at 06.30.2016 (A+B)** | **441** | **3,074** | **143** | **4** | **3** | **8** | **525** | **4,198** |

(*) Referred to 50 hydroelectric concessions, of which 19 acquired through IFRS 3.
(**) Recorded as required by IAS 17 revised; the relative financial debt is exposed in "Long-term financial debt and other financial liabilities" (about 3 million euros) and in "Short-term financial debt" (less than 1 million euros).

| **Breakdown of the additions by Business Segment** | **1st half 2016** | 1st half 2015 |
|---|---|---|
| **Electric Power Operations** | **24** | **12** |
| *broken down as follows:* | | |
| *- Thermoelectric area* | 7 | 7 |
| *- Hydroelectric area* | 8 | 3 |
| *- Renewable sources area* | 9 | 2 |
| **Hydrocarbons Operations** | **105** | **126** |
| *broken down as follows:* | | |
| *- Hydrocarbon fields in Italy* | 20 | 37 |
| *- Hydrocarbon fields outside Italy* | 81 | 87 |
| *- Transmission and storage infrastructures* | 4 | 2 |
| **Corporate Activities and Other Segments** | **2** | **1** |
| **Total for the Group** | **131** | **139** |

In particular in the **Hydrocarbons Operations** investments are mainly focused on the Exploration & Production area in Italy, Algeria and Egypt.

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

A more detailed analysis of **additions (IFRS 3 revised)** is provided in the paragraph "Changes in the Scope of Consolidation compared with December 31, 2015 - Acquisition and Disposal of Assets" and of **depreciation** is provided in the "Depreciation, amortization and writedowns" (Note 7).

Please note that assets valued at 35 million euros are encumbered as collateral for loans provided by financial institutions.

### 14. Investment Property - 5 million euros

The Group's investment property, which consists of land and buildings that are not used for production purposes decreased by 1 million euros compared with December 31, 2015 (6 million euros) subsequent to a sale of minor buildings that are not used for production without material economic effect.

### 15. Goodwill – 2,357 million euros

| (in millions of euros) | **06.30.2016** | **12.31.2015** |
|---|---|---|
| Electric Power Operations | 1,654 | 1,652 |
| Hydrocarbons Operations | 703 | 703 |
| **Total** | **2,357** | **2,355** |

The increase of 2 million euros is due to the acquisition of a company by Fenice group.

The balance in this account is an intangible assets with an indefinite useful life. As such, it cannot be amortized in regular installments, but must be tested for impairment at least once a year (Note 17).

## 16. Hydrocarbon Concessions - 452 million euros

The hydrocarbon concessions decreased, compared with December 31, 2015, by 28 million euros mainly due to the amortization for the period (26 million euros). The Group holds 116 mineral rights in Italy and abroad (including 3 storage concessions).

## 17. Other Intangible Assets - 134 million euros

| (in millions of euros) | Concessions, licenses, patents and similar rights (*) | Exploration costs | Other intangible assets | Work in progress and advances | Total |
|---|---|---|---|---|---|
| **Balance at 12.31.2015 (A)** | **96** | **-** | **17** | **5** | **118** |
| Changes in 2016: | | | | | |
| - Additions | 2 | 41 | 11 | 2 | 56 |
| - Amortization (-) | (6) | (41) | (2) | - | (49) |
| - Additions (IFRS 3 revised) | - | - | 8 | - | 8 |
| - Other changes | 1 | - | - | - | 1 |
| **Total changes (B)** | **(3)** | **-** | **17** | **2** | **16** |
| **Balance at 06.30.2016 (A+B)** | **93** | **-** | **34** | **7** | **134** |

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

**Exploration costs** for the period, which were amortized in full when incurred, totaled 41 million euros compared with 69 million euros in 2015.

The line **additions (IFRS 3 revised)** is due to Fenice group.

### Impairment Test of Assets in Accordance with IAS 36

In the first half of 2016, as required by IAS 36, the Group performed updated impairment tests of the individual Cash Generating Units (CGUs), whenever specific impairment indicators affecting recoverable values were detected.

Specifically with regard to the goodwill, waiting for the Group to draw up a new industrial plan, the short-term economic and scenario variables were analyzed and did not show, also with regard to the 2016 budget, specific triggers pointing to perform an impairment test at June 30, 2016. Also the tests referred to the assets did not show reductions in value.

## 18. Investments in Associates and Available-for-sale Investments - 237 million euros

| (in millions of euros) | Investments in associates | Available-for-sale investments | **Total** |
|---|---|---|---|
| **Balance at 12.31.2015 (A)** | **67** | **167** | **234** |
| Changes in 2016: | | | |
| - Disposals (-) | - | (2) | (2) |
| - Changes in shareholders' equity reserves | - | (2) | (2) |
| - Additions | 1 | - | 1 |
| - Valuations at equity | (3) | - | (3) |
| - Valuations at fair value | - | - | - |
| - Dividends (-) | (3) | - | (3) |
| - Other changes (+/-) | 12 | - | 12 |
| **Total changes (B)** | **7** | **(4)** | **3** |
| **Balance at 06.30.2016 (A+B)** | **74** | **163** | **237** |

**Disposals** are referred to the partial sell of RCS Mediagroup's shares with a positive economic effect lower than one million euros; **Changes in shareholders' equity reserves** refer to the distribution of the reserves for advances on capital contributions by Terminale GNL Adriatico Srl.

## 19. Other Financial Assets - 16 million euros

| (in millions of euros) | **06.30.2016** | 12.31.2015 | Change |
|---|---|---|---|
| Escrow bank deposits | 1 | 15 | (14) |
| Sundry items | 15 | 16 | (1) |
| **Total other financial assets** | **16** | **31** | **(15)** |

**Other financial assets** consist of financial receivable due in more than one year.

## 20. Deferred-tax Assets - 655 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| **Deferred-tax assets:** | | | |
| Tax loss carryforward | 56 | 33 | 23 |
| Taxed provisions for risks | 90 | 81 | 9 |
| Adoption of IAS 39 to value financial instruments with impact: | | | |
| - on shareholders' equity | 172 | 309 | (137) |
| Valuation differences of property, plant and equipment and intangibles | 337 | 279 | 58 |
| **Deferred-tax assets** | **655** | **702** | **(47)** |

In the first half of 2016, IFRS 3 revised business combinations led to an increase in deferred-tax assets for 61 million euros.

Deferred-tax assets were valued based on assumptions that they would probably be realized and the tax benefits recovered within the limited time horizon covered by the industrial plans of the various companies. For more details, see the information provided in Note 11 "Income Taxes".

## 21. Other Assets – 249 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Fair value on industrial portfolio derivatives (*) | 195 | 225 | (30) |
| Tax refunds receivable | 36 | 36 | - |
| Security deposits / others | 18 | 19 | (1) |
| **Total Other assets** | **249** | **280** | **(31)** |

(*) A comprehensive review is provided in the Section "Group Financial Risk Management".

## 22. Current Assets - 3,588 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Inventories | 171 | 253 | (82) |
| Trade receivables | 1,679 | 2,367 | (688) |
| Current-tax assets | 14 | 20 | (6) |
| Other receivables | 1,406 | 1,654 | (248) |
| Current financial assets | 120 | 113 | 7 |
| Cash and cash equivalents | 198 | 279 | (81) |
| **Total current assets** | **3,588** | **4,686** | **(1,098)** |

- The table that follows shows a breakdown of **inventories** by business segment:

| (in millions of euros) | Engineering consumables | Stored natural gas | Fuels | $CO_2$ emission rights | Other | Total at 06.30.2016 | Total at 12.31.2015 | Change |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Electric Power Operations | 8 | - | - | 2 | 17 | 27 | 71 | (44) |
| Hydrocarbons Operations | 32 | 99 | 13 | - | - | 144 | 182 | (38) |
| **Total for the Group** | **40** | **99** | **13** | **2** | **17** | **171** | **253** | **(82)** |

The net decrease for the period refers mainly to inventory reduction of stored natural gas and green certificates related to the trading activity. $CO_2$ emission rights are mainly related to the trading activity. The inventories included, for 44 million euros, stored natural gas the use of which is restricted as a strategic reserve or to secure performance under the balancing system.

- A breakdown of **trade receivables** by business segment is provided in the table below:

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Electric Power Operations | 983 | 854 | 129 |
| Hydrocarbons Operations | 710 | 1,525 | (815) |
| Corporate Activities and Other Segments and Eliminations | (14) | (12) | (2) |
| **Total trade receivables** | **1,679** | **2,367** | **(688)** |
| **Of which Allowance for doubtful Accounts** | **(300)** | **(327)** | **27** |

Specifically, trade receivables stem from contracts to supply electric power and steam, contracts to supply natural gas and Power Exchange transactions. The decrease in Hydrocarbons Operations also reflects the receipt of the second payment, in second quarter 2016, of the collection still due from Eni related to the successful conclusion (November 2015) of the arbitration for the contract to import natural gas from Libya.

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

| (in millions of euros) | 12.31.2015 | Additions | Utilizations | 06.30.2016 |
|---|---|---|---|---|
| **Allowance for doubtful accounts** (*) | **(327)** | (22) | 49 | **(300)** |

(*) Included default interests.

Additions to the allowance reflect the result of an assessment, performed consistent with the Group's policy, of the different status of receivables, taking into account each customer segment, the corresponding past-due receivables and the aging; utilizations were recognized for receivables deemed uncollectible during the period.

It is worth mentioning that the Group executes on a regular basis transactions involving the irrevocable assignment of receivables without recourse; for additional details please consult the disclosure in the section entitled "Group Financial Risk Management".

- **Current-tax assets** of 14 million euros include amounts owed by the tax authorities for overpayments of regional taxes (IRAP) and corporate income taxes (IRES) by companies that are not included in the consolidated income tax return filed by Transalpina di Energia Spa.
- A breakdown of **other receivables**, is provided in the table below:

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
|---|---|---|---|
| Fair Value on industrial portfolio derivatives and trading activities (*) | 798 | 1,140 | (342) |
| Amounts owed by partners and associates in hydrocarbon exploration projects | 59 | 75 | (16) |
| Advances to suppliers | 48 | 11 | 37 |
| Amounts owed by the controlling company in connection with the filing of the consolidated income tax return | 10 | 9 | 1 |
| VAT credit | 188 | 141 | 47 |
| Sundry items | 303 | 278 | 25 |
| **Total other receivables** | **1,406** | **1,654** | **(248)** |

(*) A comprehensive review is provided in the Section "Group Financial Risk Management".

- A breakdown of **current financial assets**, which are included in the computation of the Group's net financial debt, is as follows:

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
|---|---|---|---|
| Loans receivable | 84 | 83 | 1 |
| Derivatives | 34 | 28 | 6 |
| Equity investments held for trading | 2 | 2 | - |
| **Total current financial assets** | **120** | **113** | **7** |

The main component of loans receivable is a loan provided to Elpedison Sa (formerly Elpedison Power Sa) which in September 2015 was renewed until September 2016, with payment of the principal amount in one lump sum at maturity date. The interest payments due were made regularly; the company constantly monitors the situation.

- **Cash and cash equivalents** of 198 million euros (279 million euros at December 31, 2015) consist of short-term deposits in bank and postal accounts and other short-term investments and included. This item also includes the current account established with EDF Sa with a positive balance for 14 million euros.

## 23. Assets held for sale

The item has zero balance (212 million euros at December 31, 2015); the decrease is due to the sale of the companies Hydros (which has been valued by the equity method from January 1, 2016) and Sel Edison on May 31, 2016.

## Liabilities and Shareholders' Equity

### 24. Shareholders' Equity Attributable to Parent Company Shareholders – **5,922 million euros** - and Shareholders' Equity Attributable to Minority Shareholders - **348 million euros**

The shareholders' equity attributable to Parent Company shareholders was 483 million euros more than at December 31, 2015 (5,439 million euros); it reflects for 247 million euros the share capital increase reserved to the parent company Transalpina di Energia Spa, of which 85 million euros as share capital increase and 162 million euros as share premium reserves; the change of the period is also affected by the net loss (67 million euros) and the positive changes in the Cash Flow Hedge reserves (287 million euros).

The shareholders' equity attributable to minority shareholders was 89 million euros less than at December 31, 2015 (437 million euros); the net decrease reflects, the net profit for the period (11 million euros), the declaration of dividends' distribution to minority shareholders (35 million euros) and the effect related to Hydros, which has been deconsolidated and valued by the equity method from January 1, 2016 and then sold on May 31, 2016.

A breakdown of the shareholders' equity attributable to Parent Company shareholders and to minority shareholders is provided in the schedule entitled "Changes in Consolidated Shareholders' Equity".

A breakdown of share capital, which consists of shares with a par value of 1 euro each, all with regular ranking for dividends, is as follows:

| Share class | Number of shares | Millions of euros |
|---|---|---|
| Common shares | 5,266,845,824 | 5,267 |
| Savings shares | 110,154,847 | 110 |
| **Total** | **5,377,000,671** | **5,377** |

| Shareholder's Equity per share Attributable to Parent Company Shareholders | 06.30.2016 | 12.31.2015 |
|---|---|---|
| Shareholder's Equity Attributable to Parent Company Shareholders (in millions of euros) | 5,922 | 5,439 |
| Shareholder's Equity per share Attributable to Parent Company Shareholders (in euros) | 1.101 | 1.028 |

The table below provides a breakdown of the changes that occurred in the Cash Flow Hedge reserve, established upon the adoption of IAS 39 for the accounting treatment of derivatives. The change refers to the provisional recognition in equity of effective portion of derivatives executed to hedge price and foreign exchange risks on energy commodities. The amounts recognized directly in equity are reflected in the income statement in line with the effects of the hedged item.

| Cash Flow Hedge reserve (in millions of euros) | Gross reserve | Taxes | Net reserve |
|---|---|---|---|
| Reserve at December 31, 2015 | (986) | 309 | (677) |
| Changes in the period | 424 | (137) | 287 |
| **Reserve at June 30, 2016** | **(562)** | **172** | **(390)** |

### 25. Provision for Employee Severance Indemnities and Provisions for Pensions - **44 million euros**

The increase by 13 million euros compared with December 31, 2015 (31 million euros) is mainly due to the effects of including Fenice group into the consolidation scope (12 million euros). The amount reflects the accrued severance indemnities and other benefits owed to employees at the end of period. The actuarial gains and losses are recorded in equity. A valuation in accordance with the actuarial criteria of IAS 19 is performed only for the liability corresponding to the provision for Employee Severance Indemnities that is still held at the Company.

## 26. Provision for Deferred Taxes - 62 million euros

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

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
|---|---|---|---|
| **Deferred-tax liabilities:** | | | |
| Valuation differences of property, plant and equipment and intangibles | 80 | 61 | 19 |
| Other deferred-tax liabilities | 36 | 43 | (7) |
| **Total (A)** | **116** | **104** | **12** |
| **Deferred-tax assets usable for offset purposes:** | | | |
| Taxed provisions for risks | 22 | - | 22 |
| Tax-loss carryforward | - | 14 | (14) |
| Valuation differences of property, plant and equipment and intangibles | 6 | 24 | (18) |
| Other deferred-tax assets | 26 | 34 | (8) |
| **Total (B)** | **54** | **72** | **(18)** |
| **Total provision for deferred taxes (A-B)** | **62** | **32** | **30** |

In the first half of 2016, IFRS 3 business combinations led to an increase in provision for deferred taxes for 17 million euros.

For additional details, see the information provided in Note 11 "Income Taxes" and in Note 20 "Deferred-tax Assets", earlier in this Report.

## 27. Provisions for Risks and Charges - 1,139 million euros

| (in millions of euros) | 12.31.2015 | Additions | Utilizations | IFRS 3 revised | Other changes | 06.30.2016 |
|---|---|---|---|---|---|---|
| Risks for disputes, litigation and contracts | 129 | 1 | (1) | - | - | 129 |
| Charges for contractual guarantees on sale of equity investments | 75 | - | - | - | 5 | 80 |
| Environmental risks | 69 | - | (10) | - | - | 59 |
| Other risks and charges | 10 | - | - | - | - | 10 |
| Disputed tax items | 55 | 7 | (1) | - | - | 61 |
| **Total for legal and tax disputes** | **338** | **8** | **(12)** | **-** | **5** | **339** |
| Provisions for decommissioning and remediation of industrial sites | 688 | 12 | (1) | - | (21) | 678 |
| Provision for CO2 emission rights | - | - | - | - | 11 | 11 |
| Other risks and charges | 97 | 7 | (36) | 44 | (1) | 111 |
| **Total for the Group** | **1,123** | **27** | **(49)** | **44** | **(6)** | **1,139** |

The **Provisions for legal and tax disputes**, in line with the previous year, are mainly related to non-core business activities.

More detailed information about the issues that resulted in the current composition of these provisions is provided in the paragraph as entitled "Risks and contingent liabilities associated with legal and tax disputes" of 2015 Consolidated Financial Statements and in the corresponding updates provided later in these notes.

The **Provisions for decommissioning and remediation of industrial sites**, 678 million euros, reflect the valuation, discounted to the reporting date, of the decommissioning costs that the Group expects to incur for industrial sites and mineral extraction facilities; in the period the net decrease (10 million euros) reflect, *inter alia*, the conversion effect linked to financial statements in currencies other than the euro.

A more detailed analysis of additions (IFRS 3 revised) is provided in the paragraph "Changes in the Scope of Consolidation compared with December 31, 2015 -Acquisition and Disposal of Assets".

## 28. Bonds - 600 million euros

The balance of 600 million euros (599 million euros at December 31, 2015), represents the non-current portion of the Edison Spa bond issue; the table below shows the total amount outstanding at June 30, 2016 and the term of the bond issue.

| (in millions of euros) | Market where traded | Currency | Par value outstanding | Coupon | Rate | Maturity | Carrying value | | | Fair value |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Non-current portion | Current portion | Total | |
| Edison Spa | Luxembourg Secur. Exch. | EUR | 600 | Annual in arrears | 3.875% | 11.10.2017 | 600 | 34 | 634 | 647 |

The valuation at amortized cost of the bond issue, hedged with derivatives against the risk of changes in fair value caused by the interest rate fluctuation, was adjusted in accordance with hedge accounting rules to reflect the change in hedged risk.

## 29. Long-term Financial Debt and Other Financial Liabilities – 235 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Due to banks | 160 | 165 | (5) |
| Due to other lenders | 75 | 475 | (400) |
| **Total for the Group** | **235** | **640** | **(405)** |

The amount **due to other lenders** includes, for 70 million euros, the utilization of the medium-long term credit line (total face value of 200 million euros), provided by EDF Sa to Edison Spa in December 2015 in connection with investment projects and related to a credit line provided by the EIB to EDF Sa. Additional details are disclosed in the paragraph "Liquidity risk" in the Section "Group Financial Risk Management" of 2015 Consolidated Financial Statements.

The decrease of 400 million euros compared with December 2015 reflects the reimbursement in advance, in May 2016, of the loan provided by EDF Investissements Groupe Sa to Edison Spa in 2013 (with an original face value of 800 million euros and a seven-year maturity, already reimbursed in advance for 400 million euros in December 2015).

## 30. Other Liabilities – 150 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Fair Value on industrial portfolio derivatives (*) | 148 | 314 | (166) |
| Other liabilities | 2 | 1 | 1 |
| **Total other liabilities** | **150** | **315** | **(165)** |

(*) A comprehensive review is provided in the Section "Group Financial Risk Management".

## 31. Current Liabilities - 3,391 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Bonds | 34 | 28 | 6 |
| Short-term financial debt | 516 | 306 | 210 |
| Trade payables | 1,311 | 1,623 | (312) |
| Current taxes payable | 8 | 25 | (17) |
| Other liabilities | 1,522 | 2,177 | (655) |
| **Total current liabilities** | **3,391** | **4,159** | **(768)** |

In particular it should be noted:

- **Bonds**, amounting to 34 million euros, include the total accrued interest at June 30, 2016.
- **Short-term financial debt** includes:

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Debt due to banks | 79 | 45 | 34 |
| Debt due to EDF companies | 190 | 59 | 131 |
| Debt due to unconsolidated Edison Group companies | 16 | 16 | - |
| Debt due to other lenders | 231 | 186 | 45 |
| **Total Short-term financial debt** | **516** | **306** | **210** |

It's worth of mentioning that the long term loan provided by EDF Investissements Groupe to Fenice Spa, at the acquisition date with a notional amount for 170 million euros, was reimbursed by Fenice at its originally maturity date in the month of June 2016.

