# 2010 ANNUAL REPORT

## CONSOLIDATED FINANCIAL STATEMENTS

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# 2010 ANNUAL REPORT
## CONSOLIDATED FINANCIAL STATEMENTS

EDISON

## Income Statement

| (in millions of euros) | See Note | 2010 | of which related parties | 2009 (*) | of which related parties |
|---|---|---|---|---|---|
| Sales revenues | 1 | 10,446 | 368 | 8,867 | 301 |
| Other revenues and income | 2 | 638 | 51 | 517 | 77 |
| **Total net revenues** | | **11,084** | **419** | **9,384** | **378** |
| Raw materials and services used (-) | 3 | (9,462) | (177) | (7,673) | (72) |
| Labor costs (-) | 4 | (253) | - | (240) | - |
| **EBITDA** | 5 | **1,369** | | **1,471** | |
| Depreciation, amortization and writedowns (-) | 6 | (1,096) | - | (772) | - |
| **EBIT** | | **273** | | **699** | |
| Net financial income (expense) | 7 | (144) | - | (156) | - |
| Income from (Expense on) equity investments | 8 | (1) | 1 | (3) | (5) |
| Other income (expense), net | 9 | 44 | - | (11) | 3 |
| **Profit before taxes** | | **172** | | **529** | |
| Income taxes | 10 | (83) | - | (278) | - |
| **Profit (Loss) from continuing operations** | | **89** | | **251** | |
| Profit (Loss) from discontinued operations | 11 | (40) | - | - | - |
| **Profit (Loss)** | | **49** | | **251** | |
| Broken down as follows: | | | | | |
| Minority interest in profit (loss) | | 28 | | 11 | |
| **Group interest in profit (loss)** | | **21** | | **240** | |
| Earnings per share (in euros) | 12 | | | | |
| Basic earnings per common share | | 0.0034 | | 0.0448 | |
| Basic earnings per savings share | | 0.0334 | | 0.0748 | |
| Diluted earnings per common share | | 0.0034 | | 0.0448 | |
| Diluted earnings per savings share | | 0.0334 | | 0.0748 | |

(*) The data are being re-presented merely for comparative purposes to reflect the adoption of IFRIC 12.

## Other Components of the Comprehensive Income Statement

| (in millions of euros) | See Note | 2010 | 2009 |
|---|---|---|---|
| **Profit (Loss)** | | **49** | **251** |
| **Other components of comprehensive income:** | | | |
| **A) Change in the Cash Flow Hedge reserve** | 24 | **58** | **188** |
| - Gains (Losses) arising during the year | | 93 | 306 |
| - Reclassification of gains (losses) recognized in the initial carrying amount of hedged items (basic adjustment) | | - | (8) |
| - Income taxes (-) | | (35) | (110) |
| **B) Change in reserve for available-for-sale investments** | 24 | **(2)** | **2** |
| - Gains (Losses) arising during the year | | (2) | 2 |
| - Income taxes (-) | | - | - |
| **C) Differences on the translation of assets in foreign currencies** | | **3** | **7** |
| **D) Pro rata interest in other components of comprehensive income of investee companies** | | **-** | **-** |
| **Total other components of comprehensive income net of taxes (A+B+C+D)** | | **59** | **197** |
| **Total comprehensive profit (loss)** | | **108** | **448** |
| Broken down as follows: | | | |
| Minority interest in comprehensive profit (loss) | | 28 | 11 |
| **Group interest in comprehensive profit (loss)** | | **80** | **437** |