- A breakdown of **trade payables** is provided below:

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Electric Power Operations | 780 | 846 | (66) |
| Hydrocarbons Operations | 532 | 742 | (210) |
| Corporate Activities and Other Segments and Eliminations | (1) | 35 | (36) |
| **Total trade payables** | **1,311** | **1,623** | **(312)** |

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

- **Current taxes payable** of 8 million euros represent the income taxes liability which are paid directly by the companies upon which they are levied.
- A breakdown of **other liabilities** is as follows:

| (in millions of euros) | **06.30.2016** | 12.31.2015 | Change |
|---|---|---|---|
| Fair Value on industrial portfolio derivatives and trading activities (*) | 1,076 | 1,623 | (547) |
| Amount owed to the controlling company in connection with the filing of a consolidated tax return | 28 | 196 | (168) |
| Amounts owed to joint holders of permits for hydrocarbon exploration | 118 | 131 | (13) |
| Payables owed to Tax Administration (other than current tax payables) | 34 | 8 | 26 |
| Amount owed to employees | 27 | 29 | (2) |
| Payables owed to social security institutions | 22 | 21 | 1 |
| Sundry items | 217 | 169 | 48 |
| **Total other liabilities** | **1,522** | **2,177** | **(655)** |

(*) A comprehensive review is provided in the Section "Group Financial Risk Management".

## 32. Liabilities held for sale

The item has zero balance (7 million euros at December 31, 2015); the decrease is due to Hydros, which was consolidated line by line until December 31, 2015 and it has been valued by the equity method from January 1, 2016 and then sold on May 31, 2016.

# NET FINANCIAL DEBT

At June 30, 2016 net financial debt totaled 1,067 million euros, 80 million euros less than the 1,147 million euros owed at December 31, 2015.

Consistent with the practice followed at the end of 2015, the table below provides a simplified breakdown of the Group's net financial debt:

| (in millions of euros) | *See note* | **06.30.2016** | 12.31.2015 | Change |
|---|---|---|---|---|
| Bonds - non-current portion | *28* | 600 | 599 | 1 |
| Non-current bank loans | *29* | 160 | 165 | (5) |
| Amounts due to other lenders - non-current portion | *29* | 75 | 475 | (400) |
| **Non current net financial debt** | | **835** | **1,239** | **(404)** |
| Bonds - current portion | *31* | 34 | 28 | 6 |
| Short-term financial debt | *31* | 516 | 306 | 210 |
| Current financial assets | *22* | (120) | (113) | (7) |
| Cash and cash equivalents | *22* | (198) | (279) | 81 |
| **Current net financial debt** | | **232** | **(58)** | **290** |
| Financial debt held for sale | | - | - | - |
| Financial asset held for sale | *23* | - | (34) | 34 |
| **Net financial debt** | | **1,067** | **1,147** | **(80)** |

The decrease of **Amounts due to other lenders - non-current portion** is related to the reimbursement in advance of the loan provided by EDF Investissements Groupe carried out in May 2016.

The **Current net financial debt** includes loans provided by EDF Sa for a total amount of nominal 190 million euros (included the treasury current account), the short term deposit with Transalpina di Energia for 161 million euros (95 million euros at December 31, 2015) and debt owed to unconsolidated Edison Group companies for 16 million euros.

# COMMITMENTS, RISKS AND CONTINGENT ASSETS

## Commitments – 1.414 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
|---|---|---|---|
| Guarantees provided | 1,229 | 1,173 | 56 |
| Collateral provided | 73 | 65 | 8 |
| Other commitments and risks | 112 | 124 | (12) |
| **Total for the Group** | **1,414** | **1,362** | **52** |

**Guarantees provided** (1,229 million euros) were determined based on the undiscounted amount of contingent commitments on the balance sheet date. They consist mainly of guarantees provided by the Group's Parent Company or by banks with the Parent Company's counter-guarantee to secure the performance of contractual obligations by subsidiaries and affiliated companies. They also include 71 million euros (unchanged compared with December 31, 2015) in guarantees provided to the Revenue Office on behalf of subsidiaries for the offsetting of VAT credits and those provided in connection with the intra-Group assignment of tax credits.

**Collateral provided** (73 million euros) reflects the carrying amounts of the assets or rights pledged as collateral on the balance sheet date. This account consists for the most part of mortgages and encumbrances granted on facilities of the Electric Power Operations to secure financing provided by financial institutions (35 million euros).

**Other commitments and risks** (112 million euros) reflect primarily commitments undertaken to complete investment projects under construction in Italy and abroad (65 million euros).

With reference to the long-term contracts for the importation of natural gas, which contain take-or-pay clauses that obligate the buyer to pay any shortage between the stipulated minimum quantities and the quantity actually used, please note that no commitments were recorded at June 30, 2016 as at December 31, 2015.

## Unrecognized Commitments and Risks

There were no significant changes regarding the main risks and commitments not included in the amounts above in the period compared with disclosures in the 2015 Consolidated Financial Statements, which should be consulted for more complete and comprehensive information. In particular, the **Hydrocarbons Operations** entered into long term contracts for the importation of natural gas from Algeria, Libya, Qatar and Russia. The table below provides a breakdown of the timing for the supply of natural gas, based on minimum contractual deliveries:

| | | within 1 year | from 2 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|
| Natural Gas | Billions of $m^3$ | 13.2 | 48.6 | 112.0 | **173.8** |

The economic data are based on prospective pricing formulas.

## Risks and contingent liabilities associated with legal and tax disputes

A review, based on information currently available, of the developments affecting the main legal and tax disputes that occurred in the first half 2016 is provided in this paragraph, listing separately actions involving Edison Spa and actions involving other Group companies, with a further differentiation between:

- **probable liabilities**, for which it was possible to develop a reliable estimate of the underlying expected obligation and recognize a corresponding provision for risks, even though the timing of any resulting monetary outlay cannot be objectively predicted; and
- **contingent liabilities**, which are dependent on the occurrence of events that are possible, but not probable, or are probable but their impact cannot be quantified reliably and are likely to result in a cash outlay of an amount that cannot reasonably be estimated, with regard to which only a disclosure is provided in the notes to the financial statements.

Please see the disclosure provided in the 2015 Consolidated Financial Statements for a comprehensive review of these issues.

Following below are also the details the main disputes of Fenice, consolidated by Edison Group from April 1, 2016.

### Probable liabilities associated with legal disputes

A) **Liabilities for which a provision for disputes, litigation and contracts risks was recognized in the balance sheet**:

#### Edison Spa

| Date started / Jurisdiction | Description of dispute | Status of proceedings |
|---|---|---|
| ***Actions for damages and administrative proceedings arising from the operation of industrial facilities conveyed to Enimont*** <br> ***Edison is a party to these proceedings as universal successor to Montedison Spa*** | | |
| **Belvedere di Spinello – Civil Proceedings** | | |
| October 31, 1986 Court of Catanzaro / Catanzaro Court of Appeals | These proceedings concerning the Belvedere di Spinello mining concession, derives from rock salt mining activities carried out at this location by Montedipe Spa for over 20 years. The proceeding have to do with compensation for the damages suffered by two provincial administrations due to the destruction of a provincial road caused by the collapse of the mine in 1984. Within the procedure a court appointed expert's report was prepared and this will be examined in the hearing established on October 7, 2016. | As per the description of the dispute. |

B) **Liabilities for which a provision for risks for contractual guarantees on sale of equity investments was recognized in the balance sheet**:

#### Edison Spa

| Date started / Jurisdiction | Description of dispute | Status of proceedings |
|---|---|---|
| ***Civil lawsuits, criminal trials and administrative proceedings concerning the sale of Agorà Spa, which owned 100% of the shares of Ausimont Spa*** <br> ***Edison is a party to these proceedings in its capacity as universal successor to Montedison Spa*** | | |
| **Ausimont – Spinetta Marengo – Criminal proceedings** | | |
| October 2009 Alessandria Court of Assizes | Also with regard to the former Ausimont industrial site of Spinetta Marengo, the local court's Public Prosecutor began an investigation targeting several individuals, including three former managers of | As per the description of the dispute. |

| | | |
|---|---|---|
| | Montedison (now Edison), alleging that they may have committed environmental crimes. Edison is being sued by certain parties as the civilly liable party.<br>On December 14, 2015, the Court of Assizes convicted four of the eight defendants of the crime of negligent environmental disaster and ordered them, jointly with Solvay Specialty Polymers, to pay civil damages to the civil plaintiffs who joined the proceedings.<br>The motivations of the judgment were made public on June 8, 2016. | |

C) **Liabilities for which a provision for environmental risks was recognized in the balance sheet**:

## Edison Spa

| Date started / Jurisdiction | Description of dispute | Status of proceedings |
|---|---|---|
| **Montedison - Former-Montedison area called "Old Officine del Gas" in Milan - Bovisa** | | |
| June 2013<br>Court of Milan | The subject of this dispute, which concerns a Montedison site called "former Officine del Gas," in Milan's Bovisa" district, is a claim for damaged lodged against Edison by the City of Milan in connection with alleged environmental remediation costs for this site (at this site, Montedison Spa carried out a gas production and distribution business from 1966 to 1981). The damage claim is also for the damage allegedly suffered by the City of Milan for the loss of value of assets it owns.<br>On May 5, 2016, the parties, without prejudice to the criticism formulated during the course of the judgment, reached a settlement for an overall amount of about five million euro. | As per the description of the dispute. |

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## Contingent liabilities associated with legal disputes

## Edison Spa

| Date started / Jurisdiction | Description of dispute | Status of proceedings |
|---|---|---|
| **ACEA – Unfair competition complaint in connection with the acquisition of Edipower Spa** | | |
| August 7, 2006<br>Court of Rome | This litigation stems from a complaint filed by ACEA Spa against several parties, including AEM Spa (now A2A Spa), EDF Sa, Edipower Spa and Edison Spa, for an alleged act of unfair competition, pursuant to Article 2598, Section 3, of the Italian Civil Code, caused by the violation of the 30% ceiling on the ownership of Edipower Spa by government-owned companies, as set forth in the Prime Minister Decree dated November 8, 2000.This violation allegedly occurred when EDF and AEM acquired joint control of Edison in 2005. ACEA considered such modification of the control structure of Edison and, consequently Edipower, injurious to itself and asked that AEM (now A2A) and EDF be ordered to pay damages. In addition, ACEA asked the Court to take the actions necessary to void the consequences of the acquisition.<br>Regarding this last request by ACEA, it must be noted that effective May 24, 2012, Edison sold the interest it held in Edipower to Delmi Spa. Insofar as Edison is concerned, the lower court proceedings ended with a decision in which Edison was found to have no standing as a defendant. | By a brief filed on September 29, 2014, ACEA appealed the Court of Rome's decision; the hearing for the clarification of the conclusions was held on March 21, 2016 and the decision was not taken. |
| **"Vega" Offshore Hydrocarbon Field – "Vega Oil" floating storage unit** | | |
| August 2007<br>Court of Modica/ Court of Ragusa | These criminal trial concerns an employee of Edison Spa and two other persons for the alleged violation of Articles 104 (discharges in the subsoil and the aquifer) and Article 260 (activities organized for unlawful trafficking of waste) of Legislative Decree No. 152/2006 | As per the description of the dispute. |

| | | |
|---|---|---|
| | (Uniform Environmental Code) in connection with the Vega Oil floating storage unit.<br>The proceeding started in 2007 and the investigation ended with an initial indictment before the Court of Modica. However, during the hearing for oral arguments, the Court, by a decision handed down on October 22, 2012, upheld the arguments put forth the counsel for the defendants, voided the decree that ordered the trial, returning the record of the proceedings to the Preliminary Hearing Judge.<br>The elimination of the Court of Modica at the beginning of 2013 meant that the trial was transferred to Ragusa.<br>With judgment of May 6, 2016 the Court of Ragusa acknowledged the expiry of the time barring limit for all the counts to the benefit of all the defendants. | |

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## Mainly disputes of Fenice Spa

| Date started / Jurisdiction | Description of dispute | Status of proceedings |
|---|---|---|
| **Late communication of the contamination - Waste-to-Energy plant of Melfi (ITM Melfi): environmental disaster** | | |
| February 3, 2009, Court of Melfi then Court of Potenza | Criminal dispute for alleged offence of environmental disaster following an event of contamination of the soil/subsoil caused by an accidental leakage from a tank communicated late.<br>The Regione Basilicata (asking for damages of 1 million euros for damage to their image and to the environment), Legambiente Basilicata Onlus (which did not quantify the damage, leaving it up to the judge for damage to the environment) and the Province of Potenza (asking for damages of 10 million euros) joined the proceedings as civil parties seeking damages. | First grade, in the debate phase |
| **Late communication of the contamination - Waste-to-Energy plant of Melfi (ITM Melfi): fine for the delay** | | |
| May 31, 2010 Court of Potenza | Civil dispute in which the Province has notified the payment Order-Injunction for about 1 million euros for violation of art. 304 paragraph 2 of Legislative Decree 152/06 because Fenice did not make the contamination communication within the legal timeframe, specifically it made this communication with 1,039 days of delay from the date the CSC was exceeded. The calculation of the fine starts from the date legislative decree 152/06 came into force (that is from April 29, 2006 and until March 03, 2009). With this claim Fenice was offered the possibility of paying a reduced fine of 1 million euros (minimum decreed); this sum could reach up to the maximum decreed amount of 3 million euros because Fenice opposed it and has filed an appeal application.<br>On May 6, 2013 the Court of Melfi, by accepting the application for interim relief proposed by the company, suspended the executive effect of the injunction order. | First grade. The trial has been adjourned until October 4, 2016 for the discussion. |
| **Internal Users Networks (RIU): appeal against the Electric and Gas Energy Authority (AEEG) for cancellation of the AEEG deliberation dated 12/11/2015 no. 539/2015 "Rules of the services of connection, measurement, transmission, distribution, despatch and sale in the case of SDC"** | | |
| January 11, 2016, Lombardy Regional administrative Court | Administrative dispute. Appeal presented against the AEEG deliberation along with the Customers that Fenice provides the services to, as the customers are the Operators of the RIU and thus the direct recipients of the Deliberation.<br>Indeed this Deliberation has established that private networks are equivalent to (public) distribution networks so the Provider of the RIU is likened to an electric power distributor starting from January 1, 2017 with costly economic and organisational effects for the Provider.<br>Furthermore, the Deliberation has also established the payment of the dispatch charges (now approximately 15 €/MWh) on the electric power | First grade. Hearing on the merits established for November 17, 2016 |

| | | |
|---|---|---|
| | consumed within the RIU (before it was only paid on those taken from the grid) also starting from January 1, 2017.<br>The company considers low risk also considering that, even if the dispatch charges should be paid by the Providers, who are Fenice Customers, and not by Fenice. | |
| **Appeal against some prescriptions of the AIA** | | |
| March 12, 2009 contamination communication | Administrative procedure<br>On 3/12/2009 Fenice communicated the presence of contamination of the soil/subsoil caused by an accidental leak as laid down by art.242 paragraph 1 of Legislative Decree 152/2006 and simultaneously implemented the Emergency Safety Plan MISE (Emergency Safety Implementation).<br>The procedure then followed its course with the summons and participation of Fenice and of all the Competent Authorities in the Conferences of the Services.<br>Within the Conference of Services, the Plan of characterisation and Risk Analysis was approved; on 8/3/2011 Fenice presented the MISO (Operative Safety Implementation) project but the Technical Committee rejected the MISO project and requested the presentation of a Remediation Plan.<br>On 5/29/2014 the company presented the "Proposal of Operative Protocol for revising the remediation project" broken down into phases: PHASE 0 Data updates (completed); PHASE 1 Technical Committee and monitoring campaign protocol of the groundwater (completed); PHASE 2 Drawing up remediation project (in progress); PHASE 3 Project Realisation and PHASE 4 Monitoring the results (yet to start) | In Phase 2 "Drawing up the remediation project" which envisages laboratory controls, on field pilot interventions and drawing up the operative remediation project |
| **Fenice - FCA Unità Plastica Melfi contract** | | |
| March 24, 2016 Document of the GSE of cancelling the CAR acknowledgement for the years 2012, 2013 and 2014 | On 3/24/2016 receipt of the document of the GSE with which was communicated the cancellation of the CAR acknowledgement for the productions referred to the accounting years 2012, 2013 and 2014 for not respecting Ministerial Decree 9/5/2011; a consequence of the cancellation of the CAR acknowledgement is the return of the White Certificates and the non recognition of the SEU qualification with consequent payment of the dispatch charges. Fenice considers that the cancellation of the CAR acknowledgement was caused by the non approval by FCA of the investments necessary to achieve the "CAR Requirement" on at least 50% of the electric power produced. If an agreement should not be reached on who will pay the dispatch charges, the contractual parties will resort to arbitration | Awaiting receipt of the communication of absence of SEU acknowledgement from the EEL authority from which the obligation of payment of the dispatch charges will then derive |

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## Probable Liabilities Associated with Tax Disputes

There were no developments compared with the disclosure provided in the 2015 Consolidated Financial Statements.

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## Contingent liabilities associated with tax disputes

### Edison Spa

| **Date started / Assessing office** | **Description of dispute** | **Status of proceedings** |
|---|---|---|
| **Disputed Municipal Property Taxes (ICI) on Offshore Hydrocarbon Production Platforms** | | |
| Various assessments for local taxes (ICI and IMU) from various | After the sentence of the Court of Cassation of February 2016 (Eni/City of Pineto dispute), at the beginning of June 2016, the Ministry of Finance issued a Resolution in which it pointed out that, in relation to the possible application of IMU (local rates) to offshore oil platforms, the current legal framework seemed to be incoherent and | Assessments pending, at various levels of the judicial process, before |

| | | |
|---|---|---|
| municipalities, from 2005 to the present | would require a change in the regulations on two levels: firstly on a general level to allow a census of the assets located in the territorial waters to be carried out, and a specific one to extend the IMU (formerly ICI) discipline even to assets other than those which are relevant for town planning purposes.<br>Also following the position assumed by the MEF, a lively parliamentary debate also ensued and some proposals for changes in the regulations were formulated, also pressurising the Government to resolve the matter.<br>Finally, at the beginning of July 2016 two appeals, presented respectively by Edison Spa and by the City of Termoli for two different ICI disputes at Rospo Mare, which had contrasting results in the appeals phase, were discussed before the Court of Cassation. The Supreme Court's decision has not yet been made.<br>Within this continually evolving framework, the company can only monitor the future developments with maximum attention, without prejudice to the fact that, also in conformity with what was stated by the MEF, it considers that the current legal framework does not permit oil platforms located in the territorial waters to be liable to ICI/IMU and is confident that this will be confirmed not only legislatively but also before the Courts of jurisdiction. | the merit and relevant courts. |
| **IRPEG (Corporate income Tax) / ILOR (local income tax) for 1995 and 1997 of the former subsidiary Edison Spa** | | |
| Investigation for IRPEG and ILOR purposes notified in December 2001 | At the end of June 2016 the Cort of Cassation deposited the sentence which nullifies the favorable decision to the Company issued by the Regional Tax Commission of Milan in 2008 and regarding the dispute for the year 1997 with deferment, so that, in substantial alignment with the decisions made for the years 1995-1996, another section of the Regional Commission will re-examine the question of the capital contribution payments made by the incorporated company Edison Spa to a foreign subsidiary.<br>The company is assessing the possible impact of the sentences and preparing the deeds for reinstatement before the Regional Commission. | Cassation with commitment before the Regional Tax Court. |

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## Contingent assets

There were no developments compared with the disclosure provided in the 2015 Consolidated Financial Statements.

# GROUP FINANCIAL RISK MANAGEMENT

This Section provides an overview of the policies and principles adopted by the Edison Group to manage and control the commodity price risk that arises from the volatility of the prices of energy commodities and environmental securities (CO2 emissions rights, green certificates and white certificates) and other risks related to financial instruments (foreign exchange risk, interest rate risk, credit risk and liquidity risk).

A more detailed description of these issues is provided in 2015 Consolidated Financial Statements.

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

## 1. Commodity Price Risk and Exchange Rate Risk Related to Commodity Transactions

Consistent with its Energy Risk Policies, the Edison Group manages this risk within the limit of an Economic Capital amount — measured in terms of Profit at Risk (PaR[1]) — approved by the Board of Directors for the Industrial Portfolio, including both transactions that hedge contracts to buy or sell commodities and the Group's production and assets. The Economic Capital represents the risk capital, stated in millions of euros, available to hedge market risks.

A simulation is carried out for the derivatives instruments that hedge the Industrial Portfolio, some of which qualify for hedge accounting under IAS 39 (Cash Flow Hedge or Fair Value Hedge) while others qualify as management standpoint (Economic Hedge), to assess the potential impact that fluctuations in the market prices of the underlying assets could have on the fair value of outstanding derivatives. Issues concerning the Italian forward market for electric power are discussed in the 2015 Consolidated Financial Statements.

The table below shows the maximum negative variance in the fair value of outstanding derivatives expected over the time horizon of the reporting period, with a 97.5% probability, compared with the fair value determined at June 30, 2016. In other words, compared with the fair value determined for financial derivatives outstanding at June 30, 2016, the probability of a negative variance greater than 464.7 million euros by the end of 2016 is limited to 2.5% of the scenarios.

| **Profit at Risk (PaR)** (in millions of euros) | **06.30.2016** | **06.30.2015** | **12.31.2015** |
| --- | --- | --- | --- |
| Maximum negative variance in the fair value (*) | 464.7 | 439.4 | 653.6 |

(*) With a level of probability of 97.5%.

The increase compared with the level measured at June 30, 2015 is mainly due to a higher net volume of financial contracts and to the increase in prices volatility of oil market.

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

| **Industrial portfolios** | **1st half 2016** | | **1st half 2015** | |
| --- | --- | --- | --- | --- |
| **Economic Capital absorbed** | **without derivatives** | **with derivatives** | **without derivatives** | **with derivatives** |
| Average absorption of the approved limit of Economic Capital | 115% | 43% | 60% | 53% |
| Maximum absorption | 264% - Jan. '16 | 87% - Jan. '16 | 88% - Jan. '15 | 91% - Jan. '15 |

These amounts were affected by the significant decrease in oil prices which resulted in an higher reduction of exchange rate exposure, already hedged, arising from long term contracts.

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, separated from the Group's Industrial Portfolio. Trading Portfolios are monitored based on strict risk ceilings. Compliance with these ceilings is monitored by an organizational unit independent of the trading unit.

| Value at Risk (VaR) (*) | 06.30.2016 | 06.30.2015 |
|---|---|---|
| Daily VaR Limit (**) | 2.3 million euros | 2.7 million euros |
| Stop Loss Limit | 12 million euros | 13.9 million euros |
| Utilized VaR limit at the end of the period | 12% | 24% |
| Average utilized VaR limit in the period | 14% | 23% |

(*) Value at Risk: is a statistical measurement of the maximum potential negative variance in the portfolio's fair value in response to unfavorable market moves, within a given time horizon and confidence interval.
(**) With a level of probability of 95%.

As is the case for the Industrial Portfolio, an Economic Capital that represents the total risk capital available to support the market risks entailed by trading activities is allocated to the entire set of Trading Portfolios. In this case, the Economic Capital ceiling takes into account the risk capital associated with the VaR of the portfolios and the risk capital estimated by means of stress tests for potentially illiquid positions.

| Trading Portfolios Economic Capital absorbed | 1st half 2016 | 1st half 2015 |
|---|---|---|
| Economic Capital's limit | 35.7 million euros | 42.0 million euros |
| Utilization at the end of the period | 16% | 29% |
| Average utilization in the period | 17% | 28% |

## 2. Foreign Exchange Risk

The foreign exchange risk arises from the fact that part of the activities of the Edison Group are carried out in currencies other than the euro or are influenced by changes in foreign exchange rates through contractual components indexed to a foreign currency. Additional information about types of risk and objectives of foreign exchange risk management can be found in the extensive remarks provided in the notes to the 2015 Consolidated Financial Statements.

## 3. Interest Rate Risk

The Edison Group is exposed to fluctuations in interest rates specifically with regard to the measurement of debt service costs. Consequently, it values on a regular basis its exposure to the risk of fluctuations in interest rates, which it mainly manages with the negotiation of the loans; except for the hedging related to the bond issue derivatives qualified as hedge accounting under IAS 39 (Fair Value Hedge).

| *Gross Financial Debt* | 06.30.2016 | | | 12.31.2015 | | |
|---|---|---|---|---|---|---|
| *Mix fixed and variable rate:* (in millions of euros) | without derivatives | with derivatives | % with deriv. | without derivatives | with derivatives | % with deriv. |
| - fixed rate portion (included structures with CAP) | 611 | 11 | 1% | 1.009 | 409 | 26% |
| - variable rate portion | 774 | 1.374 | 99% | 564 | 1.164 | 74% |
| **Total gross financial debt** | **1.385** | **1.385** | **100%** | **1.573** | **1.573** | **100%** |

After the early reimbursement (on May 9, 2016) for 400 million euros of the fixed tax rate loan provided by EDF Investissements Groupe Sa, the Edison group has negotiated loans at variable tax rates (mainly the Euribor rate). Even the fixed rate bond loan of 600 million euros expiring on November 10, 2017 is converted to variable rate by means of the Interest Rate Swap, based on the 6 months Euribor rate. Edison currently benefits from the lower cost of the variable rate with respect to the fixed rate cost, with a saving of financial charges.

The table below provides a sensitivity analysis that shows the impact on the income statement and shareholders' equity, respectively, of a hypothetical shift of the forward curve of plus or minus 50 basis points compared with the rates actually applied in 2016 and provides a comparison with the 2015.

| *Sensitivity analysis* (in millions of euros) | 1st half 2016 Impact on financial expense (P&L) | | | 1st half 2015 Impact on financial expense (P&L) | | |
|---|---|---|---|---|---|---|
| | **+50 bps** | **base** | **-50 bps** | **+50 bps** | **base** | **-50 bps** |
| **Edison Group** | 12 | 11 | 10 | 24 | 22 | 19 |

## 4. Credit Risk

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

To control this risk, the Group implemented procedures and programs designed to evaluate customer credit worthiness (using specially designed scoring grids) and subsequently monitor the expected cash flows and any collection actions.

Edison Group is currently a party to contracts assigning trade receivables without recourse on a monthly revolving basis and by the transfer of the credit risk on a without recourse basis. The receivables assigned with such transactions during the first half of 2016 totaled 2,430 million euros (3,076 million euros at June 30, 2015). At June 30, 2016, these receivables were exposed to the risk of recourse for an amount lower than one million euros.

When it comes to choosing counterparties for transactions to manage temporary excess liquidity or execute financial hedging contracts (derivatives), the Edison Group deals only with entities with a high credit rating. At June 30, 2016, there were no significant exposures to risks related to a possible further deterioration of the overall financial environment and no significant levels of concentration held by non-institutional individual counterparties. The table below provides an overview of gross trade receivable, the corresponding allowance for doubtful accounts and the guarantees held to secure the receivables.

| (in millions of euros) | **06.30.2016** | 12.31.2015 |
|---|---|---|
| Gross trade receivables | 1.979 | 2.694 |
| Allowance for doubtful accounts (-) | (300) | (327) |
| **Trade receivables** | **1.679** | **2.367** |
| Guarantees held (*) | 420 | 428 |
| Receivables less than 6 in arrears | 130 | 163 |
| Receivables 6 to 12 months in arrears | 121 | 116 |
| Receivables more than 12 months in arrears | 425 | 402 |

(*) Including 145 million euros to hedge receivables outstanding at June 30, 2016.

The ongoing credit management approach, differentiated for the three market segments (Retail, Business and Public Administration) with the aim, with structural actions, to prevent the accumulation of new receivables and quickly reduce current receivables and receivables in arrears, continues in 2016. A more detailed description of these issues is provided in 2015 Consolidated Financial Statements.

With regard to foreign activities, it is worth noting that the past-due receivables owed in Egypt at June 30, 2016 by the Egyptian General Petroleum Corporation (EGPC) (231 million euros), increased by 47 million euros compared with December 31, 2015.

The amount of the allowance for doubtful accounts is determined conservatively based on the different statuses of the underlying receivables - particularly for retail customer receivables - taking into account the aging of past-due receivables.

## 5. Liquidity Risk

The liquidity risk is the risk that the Group may not have access to sufficient financial resources to meet its financial and commercial obligations in accordance with agreed terms and maturities. The table that follows provides a worst-case scenario; the future cash outflows referred to the liabilities include, in addition to principal and accrued interest, also all interest payments estimated for the entire length of the underlying debt obligation and the effect of interest rate derivatives. Therefore, the aggregate liability amount, evaluated in this manner, is larger than the gross financial debt amount used to compute the Group's net financial debt. In addition, assets (cash and cash equivalents, trade receivables, etc.) are not taken into account and financing facilities are treated as if repayable on demand, in the case of revocable lines of credit, or on the first due date when repayment can be demanded, in other cases.

| *Worst-case scenario* (in millions of euros) | 06.30.2016 | | | 12.31.2015 | | |
|---|---|---|---|---|---|---|
| | 1 to 3 months | More than 3 months and up to 1 year | After 1 year | 1 to 3 months | More than 3 months and up to 1 year | After 1 year |
| Bonds | - | 23 | 623 | - | 23 | 623 |
| Financial debt and other financial liabilities | 398 | 7 | 225 | 172 | 14 | 673 |
| Trade payables | 1,264 | 47 | - | 1,594 | 29 | - |
| **Total** | **1,662** | **77** | **848** | **1,766** | **66** | **1,296** |
| **Guarantees provided to third parties (*)** | **779** | **205** | **245** | **683** | **211** | **279** |

(*) These guarantees, mainly of a commercial nature and related to the Group's core businesses, are shown based on their remaining contractual maturity. For further details, see the "Commitments, Risks and Contingent Assets" section of this Report.

The financial debt maturing within the year (428 million euros) derives mainly from the use of flexible funding mechanisms, readily usable at Edison's discretion, such as the overdraft facility on a cash pooling current account with EDF Sa for 75 million euros, a drawdown of 100 million euros from the revolving credit line provided by EDF Sa and the funds that the parent company Transalpina di Energia Spa made available to Edison Spa as a short-term deposit for 161 million euros.

It is pointed out that in May 2016, Edison Spa reduced the long term indebtedness by reimbursing in advance the loan provided by EDF Investissements Groupe Sa, that remained for 400 million euros, after a first reimbursing in advance carried out in December 2015. This financial transaction was made possible thanks to the second collection of the proceeds deriving from the arbitral award with Eni.

The financial debt maturing after one year (848 million euros) thus includes:

- the bond issue of a nominal 600 million euros maturing on November 10, 2017;
- a drawdown of 134 million euros on the medium-long term direct line of the European Investment Bank (EIB) destined to finance storage projects, and
- a drawdown of 70 million euros on the credit line provided by EDF Sa on EIB funds (total amount of 200 million euros with 10 year maturity) to finance certain Exploration & Production project in Italy.

It also worth of mentioning that the financial debt includes the Fenice group contribution with effect from April 1, 2016 resulting from contribution in kind of Fenice Spa in Edison. As at June 30, 2016 the financial debt maturing within the year of this group amounts to approximately 33 million euros, also balanced by cash equivalents for about 40 million euros. In particular it should be noted a drawdown of 15 million euros of a revolving credit line provided by EDF Sa for a total amount of 60 million euros.

The expected funding requirement in the short term of Edison group are being provided by:

- the cash pooling current account with EDF Sa for a maximum amount of 199 million euros, at June 30, 2016 available for 124 million euros;
- the credit lines provided by EDF Sa for a total amount of 660 million euros, at June 30, 2016 available for 545 million euros; and
- in the third instance, a 500-million-euro revolving credit line expiring in November 2016, provided by a group of banks on a Club Deals basis, currently available for its full amount.

## 6. Default Risk and Debt Covenants

This type of risk arises from the possibility that loan agreements or bond indentures to which Group companies are a party may contain provisions that, if certain events were to occur, would empower the lenders, be they banks or bondholders, to demand that the borrower repay immediately the loaned amounts, which, consequently, would create a liquidity risk (see the "Liquidity Risk" paragraph above).

The following bond issue floated by the Group (Euro Medium Term Note) with a total face value of 600 million euros was outstanding at June 30, 2016:

| Description | Issuer | Market where traded | ISIN Code | Term (years) | Maturity | Face value (in millions of euros) | Coupon | Current rate |
|---|---|---|---|---|---|---|---|---|
| EMTN 11/2010 | Edison Spa | Luxembourg Stock Exch. | XS0557897203 | 7 | 11.10.2017 | 600 | Fixed annual | 3.875% |

Outstanding debt obligations of the Group include non-syndicated facilities totaling 914 million euros, the unused portion of which was 550 million euros at June 30, 2016, and syndicated facilities amounting to 500 million euros on base club deal fully unused at June 30, 2016.

With regard to the transactions currently outstanding, including the corresponding loan agreements and bond indentures and the covenants they include, nothing changed compared with December 31, 2015. Additional information can be found in the extensive remarks provided in the notes to the 2015 Consolidated Financial Statements.

At present, the Group is not aware of the existence of any default situation or non-compliance with covenants.

## Analysis of Forward Transactions and Derivatives

### Forward Transactions and Derivatives

The Edison Group engages in trading for its own account in physical energy commodities and financial derivatives based on such commodities, in a manner consistent with special Energy Risk Policies. Accordingly, it defined an appropriate risk control structure and the necessary guidelines and specific procedures. The Group views this activity as part of its regular operations and the results derived from it are recognized in the Income Statement and are included in EBIT. Whenever possible, the Group uses hedge accounting, provided the transactions comply with the requirements of IAS 39.

Forward transactions and derivatives can be classified as follows:

1) **Derivatives that qualify as hedges in accordance with IAS 39**. This category includes transactions that hedge the risk of fluctuations in cash flow (Cash Flow Hedges - CFH) and those that hedge the fair value of the hedged item (Fair Value Hedge - FVH).
2) **Forward transactions and derivatives that do not qualify as hedges in accordance with IAS 39**. They can be:
    a. Transactions to manage foreign exchange and price risk on energy commodities related to the Industrial Portfolio. For all derivatives that comply with internal risk policies and procedures, realized results and expected values are either included in EBIT.
    b. Trading Portfolios. As explained above, they include physical and financial energy commodity contracts; both realized results and expected values of these transactions are included in EBITDA.

### Fair Value Hierarchy According to IFRS 13

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

- **Level 1**: Determination of fair value based on quoted prices (unadjusted) for identical assets or liabilities in active markets. Instruments with which Edison Group operates directly in active markets (e.g., futures) are included in this category.
- **Level 2**: Determination of fair value based on inputs other than the quoted prices of Level 1 but which are directly or indirectly observable (e.g., forward contracts or swaps in futures markets).
- **Level 3**: Determination of fair value based on valuation models with inputs not based on observable market data (unobservable inputs). At this time, as at December 31, 2015, the Group hold a category of instruments classified at this level.

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

## Effects of Hedging Derivative and Trading Transactions on the Income Statement and Balance Sheet in first half 2016

### Income Statement:

| (in millions of euros) | Realized | Change in Fair Value in the period | Amounts recognized in earnings at 06.30.2016 | Amounts recognized in earnings at 06.30.2015 |
|---|---|---|---|---|
| | (A) | (B) | (A+B) | |
| **Result from price risk and exchange risk hedges for commodities of which:** | | | | |
| ***Total definables as hedges pursuant to IAS 39 (CFH) (*)*** | ***(78)*** | ***14*** | ***(64)*** | ***13*** |
| Price risk hedges for energy products | (101) | 24 | (77) | (237) |
| Exchange risk hedges for commodities | 23 | (10) | 13 | 250 |
| ***Total definables as hedges pursuant to IAS 39 (FVH) (***)*** | ***19*** | ***(2)*** | ***17*** | - |
| Price risk hedges for energy products | (13) | 117 | 104 | - |
| Exchange risk hedges for commodities | 32 | (10) | 22 | - |
| Fair value physical contracts | - | (109) | (109) | - |
| ***Total not definables as hedges pursuant to IAS 39*** | ***(128)*** | ***(89)*** | ***(217)*** | ***18*** |
| Price risk hedges for energy products | (167) | (63) | (230) | 9 |
| Exchange risk hedges for commodities | 39 | (26) | 13 | 9 |
| **Total price risk and exchange risk hedges for commodities (A)** | **(187)** | **(77)** | **(264)** | **31** |
| **Margin on trading activities of which:** | | | | |
| Margin on physical trading activities (**) | 43 | (34) | 9 | (6) |
| Margin on financial trading activities | (40) | 34 | (6) | 10 |
| **Total margin on trading activities (B)** | **3** | **-** | **3** | **4** |
| **TOTAL INCLUDED IN EBIT (A+B)** | **(184)** | **(77)** | **(261)** | **35** |
| **Result from interest rate hedges:** | | | | |
| Definables as hedges pursuant to IAS 39 (FVH) | (4) | 5 | 1 | 1 |
| Not definables as hedges pursuant to IAS 39 | - | - | - | - |
| **Total interest rate hedges (C)** | **(4)** | **5** | **1** | **1** |
| **Result from exchange rate hedges:** | | | | |
| Definables as hedges pursuant to IAS 39 (CFH) | 20 | (7) | 13 | 69 |
| Not definables as hedges pursuant to IAS 39 | 1 | 2 | 3 | 14 |
| **Total exchange rate hedges (D)** | **21** | **(5)** | **16** | **83** |
| **TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE) (C+D)** | **17** | **-** | **17** | **84** |

(*) Includes the ineffective portion.
(**) Includes the fair value adjustment of trading inventories, the carrying amount of which was immaterial at 06.30.2016
(***) Related to the hedging relationships carried out prospectively from January 1, 2016.

The table below provides a breakdown of the amounts recognized on the Balance Sheet following the measurement at fair value of the derivatives and physical contracts outstanding at June 30, 2016 and their classification on the fair value hierarchy as required by IFRS 13:

### Fair value recorded in Balance Sheet and classification by IFRS 13:

| (in millions of euros) | 06.30.2016 | | 12.31.2015 | |
|---|---|---|---|---|
| | Receivables | Payables | Receivables | Payables |
| Foreign exchange transactions | 116 | (15) | 274 | (10) |
| Interest rate transactions | 34 | - | 28 | - |
| Physical Trading transactions | 188 | (144) | 216 | (138) |
| Other commodity transactions | 689 | (1.065) | 875 | (1.789) |
| **Fair value recognized as current assets or current liability (a)** | **1.027** | **(1.224)** | **1.393** | **(1.937)** |
| Broken down as follows: | | | | |
| - recognized as "Other receivables" and "Other liabilities" | 798 | (1.076) | 1.140 | (1.623) |
| - recognized as "Other assets" and "Non-current other liabilities" | 195 | (148) | 225 | (314) |
| - recognized as "Current financial assets" and "Short-term financial debt" | 34 | - | 28 | - |
| Broken down on fair value hierarchy: | | | | |
| - Level 1 | 38 | (55) | 25 | (16) |
| - Level 2 | 989 | (1.161) | 1.368 | (1.914) |
| - Level 3 (*) | - | (8) | - | (7) |
| **IFRS 7 potential offsetting (b)** | **(347)** | **347** | **(602)** | **602** |
| **Potential net Fair Value (a+b)** | **680** | **(877)** | **791** | **(1.335)** |

(*) The fair value classified at Level 3 is recognized in Raw materials and services used.

**Fair value on industrial derivatives portfolio and trading activities:**

| (in millions of euros) | 06.30.2016 | | | 12.31.2015 | | |
|---|---|---|---|---|---|---|
| **Fair value on industrial derivatives portfolio and trading activities** | **Receivables** | **Payables** | **Net amount** | Receivables | Payables | Net amount |
| Broken down as follows: | | | | | | |
| - recognized as "Other receivables" and "Other liabilities" | 797 | (995) | (198) | 1.140 | (1.623) | (483) |
| - recognized as "Other assets" and "Non-current other liabilities" | 195 | (119) | 76 | 225 | (314) | (89) |
| **Total** | **992** | **(1.114)** | **(122)** | **1.365** | **(1.937)** | **(572)** |
| Broken down as follows: | | | | | | |
| - on industrial portfolio | 731 | (865) | (134) | 1.074 | (1.658) | (584) |
| - on trading activities (physical and financial) | 261 | (249) | 12 | 291 | (279) | 12 |

It is worth of mentioning that in 2016 some hedging relationships have been revoked in order also to carry out prospectively new hedging relationship of Fair Value Hedge; the fair value recorded at the date of revocation was maintained in the Cash Flow Hedge Reserves and reflected in the income statement in line with the effects of the hedged item.

In addition to the disclosures provided above, specifically with regard to the Fair Value hierarchy as required by IFRS 13, please note that:

- the **available-for-sale investments** include for 1 million euros (3 million euros at December 31, 2015) listed securities classified at level 1 and for 157 million euros (159 million euros at December 31, 2015) unlisted securities classified at level 3;
- the **current financial assets** include for 2 million euros (unchanged compared with December 31, 2015) equity investments held for trading classified at level 1.

The Edison Group has chosen not to adopt the value option and, consequently, neither financial debt nor bonds were restated at fair value.