# Balance Sheet

| (in millions of euros) | See Note | 12.31.2010 | of which related parties | 12.31.2009 (*) | of which related parties |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment | 13 | 7,002 | - | 7,445 | - |
| Investment property | 14 | 11 | - | 12 | - |
| Goodwill | 15 | 3,534 | - | 3,538 | - |
| Hydrocarbon concessions | 16 | 985 | - | 1,259 | - |
| Other intangible assets | 17 | 109 | - | 108 | - |
| Investments in associates | 18 | 48 | 48 | 43 | 43 |
| Available-for-sale investments | 18 | 293 | - | 304 | - |
| Other financial assets | 19 | 91 | - | 98 | - |
| Deferred-tax assets | 20 | 182 | - | 103 | - |
| Other assets | 21 | 112 | - | 21 | - |
| **Total non-current assets** | | **12,367** | | **12,931** | |
| Inventories | | 331 | - | 308 | - |
| Trade receivables | | 2,375 | 100 | 1,862 | 83 |
| Current-tax assets | | 35 | - | 33 | - |
| Other receivables | | 655 | 83 | 545 | 84 |
| Current financial assets | | 69 | 6 | 30 | - |
| Cash and cash equivalents | | 472 | - | 748 | - |
| **Total current assets** | 22 | **3,937** | | **3,526** | |
| **Assets held for sale** | 23 | **209** | **-** | **-** | **-** |
| **Total assets** | | **16,513** | | **16,457** | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | | 5,292 | - | 5,292 | - |
| Reserves and retained earnings (loss carryforward) | | 2,548 | - | 2,526 | - |
| Reserve for other components of comprehensive income | | 78 | - | 19 | - |
| Group interest in profit (loss) | | 21 | - | 240 | - |
| **Total shareholders' equity attributable to Parent Company shareholders** | | **7,939** | | **8,077** | |
| Shareholders' equity attributable to minority shareholders | | 198 | - | 177 | - |
| **Total shareholders' equity** | 24 | **8,137** | | **8,254** | |
| Provision for employee severance indemnities and provisions for pensions | 25 | 62 | - | 64 | - |
| Provision for deferred taxes | 26 | 504 | - | 584 | - |
| Provisions for risks and charges | 27 | 823 | - | 837 | - |
| Bonds | 28 | 1,791 | - | 1,199 | - |
| Long-term financial debt and other financial liabilities | 29 | 942 | - | 2,184 | - |
| Other liabilities | 30 | 34 | - | 30 | - |
| **Total non-current liabilities** | | **4,156** | | **4,898** | |
| Bonds | | 528 | - | 721 | - |
| Short-term financial debt | | 1,073 | 15 | 611 | 15 |
| Trade payables | | 2,153 | 80 | 1,469 | 41 |
| Current taxes payable | | 82 | - | 38 | - |
| Other liabilities | | 380 | 19 | 466 | 71 |
| **Total current liabilities** | 31 | **4,216** | | **3,305** | |
| **Liabilities held for sale** | 32 | **4** | **-** | **-** | **-** |
| **Total liabilities and shareholders' equity** | | **16,513** | | **16,457** | |

(*) The data for "Property, plant and equipment" and "Other intangible assets" are being re-presented merely for comparative purposes to reflect the adoption of IFRIC 12.