# INTERCOMPANY AND RELATED-PARTY TRANSACTIONS

Consistent with the applicable policies adopted by the Group, transactions with related parties affecting the income statement and balance sheet that were outstanding at June 30, 2016 are reviewed below. The information provided is sufficient to meet the disclosure requirements of IAS 24. These transactions were executed in the normal course of business and on contractual terms that were consistent with standard market practices. It worth of mentioning the transaction of contribution to Edison Spa by Transalpina di Energia of 100% of its equity stake in Fenice; this transaction has effect from April 1, 2016 and was carried out by a share capital increase in nature reserved to Transalpina di Energia for a total amount of 247 million euros.

| (in millions of euros) | *Related Parties pursuant to IAS 24* | | | **Total for related parties** | **Total for financial stat. line item** | **Impact %** |
|---|---|---|---|---|---|---|
| | *With unconsolidated Edison group companies* | *With controlling companies* | *With other EDF group companies* | | | |
| **Balance Sheet transactions:** | | | | | | |
| Investments in associates | 73 | - | 1 | **74** | **74** | **100,0%** |
| Other financial assets | 4 | - | - | **4** | **16** | **25,0%** |
| Trade receivables | - | - | 34 | **34** | **1.679** | **2,0%** |
| Other receivables | 2 | 13 | 20 | **35** | **1.406** | **2,5%** |
| Current financial assets | 80 | - | 1 | **81** | **120** | **67,5%** |
| Cash and cash equivalents | - | 14 | - | **14** | **198** | **7,1%** |
| Long-term financial debt and other financial liabilities | - | 70 | - | **70** | **235** | **29,8%** |
| Short-term financial debt | 16 | 351 | - | **367** | **516** | **71,1%** |
| Trade payables | 1 | 3 | 41 | **45** | **1.311** | **3,4%** |
| Other liabilities | 1 | 31 | 5 | **37** | **1.522** | **2,4%** |
| **Income Statement transactions:** | | | | | | |
| Sales revenues | - | 2 | 312 | **314** | **5.468** | **5,7%** |
| Other revenues and income | 1 | - | - | **1** | **96** | **1,0%** |
| Raw materials and services used | (7) | (8) | (227) | **(242)** | **(5.089)** | **4,8%** |
| Financial income | 3 | - | - | **3** | **19** | **15,8%** |
| Financial expense | - | (1) | (30) | **(31)** | **(67)** | **46,3%** |
| Net foreign exchange translation gains (losses) | - | 21 | - | **21** | **(12)** | **n.m.** |

## A) Transactions with unconsolidated Edison Group companies

These transactions, which represent outstanding transaction with unconsolidated Group companies, joint venture and affiliated companies, primarily include:

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

### Consolidated VAT Return

Edison Spa files a consolidated VAT return (so-called VAT Pool) that includes those companies of the Edison Group that meet the requirements of Article 73, Section 3, of Presidential Decree No. 633/72. The VAT Group return for June 30, 2016 showed a credit of 128 million euros. The latter amount does not include the interim application for reimbursement for 41 million euros.

## B) Transactions with controlling companies

### Consolidated IRES Return held by Transalpina di Energia Spa

The consolidated corporate income tax (IRES) return filed by Transalpina di Energia Spa (TdE), which includes the principal Group's companies, is being renewed for a further three years period.

### Short term deposit by Transalpina di Energia Spa

With the aim to optimize available financial resources, Transalpina di Energia Spa provided Edison Spa with funding in the form of a short term deposit; this deposit totaled 161 million euros at June 30, 2016 (95 million euros at December 31, 2015).

**Centralized Cash Management System by EDF Sa**

Please note that at June 30, 2016, the current account established by Edison Spa with EDF Sa had a debit balance for 75 million euros while the one by Fenice Spa and EDF Sa had a credit balance for 14 million euros.

**Loans by EDF Sa**

The credit line granted by EDF Sa to Edison Spa (face amount of 600 million euros) was renewed for two years at its maturity date of April 9, 2015 and drawn down for 100 million euros at June 30, 2016. The loan was provided on terms in line with those granted in the financial market to companies with Edison's credit rating.

It should be noted that, in December 2015, EDF Sa provided to Edison Spa with a new medium/long-term credit facility for a maximum amount of 200 million euros, earmarked for investment projects and originating from a credit facility provided by the EIB to EDF Sa; a total of 70 million euros had been drawn against this line at June 30, 2016 (amount unchanged compared with December 31, 2015).

Moreover, it should be noted that EDF Sa provided to Fenice Spa a short-term credit facility for a maximum amount of 60 million euros, a total of 15 million euros had been drawn against this line at June 30, 2016.

**Other intercompany transactions with EDF Sa**

With regard to contracts for services rendered by EDF Sa (mainly financial and insurance) and other recharges of expenses, the costs for the period amounted to about 8 million euros. It is worth mentioning that in the context of financial transactions Edison entered into transactions to hedge the exchange rate risk that, affected by the currencies' trend, generated net realized gains for about 21 million euros in the period.

## C) Transactions with other EDF Group companies

An analysis of the main transactions with other EDF Group companies is provided below.

### 1) Operational Transactions

| (in millions of euros) | EDF Trading Ltd | EDF EN Service Italia | Citelum | Fenice Group (*) | Others | **Total** |
|---|---|---|---|---|---|---|
| **Balance Sheet transactions** | | | | | | |
| Trade receivables | 29 | - | 5 | - | - | **34** |
| Other receivables | 18 | - | - | - | 2 | **20** |
| Trade payables | 32 | 8 | - | - | 1 | **41** |
| Other liabilities | 5 | - | - | - | - | **5** |
| **Income Statement transactions** | | | | | | |
| **Sales Revenues** | **302** | **-** | **7** | **1** | **2** | **312** |
| Electric power and natural gas | 150 | - | 7 | 1 | - | 158 |
| Realized commodity derivatives | 157 | - | - | - | - | 157 |
| Margin on physical trading activities | (4) | - | - | - | - | (4) |
| Margin on financial trading activities | (1) | - | - | - | - | (1) |
| Others | - | - | - | - | 2 | 2 |
| **Raw materials and services used** | **(209)** | **(17)** | **-** | **-** | **(1)** | **(227)** |
| Electric power and natural gas | (162) | - | - | - | - | (162) |
| Realized commodity derivatives | (47) | - | - | - | - | (47) |
| Plant maintenance | - | (17) | - | - | - | (17) |
| Others | - | - | - | - | (1) | (1) |

(*) Fenice group, consolidated line by line from April 1, 2016, is considered as related-party only for the economic transactions of the period January - March 2016.

### 2) Financial Transactions

The financial transactions executed with other companies of the EDF Group are reviewed below:

**Reimbursement loans by EDF Investissements Groupe Sa**

In May the long-term loan provided to Edison Spa was fully reimbursed for 400 million euros (face amount of 800 million euros with originally maturity on April 9, 2020; already reimbursed in advance for 400 million euros in December 2015). The financial expenses accrued during the period amounted to 28 million euros of which 20 million euro as breakage cost.

Moreover in June 2016, Fenice Spa reimbursed, at its originally maturity date, the loan of face value of 170 million euros. The financial expenses accrued during the period April-June 2016 amounted to 2 million euros.

# OTHER INFORMATION

## Significant Nonrecurring Events and Transactions

In the first half 2016, in accordance with Consob Communication n° DEM/6064293 of 28 July 2006, we wish to disclose that:

- on March 22, 2016 with effect from April 1, 2016, the Extraordinary Shareholders' Meeting of Edison Spa approved the transfer to Edison, by the controlling shareholder, Transalpina di Energia Spa, of 100% of the shareholding in Fenice Spa, a company in the EDF Group that is specialized in energy and environmental services. It operates in Italy as well as via subsidiaries in Poland, Spain and Russia. This operation was done with an increase in capital in nature, reserved to Transalpina di Energia Spa for a total of 247 million euros, of which 85 million euros went to an increase in capital, and 162 million euros was in the form of share premiums.
- In the second quarter of 2016, Edison and Eni signed an agreement to revise the price formula for the long-term contract to supply natural gas from Libya. The new formula is applied to volumes imported as from October 1, 2015 and applies for three years. This agreement closes the price review that Eni launched in the last quarter of 2015, for the long-term contract for a total of 4 billion cubic meters of gas per year.

## Transactions Resulting from Atypical and/or Unusual Activities

The Edison Group declares that it did not execute atypical and/or unusual transactions in the first half of 2016 as defined in the CONSOB Communication No. DEM/6064293 of July 28, 2006.

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## SIGNIFICANT EVENTS OCCURRING AFTER JUNE 30, 2016

No significant event requiring disclosure occurred after June 30, 2016.

# SCOPE OF CONSOLIDATION

## at June 30, 2016

# SCOPE OF CONSOLIDATION AT JUNE 30, 2016

## List of equity investments

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 06.30.2016 | Consolidated Group interest (a) 12.31.2015 | Interest held in share capital % (b) | Interest held in share capital by | Type of investment relationship (c) | Notes |
|---|---|---|---|---|---|---|---|---|---|

## A) Investments in companies included in the scope of consolidation

### A.1) Companies consolidated line by line

| Company name | Head office | Currency | Share capital | 06.30.2016 | 12.31.2015 | % (b) | by | Type (c) | Notes |
|---|---|---|---|---|---|---|---|---|---|
| **Group Parent Company** | | | | | | | | | |
| Edison Spa | Milan (IT) | EUR | 5,377,000,671 | | | | | | |
| **Electric Power Operations** | | | | | | | | | |
| Cellina Energy Srl (single shareholder) | Milan (IT) | EUR | 5,000,000 | 100.00 | - | 100.00 | Edison Spa | S | (i) |
| Compagnia Energetica Bellunese CEB Spa (single shareholder) | Milan (IT) | EUR | 1,200,000 | 86.12 | 86.12 | 100.00 | Sistemi di Energia Spa | S | (i) |
| Conef Solutions Slu | Madrid (E) | EUR | 3,001 | 100.00 | - | 100.00 | EDF Fenice Iberica Slu | S | - |
| Cryoptima Luxembourg Sarl | Luxembourg (L) | EUR | 12,500 | 51.00 | - | 100.00 | Modularis Group Srl | S | - |
| Cryoptima Polska Sp Zoo | Warsaw (PL) | PLZ | 50,000 | 51.00 | - | 100.00 | Cryoptima Sas | S | - |
| Cryoptima Sas | Decines (F) | EUR | 100,000 | 51.00 | - | 100.00 | Modularis Group Srl | S | - |
| Dolomiti Edison Energy Srl | Trento (IT) | EUR | 5,000,000 | 49.00 | 49.00 | 49.00 | Edison Spa | S | - |
| E2i Energie Speciali Srl | Milan (IT) | EUR | 4,200,000 | 24.99 | 24.99 | 30.00 | Edison Partecipazioni Energie Rinnovabili Srl | S | - |
| EDF Fenice Iberica Slu | Madrid (E) | EUR | 12,000,000 | 100.00 | - | 100.00 | Fenice Qualità per l'Ambiente Spa (single shareholder) | S | - |
| Edf Fenice Services Iberica Sl | Madrid (E) | EUR | 6,010 | 100.00 | - | 100.00 | EDF Fenice Iberica Slu | S | - |
| Edison Energia Spa (single shareholder) - Electric Power Activities | Milan (IT) | EUR | 23,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | (i) |
| Edison Energy Solutions Spa (single shareholder) Electric Power Activities | Milan (IT) | EUR | 5,000,000 | 100.00 | 100.00 | 100.00 | Edison Energia Spa (single shareholder) | S | (i) |
| Edison Engineering Sa | Athens (GR) | EUR | 260,001 | 100.00 | 100.00 | 100.00 | Edison Spa | S | - |
| Edison Partecipazioni Energie Rinnovabili Srl | Milan (IT) | EUR | 20,000,000 | 83.30 | 83.30 | 83.30 | Edison Spa | S | (i) |
| Edison Trading Spa (single shareholder) | Milan (IT) | EUR | 30,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | (i) |
| Fenice Poland Sp.Z.o.o. | Bielsko-Biala (PL) | PLZ | 30,000,000 | 100.00 | - | 100.00 | Fenice Qualità per l'Ambiente Spa (single shareholder) | S | - |
| Fenice Qualità per l'Ambiente Spa (single shareholder) | Rivoli (TO) (IT) | EUR | 330,500,000 | 100.00 | - | 100.00 | Edison Spa | S | - |
| Fenice Rus Llc | Moscow (RUS) | RUR | 1,162,497,900 | 100.00 | - | 100.00 | Fenice Qualità per l'Ambiente Spa (single shareholder) | S | - |
| Fenice Services Polska | Bielsko Biala (PL) | PLZ | 600,000 | 100.00 | - | 100.00 | Fenice Poland Sp.Z.o.o. | S | - |
| Fompedraza Cogeneracion Sa | Fompedraza (Valladolid) (E) | Eur | 649,093 | 90.00 | - | 90.00 | EDF Fenice Iberica Slu | S | - |
| Gever Spa | Milan (IT) | EUR | 10,500,000 | 51.00 | 51.00 | 51.00 | Edison Spa | S | - |
| Interecogen Srl (single shareholder) | Rivoli (TO) (IT) | EUR | 110,000 | 100.00 | - | 100.00 | Fenice Qualità per l'Ambiente Spa (single shareholder) | S | - |
| Jesi Energia Spa | Milan (IT) | EUR | 5,350,000 | 70.00 | 70.00 | 70.00 | Edison Spa | S | (i) |
| Modularis Group Srl | Rivoli (TO) (IT) | EUR | 200,000 | 51.00 | - | 51.00 | Fenice Qualità per l'Ambiente Spa (single shareholder) | S | - |
| Modularis Sas | Decines (F) | EUR | 2,000 | 51.00 | - | 100.00 | Modularis Group Srl | S | - |
| Novaction Energies Sas | Decines (F) | EUR | 150,000 | 51.00 | - | 100.00 | Modularis Group Srl | S | - |
| OOO Novotek | Moscow (RUS) | RUR | 120,000 | 51.00 | - | 100.00 | Novaction Energies Sas | S | - |
| Rendina Ambiente Srl (single shareholder) | Rivoli (TO) (IT) | EUR | 50,000 | 100.00 | - | 100.00 | Fenice Qualità per l'Ambiente Spa Spa (single shareholder) | S | - |
| Sistemi di Energia Spa | Milan (IT) | EUR | 10,083,205 | 86.12 | 86.12 | 86.12 | Edison Spa | S | (i) |
| Società Idroelettrica Calabrese Srl (single shareholder) | Milan (IT) | EUR | 10,000 | 100.00 | 100,00 | 100.00 | Edison Spa | S | (i) |
| Termica Cologno Srl | Milan (IT) | EUR | 9,296,220 | 65.00 | 65.00 | 65.00 | Edison Spa | S | (i) |
| Termica Milazzo Srl | Milan (IT) | EUR | 23,241,000 | 60.00 | 60.00 | 60.00 | Edison Spa | S | (i) |

# List of Equity Investments (continued)

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 06.30.2016 | Consolidated Group interest (a) 12.31.2015 | Interest held in share capital % (b) | Interest held in share capital by | Type of investment relationship (c) | Notes |
|---|---|---|---|---|---|---|---|---|---|
| **Hydrocarbons Operations** | | | | | | | | | |
| Amg Gas Srl | Palermo (IT) | EUR | 100,000 | 80.00 | 80.00 | 80.00 | Edison Spa | S | (i) |
| Edison E&P UK Ltd | London (GB) | GBP | 81,867,411 | 100.00 | 100.00 | 100.00 | Edison International Holding Nv | S | - |
| Edison Energia Spa (single shareholder) - Hydrocarbons Activities | Milan (IT) | EUR | 23,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | (i) |
| Edison Energy Solutions Spa (single shareholder) - Hydrocarbons Activities | Milan (IT) | EUR | 5,000,000 | 100.00 | 100.00 | 100.00 | Edison Energia Spa (single shareholder) | S | (i) |
| Edison Idrocarburi Sicilia Srl (single shareholder) | Ragusa (IT) | EUR | 1,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | (i) |
| Edison International Spa (single shareholder) | Milan (IT) | EUR | 75,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | (i) |
| Edison Norge As | Stavanger (N) | NOK | 2,000,000 | 100.00 | - | 100.00 | Edison International Spa (single shareholder) | S | - |
| Edison North Sea Ltd | London (GB) | GBP | 2 | 100.00 | 100,00 | 100.00 | Edison E&P UK Ltd | S | - |
| Edison Stoccaggio Spa (single shareholder) | Milan (IT) | EUR | 90,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | (i) |
| Euroil Exploration Ltd | London (GB) | GBP | 9,250,000 | 100.00 | 100.00 | 100.00 | Edison International Holding Nv | S | - |
| | | | | | | 0.00 | Edison Spa | | |
| Infrastrutture Distribuzione Gas Spa (single shareholder) ex Edison DG Spa (single shareholder) | Selvazzano Dentro (PD) (IT) | EUR | 460,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | (i) |
| Infrastrutture Trasporto Gas Spa (single shareholder) | Milan (IT) | EUR | 10,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | - |
| **Corporate Activities** | | | | | | | | | |
| Atema dac ex Atema Limited | Dublin 2 (IRL) | EUR | 1,500,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | - |
| Edison Hellas Sa | Athens (GR) | EUR | 263,700 | 100.00 | 100.00 | 100.00 | Edison Spa | S | - |
| Edison International Development Bv | Amsterdam (NL) | EUR | 18,018,000 | 100.00 | 100.00 | 100.00 | Edison International Holding Nv | S | - |
| Edison International Holding Nv | Amsterdam (NL) | EUR | 123,500,000 | 100.00 | 100.00 | 100.00 | Edison Spa | S | - |
| Nuova Alba Srl (single shareholder) | Milan (IT) | EUR | 2,016,457 | 100.00 | 100.00 | 100.00 | Edison Spa | S | (i) |

# List of Equity Investments (continued)

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 31.12.2015 | Interest held in share capital % (b) | by | Carryng value (in millions of euros) (c) | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|

## B) Investments in companies valued by the equity method

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 31.12.2015 | Interest held in share capital % (b) | by | Carryng value (in millions of euros) (c) | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|
| Abu Qir Petroleum Company | Alexandria (ET) | EGP | 20,000 | | 50.00 | Edison International Spa (single shareholder) | - | JV | (iii)(iv) |
| Ed-Ina D.o.o. | Zagreb (HR) | HRK | 20,000 | | 50.00 | Edison International Spa (single shareholder) | - | JV | (iii) |
| Elpedison Bv | Amsterdam (NL) | EUR | 1,000,000 | | 50.00 | Edison International Holding Nv | - (*) | JV | (iii) |
| Fayoum Petroleum Co - Petrofayoum | Cairo (ET) | EGP | 20,000 | | 30.00 | Edison International Spa (single shareholder) | - | JV | (iii)(iv) |
| Ibiritermo Sa | Ibirité - Estado de Minas Gerais (BR) | BRL | 7,651,814 | | 50.00 | Edison Spa | 31.6 | JV | (iii) |
| IGI Poseidon Sa-Nat. Gas Subm. Interc. Gre-Ita-Poseidon | Herakleio Attiki (GR) | EUR | 33,400,000 | | 50.00 | Edison International Holding Nv | 5.7 (**) | JV | (iii) |
| Parco Eolico Castelnuovo Srl | Castelnuovo di Conza (SA) (IT) | EUR | 10,200 | | 50.00 | Edison Spa | 0.5 | JV | (iii) |
| Consorzio Barchetta | Jesi (AN) (IT) | EUR | 2,100 | | 47.62 | Jesi Energia Spa | - | AC | - |
| EDF EN Service Italia Srl | Bologna (IT) | EUR | 10,000 | | 30.00 | Edison Spa | 0.5 | AC | - |
| EL.IT.E Spa | Milan (IT) | EUR | 3,888,500 | | 48.45 | Edison Spa | 2,9 | AC | - |
| Eta 3 Spa | Arezzo (IT) | EUR | 2,000,000 | | 33.01 | Edison Spa | 2,8 | AC | - |
| Fenice Assets Iberica Sl | Madrid (E) | EUR | 10,000 | | 40.00 | EDF Fenice Iberica Slu | 0,7 | AC | - |
| Iniziativa Universitaria 1991 Spa | Varese (IT) | EUR | 16,120,000 | | 32.26 | Edison Spa | 4.2 | AC | - |
| Kraftwerke Hinterrhein Ag | Thusis (CH) | CHF | 100,000,000 | | 20.00 | Edison Spa | 22.7 | AC | - |
| Soc. Svil. Rea. Gest. Gasdot. Alg-ITA V. Sardeg. Galsi Spa | Milan (IT) | EUR | 37,419,179 | | 23.53 | Edison Spa | - | AC | - |
| **Total investments in companies valued by the equity method** | | | | | | | **71.6** | | |

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

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2015 | Interest held in share capital % (b) | by | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|
| Elpedison Sa (ex Elpedison Power Sa) | Marousi Athens (GR) | EUR | 99,633,600 | | 75.78 | Elpedison Bv | JV | (iii) |

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

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2015 | Interest held in share capital % (b) | by | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|
| ICGB AD | Sofia (BG) | BGN | 33,053,560 | | 50.00 | IGI Poseidon Sa - Nat. Gas Subm. Interc. Gre-Ita-Poseidon | JV | (iii) |

## List of Equity Investments (continued)

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2015 | Interest held in share capital % (b) | Interest held in share capital by | Carrying value (in millions of euros) (c) | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|
| **C) Investments in companies in liquidation or subject to permanent restrictions** | | | | | | | | | |
| Auto Gas Company S.A.E. (in liquidation) | Cairo (ET) | EGP | 1,700,000 | | 30.00 | Edison International Spa (single shareholder) | - | AC | - |
| Interenergoeffect (in liquidation) | Moscow (RUS) | RUR | 8,000,000 | | 50,00 | Fenice Qualità per l'Ambiente Spa (single shareholder) | - | AC | - |
| Nuova C.I.S.A. Spa (in liquidation) (single shareholder) | Milan (IT) | EUR | 1,549,350 | | 100.00 | Edison Spa | 2.4 | S | (i) |
| Nuova I.S.I. Impianti Selez. Inerti Srl (in bankruptcy) | Vazia (RI) (IT) | LIT<br>in Euros | 150,000,000<br>77,468.53 | | 33.33 | Edison Spa | - | AC | - |
| Poggio Mondello Srl (single shareholder) | Palermo (IT) | EUR | 364,000 | | 100.00 | Nuova C.I.S.A. Spa (in liquidation) (single shareholder) | - | S | (i) |
| Sistema Permanente di Servizi Spa (in bankruptcy) | Rome (IT) | EUR | 154,950 | | 12.60 | Edison Spa | - | NG | - |
| Soc. Gen. per Progr. Cons. e Part. Spa (in receivership) | Rome (IT) | LIT<br>in Euros | 300,000,000<br>154,937.07 | | 59.33 | Edison Spa | - | S | - |
| **Total investments in companies in liquidation or subject to permanent restrictions** | | | | | | | **2.4** | | |
| **D) Investments in other companies valued at fair value** | | | | | | | | | |
| **D.1) Investments held for trading** | | | | | | | | | |
| Acsm-Agam Spa | Monza (IT) | EUR | 76,619,105 | | 1.94 | Edison Spa | 2.4 | NG | - |
| Amsc-American Superconductor | Devens (MA) (USA) | USD | 139.536 | | 0.11 | Edison Spa | 0.1 | NG | - |
| **D.2) Available-for-sale investments** | | | | | | | | | |
| Emittenti Titoli Spa | Milan (IT) | EUR | 4,264,000 | | 3.89 | Edison Spa | 0.2 | NG | - |
| European Energy Exchange Ag - Eex | Lipsia (DE) | EUR | 40,050,000 | | 0.76 | Edison Spa | 0.7 | NG | - |
| Istituto Europeo di Oncologia Srl | Milan (IT) | EUR | 80,579,007 | | 4.28 | Edison Spa | 3.5 | NG | - |
| Prometeo Spa | Osimo (AN) (IT) | EUR | 2,818,277 | | 14.45 | Edison Spa | 0.5 | NG | - |
| Rashid Petroleum Company - Rashpetco | Cairo (ET) | EGP | 20,000 | | 10.00 | Edison International Spa (single shareholder) | - | NG | - |
| RCS Mediagroup Spa | Milan (IT) | EUR | 475,134,602.10 | | 0.15 | Edison Spa | 0.6 | NG | - |
| Syremont Spa | Messina (IT) | EUR | 1,550,000 | | 19.35 | Edison Spa | - | AC | (ii) |
| Terminale GNL Adriatico Srl | Milan (IT) | EUR | 200,000,000 | | 7.30 | Edison Spa | 157,0 | NG | - |
| **Total investments in other companies valued at fair value** | | | | | | | **165.0** | | |
| **Total equity investments** | | | | | | | **239,0** | | |

## Notes

(a) The consolidated Group interest is computed on the basis of the interest held in the respective share capital by the Parent Company or subsidiaries consolidated on a line-by-line basis, and by jointly controlled companies consolidated by the proportional method.

(b) The interest in the share capital is equivalent to the ratio between the aggregate par value of all equity securities held directly and the total share capital. In this computation, the denominator (total share capital) is net of any treasury shares held.

(c) S = subsidiary; JO = joint operation; JV = joint venture; AC = affiliated company; NG = non-Group company.

(f) The carrying value is shown only for companies valued by the equity method or at cost, owned directly by the Parent Company. For other companies consolidated on a line-by-line basis or by the proportional method, it is shown only if it is equal to or greater than one million euros.

(i) Company subject to the oversight and coordination of Edison Spa.

(ii) On 1/30/07 Edison exercised the option to sell its equity investment, with respect to which the counterparty is now in default.

(iii) From January 1, 2014, company valuated with equity method according to IFRS 11.

(iv) Operating Company acting as Agent of Edison International Spa, it should be noted that the relationships regaled on behalf of it in the execution of the Concession Agreement continue to be consolidated line by line through the separated financial statements of the company.

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

| | | | |
|---|---|---|---|
| BGN New Bulgarian lev | EGP Egyptian pound | HRK Croatian kuna | RON Romanian leu |
| BRL Brazilian real | EUR Euro | NOK Norvegian krone | RUR Russian ruble |
| CHF Swiss franc | GBP British pound | PLZ Polish zloty | USD U.S. dollar |

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# CONDENSED SEMIANNUAL FINANCIAL STATEMENTS OF EDISON SPA, THE GROUP'S PARENT COMPANY

## at June 30, 2016

EDISON

## Income Statement

| 2015 full year | (in millions of euros) | Note | 1st half 2016 | 1st half 2015 |
|---|---|---|---|---|
| 5,517 | Sales revenues | 1 | 3,125 | 2,664 |
| 758 | Other revenues and income | 2 | 45 | 49 |
| **6,275** | **Total revenues** | | **3,170** | **2,713** |
| (5,474) | Raw materials and services used (-) | 3 | (3,039) | (2,793) |
| (139) | Labor costs (-) | 4 | (68) | (68) |
| **662** | **EBITDA** | 5 | **63** | **(148)** |
| 89 | Net change in fair value of derivatives (commodities and freign exchange) | 6 | (29) | (53) |
| (1,264) | Depreciation, amortisation, and write-downs (-) | 7 | (84) | (111) |
| (22) | Other net income (expense) | 8 | (2) | (11) |
| **(535)** | **EBIT** | | **(52)** | **(323)** |
| 6 | Net financial income (expenses) | 9 | (22) | 26 |
| (186) | Income from ( expenses for) equity investments | 10 | 45 | 52 |
| **(715)** | **Profit (Loss) before taxes** | | **(29)** | **(245)** |
| (61) | Income taxes | 11 | 9 | 42 |
| **(776)** | **Profit (Loss) from continuing operations** | | **(20)** | **(203)** |
| - | Profit (Loss) from discontinued operations | 12 | - | - |
| **(776)** | **Profit (Loss) for the period** | | **(20)** | **(203)** |

## Other components of the comprehensive income statement

| 2015 full year | (in millions of euros) | Note | 1st Half 2016 | 1st Half 2015 |
|---|---|---|---|---|
| **(776)** | **Profit (Loss) for the period** | | **(20)** | **(203)** |
| | Other components of the comprehensive income | | | |
| ***(188)*** | ***A) Change in cash flow hedge reserve*** | ***24*** | ***219*** | ***127*** |
| (269) | - Gains (Losses) from valuations for the period | | 316 | 188 |
| 81 | - Income Taxes (+/-) | | (97) | (61) |
| ***-*** | ***B) Change in reserves for available-for-sale investments*** | ***24*** | ***-*** | ***1*** |
| - | - Untealized gains (losses) on securities or equity investments | | - | 1 |
| - | - Income Taxes (+/-) | | - | - |
| ***2*** | ***C) Actuarial Gains (Losses) (*)*** | | ***(1)*** | ***-*** |
| 2 | - Actuarial Gains (Losses) | | (1) | - |
| **(186)** | **Total other components of comprehensive income net of taxes (A+B+C)** | | **218** | **128** |
| **(962)** | **Total comprehensive Net Profit (Loss)** | | **198** | **(75)** |

(*) Items that cannot be reclassified in the income statement

## Balance Sheet

| 06.30.2015 | (in millions of euros) | Note | 06.30.2016 | 12.31.2015 |
|---|---|---|---|---|
| | ASSETS | | | |
| 2.480 | Property, plant and equipment | 13 | 1.953 | 1.960 |
| 6 | Investment property | 14 | 5 | 6 |
| 2.287 | Goodwill | 15 | 1.752 | 1.752 |
| 108 | Hydrocarbon concessions | 16 | 54 | 55 |
| 81 | Other intangible assets | 17 | 75 | 79 |
| 1.380 | Investments in associates | 18 | 1.272 | 934 |
| 173 | Available-for-sale investments | 18 | 163 | 167 |
| 11 | Other financial assets | 19 | 11 | 11 |
| 181 | Deferred tax assets | 20 | 337 | 437 |
| 291 | Other assets | 21 | 225 | 251 |
| **6.998** | **Total non-current assets** | | **5.847** | **5.652** |
| 115 | Inventories | | 81 | 106 |
| 706 | Trade receivables | | 483 | 1.558 |
| 15 | Current tax assets | | 1 | 1 |
| 1.239 | Other receivables | | 972 | 1.291 |
| 1.777 | Current financial assets | | 2.016 | 1.686 |
| 37 | Cash and cash equivalents | | 22 | 47 |
| **3.889** | **Total current assets** | 22 | **3.575** | **4.689** |
| **-** | **Assets held for sale** | 23 | **-** | **112** |
| **10.887** | **Total assets** | | **9.422** | **10.453** |
| | LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| 5.292 | Share capital | | 5.377 | 5.292 |
| 132 | Statutory reserve | | - | 132 |
| 483 | Other reserves and retained earnngs carried forward | | - | 483 |
| (197) | Reserves for other components of comprehensive income | | (293) | (512) |
| (203) | Profit (Loss) for the period | | (20) | (776) |
| **5.507** | **Total shareholders equity** | 24 | **5.064** | **4.619** |
| 24 | Provision for employee severance indemnities and provision for pensions | 25 | 22 | 22 |
| - | Provision for deferred taxes | 26 | - | - |
| 761 | Provisions for risks and charges | 27 | 785 | 803 |
| 599 | Bonds | 28 | 600 | 599 |
| 963 | Long-term financial debt and other financial liabilities | 29 | 222 | 627 |
| - | Other liabilities | 30 | 148 | 313 |
| **2.347** | **Total non-current liabilities** | | **1.777** | **2.364** |
| 45 | Bonds | | 34 | 29 |
| 1.074 | Short-term financial debt | | 885 | 888 |
| 833 | Trade payables | | 628 | 822 |
| - | Current taxes payable | | - | 20 |
| 1.081 | Other liabilities | | 1.034 | 1.711 |
| **3.033** | **Total current liabilities** | 31 | **2.581** | **3.470** |
| **-** | **Liabilities held for sale** | 32 | **-** | **-** |
| **10.887** | **Total liabilities and shareholders equity** | | **9.422** | **10.453** |

## Cash flow statement

The schedule that follows analyzes the **cash flows** as they apply to short-term liquid assets (i.e., due within 3 months), which amounted to 22 million euros, in the first half of 2016, compared with 37 million euros in the same period last year.

| 2015 full year | | (in millions of euros) | Note | 1st half 2016 | 1st half 2015 |
|---|---|---|---|---|---|
| **(715)** | | **Profit (Loss) before taxes** | | **(20)** | **(245)** |
| 1,263 | | Amortisation, depreciation and write-downs | *7* | 84 | 110 |
| 14 | | Net additions to provisions for risks | | (40) | (14) |
| 4 | | (Gains) Losses on sale of non-current assets | | (56) | 1 |
| 406 | | (Revaluations) Write-downs on non-current financial assets | *10* | 72 | 17 |
| 3 | | Change in provision for employee severance indemnities and provisions for pensions | *25* | (1) | - |
| (89) | | Change in fair value recognised in EBIT | | 29 | 53 |
| (1,032) | | Change in operating working capital | | 907 | (178) |
| (219) | | Dividends from subsidiaries, affiliated companies and other companies | *10* | (60) | (69) |
| 220 | | Dividends collected (including amounts attributable to previous years) | | 54 | 56 |
| 25 | | Net financial Income (Expense) | *9* | 25 | 15 |
| 69 | | Financial income collected | | 13 | 23 |
| 210 | | Financial (expenses) paid | | (37) | (36) |
| (94) | | Income taxes paid | | (35) | (6) |
| (13) | | Change in other operating activities of continuing operation | | (161) | (214) |
| **52** | **A.** | **Cash from (used in) operating activities of continuing operations** | | **774** | **(487)** |
| (120) | | Additions to intangibles, and property, plant and equipment (-) | *13-17* | (69) | (45) |
| (12) | | Additions to non-current financial assets (-) | *18* | (3) | (3) |
| 1 | | Proceeds from sale of intangibles, and property, plant and equipment | | 2 | - |
| - | | Proceeds from sale of non-current financial assets | | - | - |
| 43 | | Capital distributions from non-current equity investments | *18* | 2 | 40 |
| 476 | | Change in other current assets | | (330) | 386 |
| **388** | **B.** | **Cash from (used in) investment activities** | | **(398)** | **378** |
| 470 | | Proceeds from new medium-term and long-term loans | *29,30,32* | - | 250 |
| (1,313) | | Redemptions of medium-term and long.term loans (-) | *29,30,32* | (407) | (755) |
| - | | Capital contributions provided by controlling companies or minority shareholders | | - | - |
| - | | Dividends paid to controlling companies or minority shareholders (-) | | - | - |
| 374 | | Change in short-term financial debt | | 6 | 575 |
| **(469)** | **C.** | **Cash from (used in financial activities** | | **(401)** | **70** |
| **(29)** | **D.** | **Net change in cash and cash equivalents (A+B+C)** | | **(25)** | **(39)** |
| **76** | **E.** | **Cash and cash equivalents at the beginning of the period** | | **47** | **76** |
| **-** | **F.** | **Net cash and cash equivalents from discontinued operations** | | **-** | **-** |
| **47** | **G.** | **Cash and cash equivalents at the end of the period (D+E+F)** | | **22** | **37** |
| **47** | **H.** | **Total cash and cash equivalents at the end of the period (G)** | | **22** | **37** |
| **-** | **I.** | **(-) Cash and cash equivalents from discontinued operations** | | **-** | **-** |
| **47** | **L.** | **Cash and cash equivalents from continuing operations (H-I)** | | **22** | **37** |

## Changes in Shareholders' Equity

| *(in millions of euros)* | Share Capital | Statutory Reserve | Other reserves and retained earnings | Reserve for other components of comprehensive income | | | Profit (Loss) for the period | Total shareholders equity |
|---|---|---|---|---|---|---|---|---|
| | | | | Cash flow hedge | Reserve for available for sale investments | Actuarial gains (losses) | | |
| ***Balance at December 31, 2014*** | **5,292** | **132** | **521** | **(323)** | **-** | **(3)** | **(38)** | **5,581** |
| Appropriation of the 2014 profit | - | - | (38) | - | - | - | 38 | - |
| ***Total comprehensive profit (loss) from 1 January to 30 June 2015*** | **-** | **-** | **-** | **128** | **-** | **-** | **(203)** | **(75)** |
| Including:<br>Change in comprehensive income for the period | - | - | - | 128 | - | - | - | **128** |
| Profit (Loss) from 1 January to 30 June 2015 | - | - | - | - | - | - | (203) | **(203)** |
| ***Balance at June 30, 2015*** | **5,292** | **132** | **483** | **(195)** | **-** | **(3)** | **(203)** | **5,506** |
| ***Total comprehensive profit (loss) from 1 July to 31 December 2015*** | **-** | **-** | **-** | **(316)** | **-** | **2** | **(573)** | **(887)** |
| Including:<br>Change in comprehensive income for the period | - | - | - | (316) | - | 2 | - | **(314)** |
| Profit (Loss) for 2015 | - | - | - | - | - | - | (573) | **(573)** |
| ***Balance at December 31, 2015*** | **5,292** | **132** | **483** | **(511)** | **-** | **(1)** | **(776)** | **4,619** |
| Appropriation of profit (loss) for 2015 | - | (132) | (645) | - | - | 1 | 776 | - |
| Increase in share capital | 85 | - | 162 | - | - | - | - | **247** |
| ***Total comprehensive profit (loss) from 1 January to 30 June 2016*** | **-** | **-** | **-** | **219** | **-** | **(1)** | **(20)** | **198** |
| Including:<br>Change of comprehensive profit (loss) for the period | - | - | - | 219 | - | (1) | - | **218** |
| Profit (Loss) from 1 January to 30 June 2016 | - | - | - | - | - | - | (20) | **(20)** |
| ***Balance at June 30, 2015*** | **5,377** | **-** | **-** | **(292)** | **-** | **(1)** | **(20)** | **5,064** |

# NOTES TO THE CONDENSED SEMIANNUAL FINANCIAL STATEMENTS OF EDISON SPA, THE GROUP'S PARENT COMPANY, AT JUNE 30, 2016

## ACCOUNTING PRINCIPLES

### Content and Presentation

The condensed semiannual financial statements for the parent company, Edison Spa, at June 30, 2016, were drawn up in accordance with art 154-ter of Legislative Decree n° 58 of February 24, 1998 and subsequent amendments and additions, and in representing the mid-year situation, they conform to the provisions of IAS 34 Interim Financial Reporting. These financial statements were drawn up according to the *International Financial Reporting Standards* - IFRS issued by the *International Accounting Standards Board* (IASB), based on the text published in the Official Gazette of the European Community (G.U.C.E.).

### Methods applied to the preparation of the condensed semiannual financial statements

In substance, the accounting principles and valuation criteria applied conform to those adopted for preparing the Separate Financial Statements at December 31, 2015 to which reference is made for greater detail.

For a more detailed description of the main estimating processes used, which are unchanged compared to the previous financial year, see the "Valuation criteria - Use of estimated values" paragraph in the separate financial statements at December 31, 2015.

It is worth of mentioning that, with the reference to the "Financial Instruments", the Group, whenever possible, uses hedge accounting, provided the transactions comply with the requirements of IAS 39. In the first half of 2016 some Cash Flow Hedge hedging relationships on commodity have been revoked and, in certain cases, have been carried out, prospectively, new hedging relationships both Cash Flow Hedge and, for the first time, Fair Value Hedge; this in the light of indexing formula and risk factor included. It should be noted that the fair value recorded at the date of revocation was maintained in the Cash Flow Hedge Reserves and from time to time reflected in the income statement in line with the effects of the hedged item.

The Board of Directors that met on **July 27, 2016** authorised publication of these condensed semi-annual financial statements for the parent company, which was subjected to limited accounts auditing by the Deloitte & Touche Spa Company, based on the appointment made by the Shareholders Meeting of April 26, 2011, made pursuant to Legislative Decree n° 39 of January 27, 2010 with a duration of nine financial years (2011-2019).

Unless indicated otherwise, the values indicated in the Notes to the Condensed Semi-annual Financial Statements are in million euros.

### Use of Estimated Values

The preparation of condensed semiannual Separate Financial Statements at June 30, 2016 and the accompanying notes requires the use of estimates and assumptions both in the measurement of certain assets and liabilities and in the valuation of contingent liabilities. The actual results that will arise upon the occurrence of the relevant events could differ from these estimates. The estimates and assumptions used are revised on an ongoing basis, and the impact of any such revision is immediately recognized in the income statement. Generally the use of estimates is particularly significant for amortization and depreciation, valuation of derivatives, provision for risks and allowance for doubtful accounts, advances paid under long-term natural gas supply contracts (take-or-pay) as well as the impairment test. For a more detailed description of the valuation processes with a more significant impact on the Group, unchanged compared to previous year, please consult the 2015 Separate Financial Statements.

## Disclosure pursuant to IFRS 3 revised

### *Idreg Piemonte*

On May 25, 2016, Edison Spa has acquired 9 hydroelectric plants, including 7 in Piemonte and 2 in Friuli Venezia Giulia, with an installed capacity of 15 MW and an average annual production of 70 GWh .