## 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 2010. 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) | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| | See Note | | of which related parties | | of which related parties |
| Group interest in profit (loss) from continuing operations | | 61 | - | 240 | - |
| Group interest in profit (loss) from discontinued operations | | (40) | - | - | - |
| Minority interest in profit (loss) from continuing operations | | 28 | - | 11 | - |
| **Profit (loss)** | | **49** | | **251** | |
| Amortization, depreciation and writedowns | 6 | 1,096 | - | 772 | - |
| Interest in the result of companies valued by the equity method (-) | | (1) | (1) | 5 | 5 |
| Dividends received from companies valued by the equity method | | 1 | 1 | 1 | 1 |
| (Gains) Losses on the sale of non-current assets | | 6 | - | (9) | - |
| Change in the provision for employee severance indemnities and provisions for pensions | 25 | (2) | - | (1) | - |
| Change in operating working capital | | 148 | 22 | 274 | (45) |
| Change in other operating assets and liabilities | | (315) | (51) | (132) | (15) |
| **A. Cash flow from continuing operations** | | **982** | | **1,161** | |
| Additions to intangibles and property, plant and equipment (-) | 13-17 | (557) | - | (1,745) | - |
| Additions to non-current financial assets (-) | | (7) | (5) | (56) | (2) |
| Price paid on business combinations (-) | | (42) | - | (80) | - |
| Proceeds from the sale of intangibles and property, plant and equipment | | 8 | - | 43 | - |
| Proceeds from the sale of non-current financial assets | | - | - | 15 | - |
| Repayment of capital contribution by non-current financial assets | | 8 | - | - | - |
| Change in other current assets | | (39) | (6) | (4) | - |
| **B. Cash used in investing activities** | | **(629)** | | **(1,827)** | |
| Receipt of new medium-term and long-term loans | 28,29 | 1,124 | - | 2,074 | - |
| Redemption of medium-term and long-term loans (-) | 28,29 | (1,420) | - | (540) | - |
| Change in short-term net financial debt | | (84) | - | (26) | (2) |
| Capital contributions provided by controlling companies or minority shareholders | | 10 | - | - | - |
| Dividends paid to controlling companies or minority shareholders (-) | | (259) | (178) | (278) | (208) |
| **C. Cash used in financing activities** | | **(629)** | | **1,230** | |
| **D. Liquid assets from changes in the scope of consolidation** | | **-** | | **(4)** | |
| **E. Net currency translation differences** | | **-** | | **-** | |
| **F. Net cash flow from operating assets of discontinued operations** | | **-** | | **-** | |
| **G. Net cash flow for the year (A+B+C+D+E+F)** | | **(276)** | | **560** | |
| **H. Cash and cash equivalents at the beginning of the year** | | **748** | | **188** | |
| **I. Cash and cash equivalents at the end of the year (G+H)** | | **472** | | **748** | |
| **L. Total cash and cash equivalents at end of the year (I)** | | **472** | | **748** | |
| **M. (-) Cash and cash equivalents of discontinued operations** | | **-** | | **-** | |
| **N. Cash and cash equivalents of continuing operations (L-M)** | | **472** | | **748** | |

# 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 | 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, 2008** | **5,292** | **2,449** | **(171)** | **(4)** | **(3)** | **-** | **346** | **7,909** | **164** | **8,073** |
| Appropriation of the previous year's profit | - | 346 | - | - | - | - | (346) | - | - | - |
| Dividends distributed | - | (268) | - | - | - | - | - | (268) | (12) | (280) |
| Change in the scope of consolidation | - | (2) | - | - | - | - | - | (2) | 15 | 13 |
| Other changes | - | 1 | - | - | - | - | - | 1 | (1) | - |
| **Total comprehensive profit (loss)** | **-** | **-** | **188** | **2** | **7** | **-** | **240** | **437** | **11** | **448** |
| of which: | | | | | | | | | | |
| - Change in comprehensive income for the year | - | - | 188 | 2 | 7 | - | - | 197 | - | 197 |
| - Profit for 2009 | - | - | - | - | - | - | 240 | 240 | 11 | 251 |
| **Balance at December 31, 2009** | **5,292** | **2,526** | **17** | **(2)** | **4** | **-** | **240** | **8,077** | **177** | **8,254** |
| Appropriation of the previous year's profit | - | 240 | - | - | - | - | (240) | - | - | - |
| Dividends distributed | - | (228) | - | - | - | - | - | (228) | (16) | (244) |
| Share capital increase | - | - | - | - | - | - | - | - | 10 | 10 |
| Other changes | - | 10 | - | - | - | - | - | 10 | (1) | 9 |
| **Total comprehensive profit (loss)** | **-** | **-** | **58** | **(2)** | **3** | **-** | **21** | **80** | **28** | **108** |
| of which: | | | | | | | | | | |
| - Change in comprehensive income for the year | - | - | 58 | (2) | 3 | - | - | 59 | - | 59 |
| - Profit for 2010 | - | - | - | - | - | - | 21 | 21 | 28 | 49 |
| **Balance at December 31, 2010** | **5,292** | **2,548** | **75** | **(4)** | **7** | **-** | **21** | **7,939** | **198** | **8,137** |

La centrale termoelettrica di Altomonte (Cosenza).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2010

A wind farm in Castiglione Messer Marino (CH).