The purchase, resulting from a business from the bankruptcy of IDREG Piemonte Spa, for a total 36 million euros, allows to exploit synergies with the activities that Edison has already in Piemonte and Friuli on the management and maintenance of facilities.

Please note that the accumulated liabilities related to bankruptcy remain of the responsibility of the same.

The valuation of the branch of business in accordance with IFRS 3 revised, that means recognizing the fair value of assets, liabilities and contingent liabilities at the acquisition date is provisional.

## Disclosure pursuant to IFRS 5

### *Disposal Group* – "Rearrangement of hydro-electric activity"

On May 31, 2016 the process was completed that followed signing on December 29, 2015 by both Edison and SEL - Società Elettrica Altoatesina (now Alperia), which led to an exchange between Edison and Alperia, of Edison's shares in Hydros e Sel Edison in the Bolzano Province, and Alperia's shareholding in Cellina Energy, the company that owns the hydro-electric hub in Cellina, in Friuli Venezia Giulia. By means of this agreement, Edison strengthened its position in hydroelectric, a key sector in the company's development strategy, and extended the average lifespan of its hydroelectric portfolio, reducing the risks associated with renewal of concessions.

In terms of the net financial debt, this operation generated about 3 million euros, with a capital gain from the sale of the shares, of about 57 million euros.

# NOTES TO THE INCOME STATEMENT

## Economic trend in the first half of 2016

The **profit (loss)** at June 30, 2016 for Edison Spa showed a loss of 20 million euros, an improvement compared to the loss of 203 million euros in the first half of 2015.

In the first half of 2016 **sales revenues** stood at 3,125 million euros which was 17,3% up compared with the same period in the previous year (2,664 million euros). This especially involved the **hydrocarbons segment**, mainly due to the increase in volumes sold.

**EBITDA** was positive for 63 million euros (negative, for 148 million euros in the first half of 2015). In particular:

- The **hydrocarbons segment** was positive for 151 million euros (negative, for 142 million euros in the first half of 2015). Performance for the period benefited from both an increase in natural gas sales, especially for thermoelectric use and Spot sales that, due to the better margins achieved as a result of the positive outcome of arbitration with ENI, in relation to the long-term contract to buy Libyan gas, which came about at the end of 2015. Albeit significant, the contribution of Exploration & Production activities continues to be principally penalised by the continuance of a negative scenario on the oil market.
- The **electric power sector** was down 47 million euros (up 40 million euros for the first half of 2015). This change was due to the shrinking of achieved margins, due to generation of less hydroelectric power as a result of a lesser hydraulic capacity than in the first half of 2015.
- **Corporate**, whose negative contribution of 41 million euros is improving (10.9 %) compared to the first half 2015, thanks to a different phasing in operating expenses.

**EBIT** registered a 52 million euros loss (323 million euros loss for the first half of 2015) and, in addition to the effects related to **EBIDTA**, also included:

- 29 million euros due to the negative impact caused by the **net change in fair value of derivatives (commodities and exchange rates)** (negative, for 53 million euros in the first half of 2015).
- 84 million euros for **amortization, depreciation and write-downs on fixed assets** (111 million euros in the first half of 2015). This reduction should be related to the write-downs on fixed assets and hydrocarbons concessions, done at the end of 2015.
- 2 million euros in **other net expenses** (11 million euros in other net expenses in the first half of 2015), related to expenses of a legal nature, not directly related to industrial and financial management.

In addition to the dynamics of the industrial margins described above, the result for the period was affected by:

- **Net financial income** of 22 million euros ( 26 million euros in net financial income for the first half of 2015). The negative change, compared with the first half of 2015, is especially due to the **net gains on exchange rates** due to EUR/USD exchange rate trends, which in the first half of 2015 had resulted in exceptionally positive results being recorded.
- **Net income on equity investments** of 45 million euros (52 million euros in the first half of 2015), include 60 million euros in dividends from companies in which stakes are held, and capital gains from the sale of shares of 57 million euros, net of 72 million euros in write-downs for some subsidiaries.
- **Income taxes** were positive, for 9 million euros (positive for 42 million euros in the first half of 2015, as a result of deferred tax assets). We wish to recall that income tax for the first half of 2015 suffered a negative one-off effect of 33 million euros, as a result of the abolition of the Robin Hood Tax, related to zeroing of net deferred tax assets.

## 1. Sales revenues – 3,125 million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Changes | % changes |
|---|---|---|---|---|
| Revenues from sale of: | | | | |
| - Natural gas | 1,935 | 1,857 | 78 | 4.2% |
| - Electric power | 416 | 482 | (66) | (13.7%) |
| - Oil | 23 | 45 | (22) | (48.9%) |
| - Steam | 20 | 18 | 2 | 11.1% |
| - Green certificates and CO2 emission rights | 2 | 59 | (57) | n.s. |
| - Commodity and *foreign* exchange derivatives | 699 | 178 | 521 | n.s. |
| - Sundry items | 2 | 1 | 1 | n.s. |
| **Revenues from the sale of products** | **3,097** | **2,640** | **457** | **17.3%** |
| Service revenues | 23 | 19 | 4 | 21.1% |
| Power plant mainteance revenues | 4 | 4 | - | - |
| Transmission revenues | 1 | 1 | - | n.s. |
| **Revenue from service activities** | **28** | **24** | **4** | **16.7%** |
| **Total sales revenues** | **3,125** | **2,664** | **461** | **17.3%** |
| Breakdown by business segment: | | | | |
| Hydrocarbons operations | 2,667 | 2,087 | 580 | 27.8% |
| Electric power operations | 446 | 566 | (120) | (21.2%) |
| Corporate activities | 12 | 11 | 1 | 9.1% |
| **Total sales revenues** | **3,125** | **2,664** | **461** | **17.3%** |

In particular, it's worth to mention that:

- The **hydrocarbons segment** stood at 2,667 million euros, which was 27,8% up on the first half of 2015. This was mainly due to an increase in volumes sold (+26%), especially for industrial and thermoelectric uses, which more than offset the reduction in average sales prices caused by the declining trend on the oil framework.
- The **electric power segment** stood at 446 million euros, 21,2% down compared to the first half of 2015, as a result of both the significant reduction in hydroelectric production due to the low hydraulic capacity, and due to the fall in average sales prices, dragged down by the reference framework.
- The **corporate segment** relates to providing services on behalf of third parties, and mainly relates to coordination actions engaged in by Edison for companies in the group, and engineering services.

Revenues earned from **realized commodity derivatives and exchange rates achieved**, was 699 million euros, should be looked at along with the related item included in the Raw material and services used (posting 816 million euros), which essentially related to the results of coverage on commodities and exchange rates implemented, in order to mitigate the risk of fluctuations in the cost of natural gas, destined for the Group's portfolios, as well as that related to direct sales of natural gas itself. We also wish to point out that **realized commodity derivatives and exchange rates achieved** include revenue of about 168 million euros with EDF Trading Limited (24 million euros in the first half of 2015), and 79 million euros with Edison Trading (16 million euros in the first half of 2015).

For an overview of the effects, we refer you to the specific *disclosure* contained in the "Management of financial risks in the condensed semi-annual consolidated financial statements" chapter.

## 2. Other revenues and income - 45 million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Changes | % changes |
|---|---|---|---|---|
| Recovery of costs from partners in hydrocarbon exploration projects | 9 | 12 | (3) | (25,0%) |
| Reversals of provisions for risks and sundry provisions | 13 | - | 13 | n.s. |
| Out-of-period income and sundry items | 23 | 37 | (14) | (37,8%) |
| **Total other revenues and income** | **45** | **49** | **(4)** | **(8,2%)** |

## 3. Raw materials and services used – **3,039 million euros**

| llions of euros | 1st half 2016 | 1st half 2015 | Changes | % changes |
|---|---|---|---|---|
| - Natural gas | 1,542 | 2,001 | (459) | (22.9%) |
| - Electric power | 120 | 46 | 74 | n.s. |
| - Utilities and other materials | 13 | 14 | (1) | (7.1%) |
| - CO2 emission rights | 11 | 12 | (1) | (8.3%) |
| - Oil and fuel | 5 | 8 | (3) | (37.5%) |
| **Total** | **1,691** | **2,081** | **(390)** | **(18.7%)** |
| - Transmission of natural gas | 299 | 252 | 47 | 18.7% |
| - Realized commodity and foreign exchange derivatives | 816 | 107 | 709 | n.s. |
| - Regassification fee | 60 | 60 | - | 0.0% |
| - Facilities maintenance | 44 | 44 | - | 0.0% |
| - Professional services | 25 | 24 | 1 | 4.2% |
| - Changes in inventories | 26 | 115 | (89) | (77.4%) |
| - Accruals to provisions for risks | 7 | 4 | 3 | 75.0% |
| - Sundry charges | 71 | 106 | (35) | (33.0%) |
| **Total materials and services used** | **3,039** | **2,793** | **246** | **8.8%** |
| **Breakdown by business segment:** | | | | |
| Hydrocarbons operations | 2,790 | 2,599 | 191 | 7.3% |
| Electric power operations | 204 | 147 | 57 | 38.8% |
| Corporate activities | 45 | 47 | (2) | (4.3%) |
| **Total** | **3,039** | **2,793** | **246** | **8.8%** |

The decrease, compared to the first half of 2015, in the value of the **methane gas** item, to be looked at in part, in light of the **change in inventories,** is to be attributed mainly to the combined effect of trends in the sector, and the revision of the prices of Libyan gas, following the conclusion of arbitration with ENI in November 2015.

The increase in purchases for **electric power** is due to the effects generated by higher volume purchased compared to the first half of 2015 resulting from the withdrawal of energy contracts entered into with third parties, whose counterpart in sales is related to two contracts with subsidiaries, with which it signed an agency contract to sell.

The increase in **transportation** costs results from the higher volumes of gas imported, and the increase in the tariffs applied.

The **regassing fees** of 60 million euros, include expenses paid to the Terminale GNL Adriatico Srl for regassing of liquefied gas originating from Qatar.

The **accruals to provisions for risks** of 7 million euros, include those of an industrial nature, to cover future expenses.

## 4. Labor costs – **68 million euros**

This value is unchanged compared to the first half of 2015. The number of employees at the end of the period was 1,473 people (1,500 on June 30, 2015).

## 5. EBIDTA – **63 million euros**

| (in millions of euros) | 1st half 2016 | % of sales revenues | 1st half 2015 | % of sales revenues | % change |
|---|---|---|---|---|---|
| Hydrocarbons operations | 151 | 5,7% | (142) | (6,8%) | n.s. |
| Electric power operations | (47) | (10,5%) | 40 | 7,1% | n.s. |
| Corporate activities | (41) | n.s | (46) | n.s | 10,9% |
| **Total** | **63** | **2,0%** | **(148)** | **(5,6%)** | **n.s.** |

The Corporate's positive 10,9% change, which includes some of central management activities, that is the parts not directly connected with a specific business, is essentially due to a different phasing in operating expenses.

As regards the comment on the EBIDTA, see the comment on "economic trends in the first half of 2016".

## 6. Net change in fair value of derivatives (commodities and exchange rates) – (29) million euros

| ( in millions of euros) | 1st half 2016 | 1st half 2015 | Changes | % changes |
|---|---|---|---|---|
| **Change in fair value of hedging the price risk on energy** | **157** | **(103)** | **260** | **n.s.** |
| - definable as hedges pursuant to IAS 39 (CFH) (*) | (1) | (15) | 14 | n.s. |
| - definable as hedges pursuant to IAS 39 (FVH) | 117 | - | 117 | n.s. |
| - not definable as hedges pursuant to IAS 39 | 41 | (88) | 129 | n.s. |
| **Change in fair value of hedging the foreign exchange risk on commodities:** | **(77)** | **50** | **(127)** | **n.s** |
| - definable as hedges pursuant to IAS 39 (CFH) (*) | 1 | 1 | - | n.s. |
| - definable as hedges pursuant to IAS 39 (FVH) | (10) | - | (10) | n.s. |
| - not definable as hedges pursuant to IAS 39 | (68) | 49 | (117) | n.s. |
| **Change in fair value of physical contracts** | **(109)** | - | (109) | n.s. |
| **Total** | **(29)** | **(53)** | **24** | **(45,3%)** |

This posting includes the change for the period in the fair value for derivative contracts for commodities and exchange rates, carried out in order to ensure economic coverage of the Industrial Portfolio. We wish to remind you, in fact, that although the Company applies hedge accounting where possible, it manages the energy commodity and related exchange risk by means of term operations and undefinable coverage derived instruments as well, in terms of IAS 39, the effects of which, therefore, come from the income statement. This also includes the ineffective portion of the fair value changes for derivatives eligible for Cash Flow Hedging.
We wish to point out that, as from January 1, 2016 some coverage relations have been revoked, in order to make way for implementing new coverage relations in Fair Value Hedge on certain long- term gas purchase transactions that allowed the neutralization of the changes in fair value of derivatives.

## 7. Depreciation, amortization, and writedowns – 84 million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Changes | % changes |
|---|---|---|---|---|
| Depreciation of property, plant and equipment | 78 | 102 | (24) | (23,5%) |
| Amortization of hydrocarbon concessions | 1 | 4 | (3) | (75,0%) |
| Amortization of other intangible assets | 5 | 5 | - | n.s |
| **Total depreciation and amortization** | **84** | **111** | **(27)** | **(24,3%)** |
| **Total** | **84** | **111** | **(27)** | **(24,3%)** |
| Breakdown by business segment: | | | | |
| Hydrocarbons operations | 24 | 32 | (8) | (25,0%) |
| Electric power operations | 56 | 75 | (19) | n.s |
| Corporate activities | 4 | 4 | - | 0,0% |
| **Total depreciation and amortization** | **84** | **111** | **(27)** | **(24,3%)** |

This reduction should be related to the write-downs for fixed assets and hydrocarbons concessions done at the end of 2015.

## 8. Other net income (expenses) - (2) million euros

These were down compared with the 11 million euros amount for the first half of 2015, and represent postings not directly related to industrial management of the core business. The balance is especially due to expenses of a legal nature, regarding the former Montedison Group.

## 9. Net financial income (expenses) - (22) million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Change |
|---|---|---|---|
| **Financial income** | | | |
| Financial income from group companies | 22 | 26 | (4) |
| Financial income from financial derivatives | 5 | 14 | (9) |
| Other financial income | 3 | 1 | 2 |
| **Total financial income** | **30** | **41** | **(11)** |
| **Financial expenses** | | | |
| Interest paid on bond issues | (12) | (16) | 4 |
| Fair value adjustment on bond issues | 6 | 7 | (1) |
| Financial expenses on financial derivatives | (4) | (13) | 9 |
| Financial expenses paid to EDF | (29) | (13) | (16) |
| Financial expenses for decommissioning | (9) | (9) | - |
| Financial expenses paid to group companies | (1) | (2) | 1 |
| Bank fees | (2) | (2) | - |
| Interest paid to banks | (1) | (1) | - |
| Other financial expenses | (3) | (7) | 4 |
| **Total financial expenses** | **(55)** | **(56)** | **1** |
| **Foreign exchange translation gains (losses)** | | | |
| **Foreign exchange translation gains** | **81** | **154** | **(73)** |
| - amount with EDF | 59 | 102 | (43) |
| - amount with others | 22 | 52 | (30) |
| **Foreign exchange translation losses** | **(78)** | **(113)** | **35** |
| - amount with EDF | (38) | (20) | (18) |
| - amount with others | (40) | (93) | 53 |
| **Total foreign exchange translation gains (losses)** | **3** | **41** | **(38)** |
| **Total net financial income (expenses)** | **(22)** | **26** | **(48)** |

Despite the positive effects resulting from lower financial debt on average compared to the previous financial year, the negative change, compared to the first half of 2015, is particularly due to lower **net gains on exchange rates** due to trends in the EUR/USD exchange rate, which in the first half of 2015 resulted in exceptionally positive results being recorded, especially in relation to operations in derivatives, carried out to contain the exchange rate risk associated with payments for procuring fuel and current accounts in foreign currencies.
We wish to report that financial expenses with EDF include a "breakage cost" in relation to early repayment of the loan, commented on in "note 29. Payables and other financial expenses".

## 10. Income from (expense on) equity Investments - 45 million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Change |
|---|---|---|---|
| **Income from equity investments** | | | |
| Dividends | 60 | 69 | (9) |
| Revaluations of trading securities | - | 1 | (1) |
| Gains in the sale of equity investments | 57 | - | 57 |
| **Total income from equity investments** | **117** | **70** | **47** |
| **Expenses on equity investments** | | | |
| Write-downs on equity investments | (72) | (18) | (54) |
| **Total expenses on equity investments** | **(72)** | **(18)** | **(54)** |
| **Total income from (expenses on) equity investments** | **45** | **52** | **(7)** |

We wish to particularly point out that:

- The **dividends** include especially those for Edison Partecipazioni Energie Rinnovabili (18 million euros), Edison Stoccaggio 13 million euros), Edison Idrocarburi Sicilia (6 million euros), Infrastrutture Distribuzione Gas, Infrastrutture Trasporto Gas and Termica Milazzo 3 million euros).
- The **capital gain from sales** of 57 million euros is essentially due to the disposal in May of the subsidiary Hydros e Sel Edison, classified at the end of 2015 in the Disposal Group assets. This posting also includes the marginally positive effects of the partial sale of the RCS Mediagroup, and quotations on the Milan stock exchange.
- The **write-downs,** done in order to record the losses recorded by some subsidiary companies, of which we wish to point out Edison International Spa, a company carrying out E&P activities, principally in Egypt and Croatia.

## 11. Income taxes – (9) million euros

| (in millions of euros) | 1st half 2016 | 1st half 2015 | Change |
|---|---|---|---|
| Current taxes | (12) | (44) | 32 |
| Net deferred tax liabilities (assets) | 3 | 2 | 1 |
| **Total** | **(9)** | **(42)** | **33** |

**Current taxes** reflect the benefit resulting from the use of the corporate income tax losses contributed by the Company to the national consolidate income tax return filed by its controlling company Transalpina di Energia Spa.

We wish to reiterate that the results for the first half of 2015 included the effects of the abolition of the so-called Robin Hood Tax, the additional amount for companies in the oil and energy sector, which resulted in zeroing of deferred tax assets and the deferred tax fund related to the additional IRES of 6,5%.

## 12. Profit (Loss) from Discontinued Operations

This has a balance of zero.

# NOTES TO THE BALANCE SHEET

## Assets

### 13. Property, plant and equipment – 1,953 million euros

| (in millions of euros) | Land and buildings | Plant and machinery | Manufacturing and distribution equipment | Other assets | Constr. In progress and advances | Total |
| --- | --- | --- | --- | --- | --- | --- |
| **Starting values as at 12.31.2015 (A)** | **335** | **1.455** | **2** | **2** | **166** | **1.960** |
| Changes at June 30, 2016 | | | | | | |
| - Additions | 14 | 43 | - | - | 9 | 66 |
| - Contribution by merger | 4 | 1 | - | - | - | 5 |
| - Disposals (-) | - | (2) | - | - | - | (2) |
| - Depreciation | (5) | (71) | - | - | - | (76) |
| - Other changes | - | 74 | - | - | (74) | - |
| **Total changes (B)** | **13** | **45** | **-** | **-** | **(65)** | **(7)** |
| **Balance at 06.30.2016 (A+B)** | **348** | **1.500** | **2** | **2** | **101** | **1.953** |

The overall value of assets includes 101 million euros for **construction in progress and advances**, related mainly to the **hydrocarbons segment** mainly regarding the development of some gas and oil fields located within the territory, both on-shore and off-shore.

The main movements for the period relate to:

- The **acquisitions,** of 66 million euros, of which:
  - 47 million euros in the **electric power segment,** related mainly to replacing plant parts at some hydroelectric and thermoelectric power stations, and the acquisition, for a total 36 million euros of 9 mini hydro power stations in Piemonte (7) and Friuli Venezia Giulia (2), for a total power rating of 15 MW.
  - 19 million euros for the **hydrocarbons segment**, related to investments for developing the Vega and Clara platform.
- Amounts for **depreciation**, of 76 million euros, down by 25 million euros compared with the amount of 101 million euros for the first half of 2015. For a detailed analysis see note "7. Depreciation, amortization and write-downs".

During the period no financial expenses were capitalized among the property, plant and equipment, in accordance with IAS 23 revised.

### 14. Investment property – 5 million euros

The value for land and buildings not used for production, is substantially unchanged compared to December 31, 2015.

### 15. Goodwill – 1,752 million euros

This is unchanged compared to December 31, 2015 and the residual value represents intangible assets with an indefinite lifespan, which is therefore not subject to systematic depreciation, but to an impairment test at least once a year. In methodological terms, the goodwill value reflects the attribution criteria for the sector, already indicated when defining the cash generating units for the financial statements as December 31, 2015.

## 16. Hydrocarbon concessions – **54 million euros**

The concessions for cultivating hydrocarbons and exploiting hydrocarbon reserves, consisted of 47 mining leases for Italy, showed, compared to December 31, 2015, a decrease of 1 million euros, following amortisation for the period.

## 17. Other intangible assets – **75 million euros**

This value includes mainly 67 million euros for the intangible entered in 2014, which relates to the value of the electric power off take contract, with an overall duration of 10 years (8 years remaining), connected with the new renewable energy hub, and for the remainder, of patents, licences, and similar rights.
During the period, not capitalisation was shown for exploration successes, and consequent development stages.

### Impairment test applied to the Assets in accordance with IAS 36

In conformity to IAS 36, as already described in the same paragraph of the condensed semi-annual consolidated financial statements, during the first half of 2016 the Group updated the impairment test analyses of the individual Cash Generating Units (CGU), where specific impairment indicators were found, that could influence the recoverable value. As regards goodwill, waiting for a new industrial plan, the economic and short-term scenario variables were analysed and did not highlight any specific triggers, also in relation to the 2016 budget, making it necessary to run a test at the half-yearly stage. With reference to the above, for Edison Spa, during the period in question, no impairment indicators were highlighted.

## 18. Investments in associates and available-for-sale investments – **1,435 million euros**

| (in millions of euros) | Equity investments | Available-for-sale investments | Total |
| --- | --- | --- | --- |
| **Balance at 12.31.2015 (A)** | **934** | **167** | **1.101** |
| Changes up to June 30, 2016 | | | |
| - Disposals (-) | - | (2) | (2) |
| - Additions | 418 | - | 418 |
| - Reimbursement of share capital and reserv | - | (2) | (2) |
| - Rev. (+) / write-downs (-) in the income st | (73) | - | (73) |
| - Other movements (-) | (7) | - | (7) |
| **Total changes (B)** | **338** | **(4)** | **334** |
| **Balance as at 06.30.2016 (A+B)** | **1.272** | **163** | **1.435** |

In particular:

- **Investments** account for 1,252 million euros for investments in subsidiaries, and 20 million euros in affiliated companies and those with joint control.
- **Available-for-sale investments** relate especially in the amount of 157 million euros to the investment in Terminale GNL Adriatico Srl (7,297% of the equity), a company that has the *off-shore* regassing plant off Porto Viro (RO).

Of the main changes, we wish to point out:

- **Sales** include the partial sale of shares in RCS Mediagroup, a Company quoted on the Milan Stock exchange, which generated capital gains of less than 1 million euros.

- **Acquisitions** include, for amounts of:
  - 171 million euros the acquisition of Cellina Energy Srl, which owns the hydroelectric hub on the Cellina river, with concessions that will expire in 2029. This hub contains 23 plants including large and mini units in the Pordenone Province, for a total power rating of 90 MW.
  - 247 million euros for the granting of Fenice Spa (a company in the energy efficiency sector) by the parent company, Transalpina di Energia Spa, which came into effect on April 1, 2016 and for which the Board of Directors has carried out the checks for which it is responsible, with positive results, as to valuation of interest acquired. To cover said granting in nature, the extraordinary shareholders meeting of Edison Spa of March 22, 2016 decided to increase in kind the company's equity, commented on in "note 24. Shareholders Equity".
- **Reimbursements to company equity and reserves** relates to those made by the Terminale GNL Adriatico Srl Company.
- As regards **income statement write-downs**, there are essentially adaptations of the value of some investments, as already commented on in "note 9" above.
- The **other changes** include the merger by incorporation of the Shen Spa Company, which owns a hydroelectric power station on the banks of the Adda River, in the town of Maleo (LO).

## 19. Other financial assets – **11 million euros**

This value, which has not changed compared to December 31, 2015, includes loans receivable with a maturity of more than 12 months.

## 20. Deferred tax assets – **337 million euros**

| (in millions of euros) | **06.30.2016** | 12.31.2015 | Changes |
|---|---|---|---|
| **Provision for deferred taxes:** | | | |
| - Adoption of the standard on finance leases (IAS 17) | 18 | 18 | - |
| - Adoption of the standard on financial instruments (IAS 39), with an impact on: | | | |
| - Income statement | - | - | - |
| - Shareholders Equity | - | - | - |
| - Other deferred taxes | - | - | - |
| **Total deferred tax liabilities (A)** | **18** | **18** | **-** |
| **Deferred tax assets usable for offset purposes** | | | |
| - *Tax assets* for tax losses | 9 | - | 9 |
| - Taxed provisions for risks | 44 | 41 | 3 |
| - Adoption of the standard on financial instruments (IAS 39) with an impact on: | | | |
| - Income statement | - | - | - |
| - Shareholders equity | 129 | 226 | (97) |
| - Valuation differences on property, plant, and equipment | 172 | 184 | (12) |
| - Other pre-paid taxes | 1 | 4 | (3) |
| **Total deferred tax assets (B)** | **355** | **455** | **(100)** |
| **Net deferred tax liabilities (A-B)** | **(337)** | **(437)** | **100** |

The table shows the composition based on the nature of the differences over time, taking into account that according to the requirements laid down by IAS 12, this posting has been compensated for by the provision for deferred taxes. The valuation was done on the basis of probable achievable value and fiscal recoverability, taking the achievable timeline into account.

## 21. Other assets – 225 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Changes |
|---|---|---|---|
| *Fair value* of derivatives of industrial portfolio and trading *activities* | | | |
| - Outsiders | 171 | 163 | 8 |
| - Subsidiaries | 1 | - | 1 |
| - EDF Trading | 25 | 62 | (37) |
| **Total fair value of derivatives of industrial portfolio and trading activiti** | **197** | **225** | **(28)** |
| Tax refunds receivable | 16 | 16 | - |
| Security deposits | 3 | 3 | - |
| Other receivables | 9 | 7 | 2 |
| **Total** | **225** | **251** | **(26)** |

## 22. Current assets – 3,575 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Changes |
|---|---|---|---|
| Inventories | 81 | 106 | (25) |
| Trade receivables | 483 | 1.558 | (1.075) |
| Current tax assets | 1 | 1 | - |
| Other receivables | 972 | 1.291 | (319) |
| Current financial assets | 2.016 | 1.686 | 330 |
| Cash and cash equivalents | 22 | 47 | (25) |
| **Total** | **3.575** | **4.689** | **(1.114)** |

In particular:

- **Inventories**, aligned where necessary with the new presumed achievable value, are made up of hydrocarbon stocks of 63 million euros (90 million euros on December 31, 2015), and materials and equipment earmarked for maintaining and operating the plants, in the amount of 17 million euros (16 million euros on December 31, 2015). The inventories also include 9 million euros as quantities of natural gas stored, which are subject to a usage restriction as a strategic reserve and as a guarantee of the balancing regime.
- In the table below **trade receivables** are detailed:

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Changes |
|---|---|---|---|
| Hydrocarbons | 368 | 1.436 | (1.068) |
| Electric power | 115 | 122 | (7) |
| **Total trade receivables** | **483** | **1.558** | **(1.075)** |
| *Broken down as follows:* | | | |
| *- Outsiders* | 207 | *914* | *(707)* |
| *- Subsidiaries and affiliated companies* | 276 | *644* | *(368)* |
| **Total trade receivables** | **483** | **1.558** | **(1.075)** |
| **Allowance for doubtful accounts** | **(42)** | **(42)** | - |

  These relate, in particular, to contracts for providing electric power and steam, for contracts to supply natural gas, and the change, compared to December 31 2015, relates mainly to the receipt of the second payment related to arbitration with regard to the long-term contract for purchasing Libyan gas.
  The provisions result from valuations, in accordance with the policy of the Edison Group, of various credit statuses, taking the clientele's segment into consideration, the related due date, and *ageing*.
  We also wish to reiterate that Edison Spa regularly carries out transactions irrevocably assigning receivables without recourse, both on a revolving monthly and quarterly and on a spot basis. For further details see the specific disclosure contained in the "Financial Risk Management" chapter.
- **Current tax assets**, substantially relate to IRES receivables;

- In the table below **other receivables** are detailed:

| (in millions of euros) | **06.30.2016** | **12.31.2015** | Changes |
|---|---|---|---|
| *Fair value of derivatives of industrial portfolio and trading activities* | | | |
| - Outsiders | 438 | 783 | (345) |
| - Subsidiaries | 92 | 156 | (64) |
| - EDF Trading | 99 | 65 | 34 |
| **Total fair value of derivatives of industrial portfolio and trading activities** | **629** | **1.004** | **(375)** |
| Owed by partners and assoc. for hydrocarbon exploration projects | 23 | 26 | (3) |
| Provision of technical, admin and financial services to group companies | 37 | 36 | 1 |
| VAT receivable from tax administration | 170 | 126 | 44 |
| Sundry items | 113 | 98 | 15 |
| **Total** | **972** | **1.290** | **(318)** |
| **Amount of allowance for doubtful accounts** | **(16)** | **(16)** | - |

The change for the period in **current receivables derived from valuation at fair value of** derivative contracts signed to cover the industrial portfolio must be analysed jointly with the related payable posting included in current liabilities (down from 1,346 million euros to 824 million euros - note 31). This result is mainly attributable to trends for prices and exchange rates. For an overview of the effects, we refer you to the specific disclosure contained in the "Parent Company's financial risks management" chapter.

The other receivables relate mainly to derived contracts carried out, of which we wish to refer to current exposures due to the mandate contract with Edison Trading in relation to trading gas.

- In the table below **current financial assets** are detailed:

| (in millions of euros) | **06.30.2016** | 12.31.2015 | Changes |
|---|---|---|---|
| Loans receivable | 1.979 | 1.655 | 324 |
| Derivatives | 34 | 28 | 6 |
| Equity investments held for trading | 3 | 3 | - |
| **Total** | **2.016** | **1.686** | **330** |

In particular:

- The **loans receivable** relate to relations of a financial nature with subsidiary and affiliated companies, and show the balances for the infra-group current accounts, and loans in place with those companies.
- The **derivatives** relate entirely to valuation at fair value of derived contracts in progress, and related to covering the interest rate and exchange rate fluctuation risks.
- The **equity investments held for trading** relate to quoted companies, and the values for which are adapted to the stock exchange values at the end of the period.

- The **cash and cash equivalents** stand at 22 million euros (47 million euros on December 31,2015), and are made up of bank and post office deposits, and amounts available in the short-term.

## 23. Assets held for sale

The 112 million euros value at December 31, 2015 has been fully zeroed. This value essentially referred to the value of investments in Hydros and Sel Edison, including goodwill allocated to the same. Conclusion of the operation between Edison and Alperia was signed on May 31, 2016 and follows the signing on December 29, 2015 between Edison and SEL - Società Elettrica Altoatesina (now Alperia).

In terms of the net financial debt, this operation generated about 3 million euros, with a net capital gain from the sale of the shares, of about 56 million euros.

# Liabilities and Shareholders' Equity

## 24. Shareholders' Equity – **5,064 million euros**

Shareholders equity is up by 445 million euros, compared to the 4,619 million euros amount of December 31, 2015.

The **composition and changes in shareholders equity** is shown in the "Change in Shareholders Equity" section, and, besides covering the losses of the previous financial year decided by the shareholders meeting of March 22, 2016, the main changes included:

- 47 million euros in a capital increase in nature, reserved to the parent company Transalpina di Energia Spa, of which about 85 million euros in capital increase and about 162 million euros in share premiums. Edison Spa's extraordinary shareholders meeting approved granting to Edison, by the controlling shareholder Transalpina di Energia Spa, of 100'% of the stake in Fenice Spa, effective from April 1, 2016. The latter is a company in the EDF Group that specialises in energy and environmental services, operating in Italy as well as in Poland, Spain, and Russia, via some subsidiaries.
- 219 million euros positive change, net of taxes, to the Cash Flow Hedge provision.
- 20 million euros for the loss for the period.

The table below illustrates the composition of the new **company equity**, compared with the previous situation.

| Type | Current Share Capital | | | Previous Share Capital | | |
|---|---|---|---|---|---|---|
| | Amount in Euro | N° of shares | N.V. per Unit Euro | Amount in Euro | N° of shares | N.V. per Unit Euro |
| Common shares (regular privileges) | 5,266,845,824.00 | 5,266,845,824 | 1.00 | 5,181,545,824.00 | 5,181,545,824 | 1.00 |
| Non-convertible **savings shares** (privileges January 1, 2014) | 110,154,847.00 | 110,154,847 | 1.00 | 110,154,847.00 | 110,154,847 | 1.00 |
| **Total** | **5,377,000,671.00** | **5,377,000,671** | **1.00** | **5,291,700,671.00** | **5,291,700,671** | **1.00** |

An indication is given below of the change to the *Cash Flow Hedge* provision, in relation to application of IAS 39 on derived contracts and relatable to suspension from the shareholders equity of the effective part of derived contracts signed to cover the price and exchange rate risk for energy *commodities*. The amounts that reflect directly in the shareholders equity are reflected in the income statement according to the economic effects produced by the element covered.

**Reserve for Cash Flow Hedge operations**

| (in millions of euros) | Gross reserve | Deferred taxes | Net reserve |
|---|---|---|---|
| Balance as at 12.31.2015 | (737) | 226 | (511) |
| - Change in the period | 316 | (97) | 219 |
| **Balance as at 06.30.2016** | **(421)** | **129** | **(292)** |

The change relates to the changes in the reference scenarios, especially in the commodities and foreign exchange markets.

We wish to report that the **reserve for actuarial gains and losses (IAS 19)** is unchanged compared to December 31,2015.

## 25. Provision for employees severance indemnities and provisions for pensions – 22 million euros

This value, which has not changed compared to December 31, 2015 reflects severance indemnities and other benefits accrued at the end of the period, in favour of employees. The actuarial gains and losses indicated directly among the shareholders equity come to 1 million euros. The actuarial valuation called for by IAS 19 was only done for liabilities related to severance indemnities accrued by still within the Company, while the parameters used for the valuation are as follows:

| | 06.30.2016 | 12.31.2015 |
|---|---|---|
| - Technical annual discount rate | 1,90% | 2,40% |
| - Annual inflation rate | 1,10% | 0,60% |

## 26. Provision for deferred taxes

In accordance with the requirements laid down by IAS 12, this posting was offset against deferred tax assets, to which you are referred for the relevant comment.

## 27. Provisions for risks and charges – 785 million euros

| (in millions of euros) | 12.31.2015 | Additions | Uses | Other changes | 06.30.2016 |
|---|---|---|---|---|---|
| - Risks for disputes, litigation and contracts | 129 | 1 | (1) | - | 129 |
| - Charges for contractual guarantees on sale of equity inves | 75 | - | - | - | 75 |
| - Environmental risks | 64 | - | (10) | - | 54 |
| - Other judicial risks | 10 | - | - | - | 10 |
| - Disputed tax items | 44 | 7 | (1) | - | 50 |
| **Total for judicial and tax-related disputes** | **322** | **8** | **(12)** | **-** | **318** |
| - Provisions for site decommissioning and remediation | 424 | 9 | (1) | - | 432 |
| - Provisions for green certificate risks | - | - | - | 11 | 11 |
| - Other risks and charges | 57 | | (33) | - | 24 |
| **Total** | **803** | **17** | **(46)** | **11** | **785** |

For further details on the contents that resulted in the current formation of these provisions, see the comment in the "Risks and contingent liabilities arising from Judicial and Tax-related disputes" paragraph, contained in the separate financial statements at December 31, 2015 and the related update indicated in the Condensed Consolidated Semiannual Financial Statements at June 30, 2016.

**Provisions for site decommissioning and remediation**, of 432 million euros, include the value discounted as of the date of the financial statements, of decommissioning costs we expect to sustain in relation to the industrial sites and mining structures. This posting recorded a net increase of 8 million euros, associated mainly with reserves for financial charges related to said discounting.

The change in **provisions for other risks and charges** refer mainly to the costs arising in relation to contractual and regulatory issues.

## 28. Bonds – 600 million euros

This balance relates to the non-current quota of the following bond loan:

| (in millions of euros) | Market where traded | Currency | Par value outstanding | Coupon | Rate | Maturity | Financial statement value: Non-current portion | Financial statement value: Current portion | Financial statement value: Total | Fair value |
|---|---|---|---|---|---|---|---|---|---|---|
| Edison Spa | Luxembourg Secur. Exch | Euro | 600 | Annual in arrears | 3,875% | 10.11.2017 | 600 | 34 | 634 | 647 |

Issuing of the bond, for a quota of which derivatives were signed to cover the risk of change in fair value due to fluctuations in the interest rate, were valued at the amortised cost, adjusted in application of hedge accounting practice, to take the change in the risk covered into account.

## 29. Long-term financial debt and other financial liabilities – 222 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Changes |
|---|---|---|---|
| Banks | 152 | 160 | (8) |
| EDF Sa | 70 | 70 | - |
| EDF Investissements Groupe Sa | - | 397 | (397) |
| **Total** | **222** | **627** | **(405)** |

Debts with banks relate mainly to the direct medium / long-term loan granted by the European Investment Bank (EIB), earmarked for financing storage projects and, in addition to usual clauses for direct long-term loans, it is also subject to usage limitations that the EIB lays down for loans for industrial undertakings.

The debt with the EDF Sa Group includes a medium / long-term line of credit (10 year) for a total of 200 million euros linked to investment projects and related to a line of credit granted by the EIB to EDF Sa, used in part to the extent of 70 million euros.

We wish to point out that the loan granted in 2013 by EDF Investissements Groupe Sa for an original value of 800 million euros and an original duration of 7 years, was paid off in May for 400 million euros.

## 30. Other liabilities – 148 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Changes |
|---|---|---|---|
| Fair value of derivatives of industrial portfolio and trading activities | | | |
| - Outsiders | 139 | 305 | (166) |
| - EDF Trading | 9 | 9 | - |
| **Total** | **148** | **314** | **(166)** |

## 31. Current liabilities – 2,581 million euros

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Changes |
|---|---|---|---|
| Bonds | 34 | 29 | 5 |
| Short-term financial debt | 885 | 888 | (3) |
| Trade payables | 628 | 822 | (194) |
| Current taxes payable | - | 20 | (20) |
| Other liabilities | 1.034 | 1.711 | (677) |
| **Total** | **2.581** | **3.470** | **(889)** |

- **Bonds** include the value of interest accrued at June 30, 2016.
- In the table below **short-term financial debt** are detailed:

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Changes |
|---|---|---|---|
| Subsidiaries and affiliated companies | 493 | 699 | (206) |
| EDF Group | 175 | 59 | 116 |
| Transalpina di Energia | 161 | 95 | 66 |
| Other financers | 25 | - | 25 |
| Banks | 29 | 14 | 15 |
| Factoring companies | 2 | 21 | (19) |
| **Total** | **885** | **888** | **(3)** |

- In the table below **trade payables** are detailed:

| (in millions of euros) | **06.30.2016** | 12.31.2015 | Changes |
|---|---|---|---|
| Hydrocarbons | 520 | 700 | (180) |
| Electric power | 96 | 77 | 19 |
| Corporate | 12 | 45 | (33) |
| **Total payables to suppliers** | **628** | **822** | **(194)** |

These relate mainly to natural gas purchases according to long-term contracts.

- **Current tax liabilities** were zeroed as a result of payments made during the period.
- In the table below **other liabilities** are detailed:

| (in millions of euros) | **06.30.2016** | 12.31.2015 | Changes |
|---|---|---|---|
| *Fair value of derivatives of industrial portfolio and trading activities:* | | | |
| - Outsiders | 799 | 1.303 | (504) |
| - Subsidiaries | 5 | 15 | (10) |
| - EDF Trading | 20 | 28 | (8) |
| **Total *fair value* of derivatives of industrial portfolio and trading *activitie*** | **824** | **1.346** | **(522)** |
| Transalpina di Energia Spa - tax consolidation | - | 153 | (153) |
| Joint holders of permits and concessions for the production of hydrocarbons | 46 | 60 | (14) |
| Amounts payable to employees | 20 | 22 | (2) |
| Due to pension and social security institutions | 17 | 16 | 1 |
| Payables for VAT in pool woth subsidiaries | 1 | 2 | (1) |
| Sundry items | 126 | 112 | 14 |
| **Total** | **1.034** | **1.711** | **(677)** |

Liabilities related to **fair value valuation of derivatives** done to hedge the industrial portfolio, must be analysed along with the related receivable indicated under **Current assets** (down from 1,004 million euros to 629 million euros) (note 22).