# ACCOUNTING PRINCIPLES AND CONSOLIDATION CRITERIA

## Content and Presentation

The Consolidated Financial Statements of the Edison Group at December 31, 2010 comply 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.)*.

Amendments to the international accounting principles and interpretations applicable as of January 1, 2010, that have not had a significant impact on the Consolidated Financial Statements except for IFRIC 12, are reviewed below:

- **IFRIC 12 "Service Concession Arrangements"** is an interpretation applicable to the financial statements of private-sector companies that operate activities of public interest on a concession basis, when the grantor (i) controls/regulates, by determining their price, which public utility services must be provided by the operator through infrastructures that the operator manages under concession or builds; and (ii) controls, through ownership or otherwise, the concession itself and any other residual interest in the infrastructures when the concession expires. Within the Edison Group, this interpretation applies exclusively to the low-pressure natural gas distribution operations. Uncertainty about the historical regulatory framework, coupled with the fact that the Group acquired control of most of the concessions through acquisitions, made a retrospective adoption impractical. For this reason, the Group opted for a prospective adoption. On the date of first-time adoption, the affected infrastructures, which were carried as part of "Property, plant and equipment" at a value of 72 million euros, were reclassified under "Other intangible assets." The manner in which the rate charged for the services provided on a concession basis is structured makes it impossible to separate the margin attributable to the construction activity from the margin attributable to the operating activity. Therefore, given the fact that a significant portion of the construction work is performed by contractors, the corresponding investments are recognized as "Other intangible assets" based on the cost incurred, net of any compensation the grantor of the concession or private parties. Consistent with IAS 11 "Construction Contracts", these costs are capitalized indirectly through income statement. At December 31, 2010 Edison Group recognized revenues and costs for about 5 million euros, with no impact on profit. The amount recognized in "Other intangible assets," net of the estimated recoverable amount at expiration of the concessions, is amortized over the remaining duration of the concessions.
- **IFRS 1 revised**, pursuant to which parties who adopt the IFRS principles for the first time must prepare a First-time Adoption document.
- Amendments to **IFRS 2** concerning the accounting for Group Cash-settled Share-based Payment Transactions and concurrent withdrawal of IFRIC 8 and IFRIC 11.
- **IFRS 3 revised**, which introduces changes on how business combinations should be recognized, including the following: a) in case when the acquisition of control is achieved in multiple phases, the fair value of the equity interest held must be remeasured; b) transactions executed with third parties subsequent to the acquisition of control, and assuming that control will be maintained, must be recognized in equity; c) acquisition costs must be charged immediately to income; d) changes in contingent consideration are recognized in profit or loss.
- **IAS 27 revised**, concerning the valuation of investments in associates in case of increases or decreases in the interest held. If there is a change in the interest held but no loss of control, the effects must be recognized in equity. If there is loss of control, the remaining interest held must be measured at its fair value.
- **IFRIC 15** "Agreements for the Construction of Real Estate" does not apply to the Group at this point.
- **IFRIC 16** "Hedges of a Net Investment in a Foreign Operation". This interpretation applies to those cases in which a company wants to hedge the foreign exchange risk entailed by an investment in a foreign entity and qualify this transaction as a hedge pursuant to IAS 39.
- **IFRIC 17** "Distribution of Non-cash Assets to Owners". This interpretation clarifies when a dividend

should be recognized, how it should be valued and, when the dividend is distributed, how to recognize any difference between the carrying amount of the distributed assets and the carrying amount of the distributable dividend.
- **IFRIC 18** "Transfers of Assets from Customers." This interpretation deals with how the assets or cash payments received from customers for connecting them to a distribution network should be recognized. IFRIC 18 is applicable only by parties who are not required to adopt IFRIC 12.
- Other marginal amendments to other accounting principles and interpretations.