## 32. Liabilities held for sale

The value as December 31, 2015 has been completely zeroed and including trade payables to Hydros and Sel Edison. For further details see the paragraph: "Disclosure pursuant to IFRS 5 – Disposal Group”.

# NET FINANCIAL DEBT

| (in millions of euros) | *Note* | **06.30.2016** | 12.31.2015 | Changes |
|---|---|---|---|---|
| Bonds - non-current portion | 28 | 600 | 599 | 1 |
| Amounts due to other lenders - non-current portion | 29 | 152 | 467 | (315) |
| Non-current bank loans | 29 | 70 | 160 | (90) |
| **Net long-term financial debt** | | **822** | **1.226** | **(404)** |
| Bonds - current portion | 31 | 34 | 29 | 5 |
| Current loans payable | 31 | 885 | 888 | (3) |
| Current financial assets | 22 | (2.016) | (1.686) | (330) |
| Cash and cash equivalents | 22 | (22) | (47) | 25 |
| **Net short-term financial debt** | | **(1.119)** | **(816)** | **(303)** |
| **Total net financial debt** | | **(297)** | **410** | **(707)** |

The net financial position at June 30, 2016 was positive and stood at 297 million euros, compared to a net financial debt of 410 million euros on December 31,2015 .

The overall value is due in particular to the dynamics of cash flows, especially for receipt of the second payment of the receivable resulting from the arbitration ruling in the matter involving ENI. As a result of this receipt, it was possible to repay the remaining 400 million euros at the end of May 2016 (400 million euros paid in December 2015) of the loan granted by EDF Investissement, which significantly reduced long-term debt.

Also included, are the effects of payments related to net investments in tangible and intangible assets, and investments (317 million euros), taxes paid, including those related to the consolidated tax position of the parent company, Transalpina di Energia (161 million euros) and net taxes paid (22 million euros), offset in part by the receipt of dividends (54 million euros) and the increase in capital.

The net financial debt includes:

- 245 million euros **payable to companies in the EDF Group**, of which, 70 million euros registered among the non-current payables to other lenders. and 175 million euros in current financial debts.
- 161 million euros **payables to Transalpina di Energia** registered in current financial debt.

These values can also be seen in the relevant table in the "Intercompany and Related-party Transactions" paragraph.

# COMMITMENTS, RISKS AND CONTINGENT ASSETS

## Commitments – **1,245 million euros**

| (in millions of euros) | 06.30.2016 | 12.31.2015 | Change |
| --- | --- | --- | --- |
| Guarantees provided | 1.166 | 1.130 | 36 |
| Collateral provided | 6 | 6 | - |
| Other commitments and risks | 73 | 76 | (3) |
| **Total** | **1.245** | **1.212** | **33** |

**Personal guarantees provided** are determined on the basis of the undiscounted amount of contingent commitments, on the balance sheet date. The following were among the personal guarantees provided:

- guarantees issued by Edison Spa to the Milan Tax Office for 71 million euros, in the interest of subsidiaries, to offset VAT credits and infragroup transfers of tax credits.
- the remainder is made up essentially of guarantees issued by the company or its banks and counter-guaranteed in its interests, or those of subsidiaries and affiliates to commitments of a contractual nature.

**Collaterals provided**, which represent the value on the balance sheet date of assets or rights provided as collateral, consist essentially of pledges encumbering the Ibiritermo shares and the subordinated load granted to said affiliate.

**Other commitments and risks** include those undertaken to complete current investments in the amount of 26 million euros. Updating of risk profiles and economic recoverability are checked periodically during the year.

No other changes are reported, other than those commented on in the separate financial statements as at 31 December 2015, to which you are referred for more complete, exhaustive information.

## Unrecognised commitments and risks

As regards the main commitments and risks not reflected in the financial statements, no particular changes during the first half of 2016 are reported, compared to the separate financial statements at December 31, 2015. We wish to specifically mention that long-term contracts are in progress, for importing gas that comes from Algeria, Libya, Qatar and Russia. The table below provides temporal details on the natural gas supplies, according to the minimum contractual deliveries:

| | U.M. | within 1 year | from 2 to 5 years | more than 5 years | Total |
| --- | --- | --- | --- | --- | --- |
| Natural gas | Billions of m3 | 13.2 | 48.6 | 112.0 | 173.8 |

(*) The economic values depend on the prospective price formulas

# FINANCIAL RISK MANAGEMENT

In accordance with IFRS 7, the paragraphs that follow include information on the nature of risks related to the parent company, Edison Spa. As regards **policies**, **procedures for managing risks**, and the **fair value valuation methodology** used for derived instruments by Edison Spa, see the notes contained in the corresponding paragraphs of the Separate Financial Statement at December 31, 2015.

## 1. Commodity Price Risk *and* Exchange Rates Risk related to Commodity Transactions *.*

The table below indicates the maximum negative fluctuation expected in the fair value of current financial derivatives, against the timeline of the current financial year, with a 97,5% probability compared to the fair value determined on 30 June 2016. In other words, compared to the fair value determined on 30 June 2016, for hedging outstanding derivatives, the probability of a negative fluctuation greater than 473,8 million euros by the end of the 2016 financial year, is limited to 97,5% of the scenarios.

| Profit at Risk (PaR) (in €mn) | 1st half 2016 | 1st half 2015 | 12.31.2015 |
|---|---|---|---|
| Maximum negative change in fair value foreseen (*) | 473,8 | 385,8 | 385,8 |

(*) Probability level, 97,5%

The increase of the level recorded at June 30, 2015 is mainly attributable to a higher net volume of financial contracts and to the increase of volatility in the oil market prices. The hedging strategy deployed in 2015 enabled the Company to comply with Group risk management objectives, lowering the commodity price risk profile for the Industrial Portfolio and keeping it within the approved Economic Capital limit. The commodity price risk profile for the Industrial Portfolio, within the approved Economic Capital limit, is shown below:

| **Industrial Portfolio Economic Capital Absorption** | **1st half 2016** | | **1st half 2015** | |
|---|---|---|---|---|
| | **no derivatives** | **with derivatives** | **no derivatives** | **with derivatives** |
| Average absorption of the approved economic capital limit | 115% | 43% | 60% | 53.% |
| Maximum absorption | 264% - Jan 16 | 87% - Jan 16 | 88% - Jan 15 | 91% - Jan. 15 |

## 2. Foreign Exchange Risk

The guidelines for governance and mitigation strategies for the foreign exchange risk are consistent with December, 31 2015.

## 3. Interest Rate Risk

Being exposed to fluctuations in interest rates, when it comes to measuring service cost debt, Edison Spa regularly assesses its exposure to interest rate fluctuations, which it manages mainly by negotiating financing facilities. One exception is the hedging financial instruments associated with issuing bonds, which quality as cash flow hedges in terms of IAS 39 (Fair Value Hedges), associated with the issuing of bonds.

| *Gross financial debt* *Mix of fixed and variable rate:* (in millions of euros | **06.30.2016** | | | **12.31.2015** | | |
|---|---|---|---|---|---|---|
| | without derivatives | with derivatives | % with derivatives | without derivatives | with derivatives | % with derivatives |
| - Fixed rate portion (includine structure with CAP) | 600 | - | 0% | 1.000 | 400 | 19% |
| - Variable rate portion | 1.115 | 1.715 | 100% | 1.142 | 1.742 | 81% |
| **Total gross financial debt** | **1.715** | **1.715** | **100%** | **2.142** | **2.142** | **100%** |

The instruments still outstanding are the interest rate swaps, negotiated with the six-month (principally Euribor as a parameter). The fixed-rate bond issue of 600 million dollars maturing on November 10, 2017 is converted in

variable-rate trough interest rate swap, parameter to six-months Euribor. At the moment Edison benefits from the lower cost of variable rate compared to fixed rate, saving on financial expenses.
A sensitivity analysis is provided below that shows the effects, in relation to the income statement and the shareholders equity respectively, of a hypothetical shift of the +50 or -50 basis point curves, compared to the actual rates applied in first-half of 2016, compared with the corresponding data for 2015:

| *Sensitivity analysis* (in millions of euros) | 1° half 2016 Impact on financial expenses (I.S.) | | | 1st half 2015 Impact on financial expenses (I.S.) | | |
|---|---|---|---|---|---|---|
| | +50 bps | base | -50 bps | +50 bps | base | -50 bps |
| **Edison Spa** | **12** | **10** | **9** | **24** | **21** | **18** |

## 4. Credit Risk

Edison is involved in transactions of assignment without recourse of trade receivables on a monthly revolving basis, and by transferring the credit risk without recourse. In the first half of 2016 these operations were done for a total value of 540 million euros (1,068 million euros at the end of 2015).
We wish to report, therefore, that at June 30, 2016 there was no significant exposure to risks related to possible further deterioration of the overall financial environment, or significant concentrations with individual non-institutional counterparts.
The table below shows an overview of gross trade receivables, the corresponding allowance for doubtful accounts, and the guarantees the Group holds to secure its receivables:

| (in millions of euros) | **06.30.2016** | **12.31.2015** |
|---|---|---|
| Gross trade receivables | 320 | 957 |
| Allowance for doubtful accounts (-) | (42) | (42) |
| **Trade receivables** | **278** | **915** |
| Garantees held (*) | 170 | 172 |
| Receivables in arrears: | | |
| - up to 6 months | 4 | 4 |
| - from 6 to 12 months | - | - |
| - more than 12 months | 40 | 38 |

(*) Of which, provision for bad debts in place as at 30 June 2016 of Euro 46 million.

Sizing of the trade receivables write-downs provision is determined cautiously in relation to the various underlying credit ratings, or - especially for credit with retail clients - taking the related time the unpaid amount is overdue into account.

## 5. Liquidity Risk

The table below represents the *worst case scenario;* future cash flows to cover liabilities, also include future interest estimated for the entire duration of the underlying debt obligation, as well as the effect of interest rates for derived contracts.

| *Worst case scenario* (in millions of euros) | 06.30.2016 | | | 12.31.2015 | | |
|---|---|---|---|---|---|---|
| | 1 to 3 months | 3 months to 1 year | more than 1 year | 1 to 3 months | 3 months to 1 year | more than 1 year |
| Bonds | - | 23 | 623 | - | 23 | 623 |
| Financial debt and other financial liabilities | 351 | - | 214 | 152 | 12 | 664 |
| Trade payables | 581 | 47 | - | 779 | 29 | - |
| **Total** | **932** | **70** | **837** | **931** | **64** | **1.287** |
| **Guarantees provided to thirs parties (*)** | **758** | **242** | **245** | **682** | **188** | **259** |

(*) These guarantees, mainly of a commercial nature and related to the Group's core business, as shown based on their residual amount, for further details, see the "Commitments and Contingent Risks" section of this Report.

With reference amounts payable within the year (374 million of euros) it is worth to mention that it is mainly due to flexible forms of financial funding, readily usable at discretion of Edison, as the treasury current account with EDF Sa for 75 million euros, the rotating line of credit granted by EDF Sa for 100 million euros, the liquidity that the parent company Transalpina di Energia Spa grants to Edison, in order to optimize financial resources, in the form of short-term deposit for 161 million euros. The remaining part relates to the payment of interest and periodic repayments of existing loans.

Edison believes that it has adequate sources of funding to meet its financial needs within the short period. These forms of financing are represented by:

- the credit line allowed up to 199 million euro on the treasury current account opened in September 2012 between Edison and EDF Sa (available for 124 million euros);
- the line provided by EDF Sa, expiring in April 2017, for a total of 600 million euros, and available to 500 million euro at June 30, 2016;
- alternatively, a 500 million euros revolving credit line expiring in November 2016, provided by a group of banks on a Club Deal basis, currently available for its full amount.

Please note that on May 2016 Edison Spa had reduced its long-term debt by repaying in advance 400 million euros of the loan owed to EDF Investissements Groupe Sa. This transaction was made possible by the early collection of a portion of the gain resulting from the award in the ENI arbitration.

Long-term financial debts (837 million euros) are related to a bond issue with a face value of 600 million euros that expires on 10 November 2017, the amounts drawn (134 million euros at June 30, 2016) from the medium/long-term direct line provided by the European Investment Bank (EIB) to finance gas storage projects and drawdown of 70 million euros from a new line totalling 200 million euros, provided on December 9, 2015 by EDF SA. This is a credit line provided by the EIB to EDF Sa, which reallocated it, through an intercompany loan, to Edison to finance certain investment projects. Consequently, it is a special purpose line, with a maximum duration of ten years and is available to Edison substantially on the same favourable terms as those offered by the EIB to companies with EDF's credit rating.

## 6. Default Risk and Debt Covenants

As June 30, 2016 Edison has a bond issue that they have floated (*Euro Medium Term Notes*) with a total face value of 600 million euros.

| Description | Issuer | ISIN Code | ISIN D | Term (years) | Maturity | Nominal value (in millions of euros) | Coupon | Current rate |
|---|---|---|---|---|---|---|---|---|
| EMTN 11/2010 | Edison Spa | Luxembourg Stock Exch. | XS0557897203 | 7 | 10.11.2017 | 600 | Annual fixed | 3,875% |

In addition, Edison spa is a party to non-syndicated loan agreements for 843 million euros, of which 500 million euros was unused at June 30, 2016 and syndicated lines of credit for 500 million euros, on a *Club Deal* basis, which are fully available.

As regards current operations and related regulations, as well as associated covenants, there has been no change since December 31, 2015 and so you are referred to the complete comment in the Separate Financial Statements at December 31, 2015.

As things stand, the Company is not aware of the existence of any default situation or failure to respect *covenants*.

# INTERCOMPANY AND RELATED-PARTY TRANSACTIONS

Consistent with the policies adopted by the Company, economic, asset and financial transactions in place at June 30, 2016 with related parties, are indicated below in accordance with the disclosure requirements of IAS 24. These transactions came about as part of the normal course of business, and on contractual terms that were consistent with standard market practices.

For a more in-depth analysis, see the "Intercompany and Related-Party Transactions" paragraph in the "Notes to the Condensed Consolidated Semiannual Financial Statements".

The table below shows transactions with related parties:

| (in millions of euros) | *Related parties pursuant to IAS 24* | | | | Total financial statement item | % impact |
|---|---|---|---|---|---|---|
| | *With Edison Group companies* | *With controlling companies* | *With other EDF Group companies* | **Total related parties** | | |
| **Balance Sheet transactions** | | | | | | |
| Investments in associates | 1,272 | - | - | 1,272 | 1,272 | 100.0% |
| Trade receivables | 207 | - | 8 | 215 | 483 | 44.5% |
| Other receivables | 41 | 5 | 19 | 65 | 972 | 6.7% |
| Current financial assets | 1,979 | - | - | 1,979 | 2,016 | 98.2% |
| Financial debt and other financial liabilities | - | 70 | - | 70 | 222 | 31.5% |
| Current financial debts | 493 | 336 | - | 829 | 885 | 93.7% |
| Trade payables | 37 | 2 | 7 | 46 | 628 | 7.3% |
| Other payables | 5 | 1 | 5 | 11 | 1,034 | 1.1% |
| **Income Statement transactions** | | | | | | |
| Sales revenue | 1,320 | 2 | 121 | 1,443 | 3,125 | 46.2% |
| Other revenue and income | 9 | - | - | 9 | 50 | 18.0% |
| Raw materials and services used | 54 | 8 | 19 | 81 | 3,039 | 2.7% |
| Financial income | 21 | - | - | 21 | 30 | 70.0% |
| Financial expenses | - | 1 | 27 | 28 | 55 | 50.9% |
| Foreign exchange gains and losses | - | 21 | - | 21 | 3 | n.s. |
| Income from equity investments | 60 | - | - | 60 | 117 | 51.3% |
| Expenses on equity investments | 63 | - | - | 63 | 72 | 87.5% |

It should be noted that on March 22, with effect from April 1, 2016 , the extraordinary shareholders meeting of Edison Spa approved the contribution in Edison, by the parent Transalpina di Energia Spa, of 100 % stake in Fenice Spa, a subsidiary of EDF group specialised in energy and environmental services, operating in Italy, and through a number of subsidiaries, in Poland, Spain and Russia. The operation was performed with a capital increase in kind reserved for Transalpina di Energia Spa for a total of 247 million euros, of which approximately 85 million as capital increase and about 162 million euros in share premium .

In order to meet foreseeable financial needs, the company Fenice was funded in the amount of 150 million euros, with terms in line with the best offers in the market.

# OTHER INFORMATION

## Nonrecurring Events and Material Transactions

The following disclosure is being provided pursuant to the Consob Communication no DEM/6064293 of July 28 2006:

- on March 22, 2016 with effect from April 1, 2016, the Extraordinary Shareholders' Meeting of Edison Spa approved the transfer to Edison, by the controlling shareholder, Transalpina di Energia Spa, of 100% of the shareholding in Fenice Spa, a company in the EDF Group that is specialized in energy and environmental services. It operates in Italy as well as via subsidiaries in Poland, Spain and Russia. This operation was done with an increase in capital in nature, reserved to Transalpina di Energia Spa for a total of 247 million euros, of which 85 million euros went to an increase in capital, and 162 million euros was in the form of share premiums.
- In second quarter 2016, Edison and Eni signed an agreement to revise the price formula for the long-term contract to supply natural gas from Libya. The new formula is applied to volumes imported as from October 1, 2015 and applies for three years. This agreement closes the price review that Eni launched in the last quarter of 2015, for the long-term contract for a total of 4 billion cubic metres of gas per year.

## Transactions Resulting from Atypical and/or Unusual Activities

Edison Spa deciares that it not execute atypical and/or unusual transactions in the first half of 2016, as defined in the Consob Communication no DEM/6064293 of July 28,2006.

## SIGNIFICANT EVENTS OCCURRING AFTER JUNE 30, 2016

There were no events subsequent to June 30, 2016 .

**Milan, July 27,2016**

**The Board of Directors**
**by Marc Benayoun**
**Chief Executive Officer**

# Certification of the Condensed Semiannual Financial Statements Pursuant to Article 81-*ter* of Consob Regulation No. 11971 of May 14, 1999, as Amended

1. We, the undersigned Marc Benayoun, in my capacity as “Chief Executive Officer,” and Didier Calvez and Roberto Buccelli, in our capacity as “Dirigenti Preposti alla redazione dei documenti contabili societari,” employees of Edison Spa, taking into account the provisions of Article 154-*bis*, Sections 3 and 4, of Legislative Decree No. 58 of February 24, 1998, certify that the administrative and accounting procedures applied to prepare the Condensed Semiannual Financial Statements for the period from January 1, 2016 to June 30, 2016:

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

2. We further certify that:

2.1. the Condensed Semiannual Financial Report (condensed consolidated semiannual financial statements and condensed semiannual financial statements of Edison Spa):

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

2.2. the Semiannual Report on Operations includes a reliable analysis of significant developments that occurred during the first half of the year and of their impact on the Condensed Semiannual Financial Statements, together with a description of the main risks and contingencies for the remaining six months of the year. The Semiannual Report on Operations also provides a reliable analysis of transactions with related parties.

Milan, July 27, 2016

| Chief Executive Officer | “Dirigenti Preposti alla redazione dei documenti contabili societari” |
|---|---|
| Marc Benayoun | Didier Calvez<br>Roberto Buccelli |

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# REPORT OF THE INDEPENDENT AUDITORS

Deloitte.

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# REPORT ON REVIEW OF THE CONDENSED CONSOLIDATED SEMIANNUAL FINANCIAL STATEMENTS

**To the Shareholders of**
**EDISON S.p.A.**

**Introduction**

We have reviewed the accompanying condensed consolidated semiannual financial statements of Edison S.p.A. and subsidiaries (the "Edison Group"), which comprise the balance sheet as of June 30, 2016 and the income statement, the other components of the comprehensive income statement, the cash flow statement and the statement of changes in consolidated Shareholder's equity for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

**Scope of Review**

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated semiannual financial statements of the Edison Group are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Milan, Italy
July 27, 2016

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# REPORT ON REVIEW OF THE CONDENSED SEMIANNUAL FINANCIAL STATEMENTS

**To the Shareholders of
EDISON S.p.A.**

## Introduction

We have reviewed the accompanying condensed semiannual financial statements of Edison S.p.A., which comprise the balance sheet as of June 30, 2016 and the income statement, the other components of the comprehensive income statement, the statement of cash flow and the statement of changes in Shareholder's equity for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of this interim financial information in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed semiannual financial statements of Edison S.p.A. are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Milan, Italy
July 27, 2016

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