For the sake of full disclosure, it is important to point out that certain marginal amendments to the international accounting principles and interpretations published in the *O.J.E.U* during 2010, that will not cause significant impacts on the Consolidated Financial Statements, will be applicable starting in 2011. They include the following:
- IAS 24 revised, which requires additional disclosures concerning related-party commitments;
- IFRIC 14 "Prepayments of a Minimum Funding Requirement;"
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments."

The publication of these consolidated financial statements was authorized by the Board of Directors on March 21, 2011. The Consolidated Financial Statements were audited by PricewaterhouseCoopers Spa in accordance with a three-year assignment (from 2005 to 2007) it received from the Shareholders' Meeting of April 19, 2005, later extended up to the approval of the financial statements at December 31, 2010.

Unless otherwise stated, all amounts in these accompanying notes are in millions of euros.

## Presentation Formats of the Financial Statements Adopted by the Group

The presentation formats chosen by the Group for its financial statements incorporate the changes required by the adoption of "IAS 1 Revised 2008". The financial statements have the following characteristics:
- The Consolidated **Income Statement** is a step-by-step income statement, with the different components broken down by nature. It includes a schedule of **Other Components of the Comprehensive Income Statement**, which shows the components of net profit or loss provisionally recognized in equity.
- In the Consolidated **Balance Sheet** assets and liabilities are analyzed by maturity. Current and non-current items, which are due within or after 12 months from the end of the reporting period, respectively, are shown separately.
- The **Cash Flow Statement** shows the cash flows in accordance with the indirect method, as allowed by IAS 7.
- The Statement of **Changes in Consolidated Shareholders' Equity** shows separately the flows from component of the reserve for other components of comprehensive income.

Please note that the comparative data at December 31, 2009 shown in the balance sheet ("Property, plant and equipment" and "Other intangible assets") and income statement are being re-presented exclusively for comparison purposes to reflect the adoption of IFRIC 12.

## Scope of Consolidation

The consolidated financial statements include the financial statements of Edison Spa and those of the Italian and foreign subsidiaries over which Edison exercises control, either directly or indirectly. They also include the financial statements of companies over which Edison exercises joint control, in accordance with the terms of the relevant agreements with other shareholders.

Subsidiaries are consolidated from the moment the Group effectively acquires control and cease to be consolidated when control is transferred to another party.

The financial statements used for consolidation purposes are the latest statutory or consolidated statements of the individual companies or business operations, approved by respective corporate governance bodies, with the adjustments required to make them consistent with Group accounting principles.

For companies with fiscal years that do not coincide with the calendar year, the financial statements used were annual financial statements that match the Group's financial year, approved by the respective Boards of Directors.

Subsidiaries are consolidated line by line. The assets, liabilities, revenues and expenses of the consolidated companies are recognized in the consolidated financial statements at their full value. The carrying amount of equity investments is eliminated by offsetting it against the underlying interest in the respective shareholders' equity, and the individual assets and liabilities and contingent liabilities are measured at their fair value at the date when control of the investee company was established. Any residual value, if positive, is recognized as a non-current asset and posted to "Goodwill."

Companies with respect to which the Group retains the majority of risks and enjoys the majority of benefits (so-called Special Purpose Vehicles) are consolidated line by line even if the interest in their share capital is less than 50%.

The shareholders' equity and profit or loss amounts attributable to minority shareholders are shown separately in the balance sheet and income statement, respectively.

Joint ventures are consolidated by the proportional method. Joint control exists only in the case of a company for which, pursuant to contractual stipulations, financial, operational and strategic decisions always require the unanimous consent of all of the parties who share control. In such cases, the consolidated financial statements show the interest of the Group in the assets, liabilities, revenues and expenses of the joint venture by an amount proportionate to the interest held.

Payables and receivables and expenses and revenues that arise from transactions between companies included in the scope of consolidation are eliminated. Gains resulting from transactions between the abovementioned companies and reflected in items still included in the shareholders' equity attributable to Parent Company shareholders are eliminated. The effects of fractional sales of investments in consolidated companies, when control is not relinquished, are recognized in shareholders' equity at an amount equal to the difference between the sales price and the value of the corresponding interest in shareholders' equity that is being sold.

Investments in associates over which the Group exercises a significant influence but not joint control, as defined above, are valued by the equity method, pursuant to which the carrying value of the investments is adjusted primarily to reflect the investor company's interest in the profit or loss for the year and any dividends distributed by the investee company.

Subsidiaries that are in liquidation or are parties to composition with creditors proceedings are not consolidated. They are carried instead at their estimated realizable value. Their impact on the Group's total assets and liabilities and net financial debt is not significant.

## Changes in the Scope of Consolidation Compared with December 31, 2009

The changes in the Group's scope of consolidation that occurred in 2010 are reviewed below:

**Electric Power Operations:**

- deconsolidation as of January 1, 2010 of Ascot Srl, in liquidation;
- establishment of Edison Energie Speciali Calabria Spa as a wholly owned subsidiary of Edison Spa;
- disposal to third parties of a 10% interest in Presenzano Energia Srl;
- acquisition, in July, of 100% control by Edison Energie Speciali Spa of Parco Eolico San Francesco Srl. This company is now being consolidated line by line. An analysis of the impact produced on the Group's balance sheet by this business combinations is provided in the section of this Report entitled "Disclosure About Business Combinations (IFRS 3 Revised)".

**Corporate and Other Segments:**

- deconsolidation as of November 1, 2010 of International Water Holdings Bv, in liquidation.

**Disposal Group:**

- a term sheet for the disposal of the business operations comprised of the Taranto thermoelectric power plants was signed in December 2010. The final agreement will be set forth in a contract to be executed afterwards.
  The closing is expected to take place on January 15, 2012 or at an earlier date, at Edison's discretion, in the event of an early termination of the CIP 6/92 contract pursuant to which one of the power plants currently operates.
  Even though the assets and liabilities subject of the transaction do not constitute a business operation, they were treated as a Disposal Group, as required by IFRS 5, and are shown on the balance sheet under "Asset and Liabilities held for sale."

## Consolidation of Foreign Companies and Criteria Used to Translate Items Denominated in Foreign Currencies

Assets and liabilities of foreign companies that are denominated in currencies other than the euro are translated at the exchange rates in force at the end of the reporting period. Income and expenses are translated at the average rates for the year. Any resulting gains or losses are recognized in equity until the corresponding equity investment is sold.

Upon first-time adoption of the IFRS principles, cumulative translation differences generated by the consolidation of foreign companies were written off and, consequently, the reserve recognized in the consolidated financial statements reflects only cumulative translation differences that arose after January 1, 2004.

Transactions in foreign currencies are recognized at the exchange rate in force on the transaction date. Monetary assets and liabilities are translated at the exchange rates in force at the end of the reporting period. Any resulting foreign exchange translation differences and those realized when the positions are closed are recognized as financial income or expense.

## 2010 Financial Highlights of Companies Consolidated by the Proportional Method

**(Amounts in millions of euros, prorated based on the percentage interest held)**

| | Edipower Spa | Sel Edison | Ibiritermo Sa | Parco Eolico Castelnuovo Srl | ED-Ina D.O.O. | IWH (*) | Elpedison Bv | Elpedison Power Sa | Elpedison Trading Sa | Kinopraxia Thisvi | Abu Qir Petroleum Company | IGI Poseidon Sa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **% of proportional consolidation** | 50.00% | 42.00% | 50.00% | 50.00% | 50.00% | 50.00% | 50.00% | 50.00% | 50.00% | 65.00% | 50.00% | 50.00% |
| **% interest held by the Group** | 50.00% | 42.00% | 50.00% | 50.00% | 50.00% | 50.00% | 50.00% | 37.89% | 50.00% | 65.00% | 50.00% | 50.00% |
| **Income Statement** | | | | | | | | | | | | |
| Sales revenues | 506 | 14 | - | 1 | 27 | - | - | 71 | 9 | 31 | - | - |
| EBITDA | 204 | 8 | - | - | - | - | - | 9 | - | - | - | (1) |
| *as a % of sales revenues* | *40.3%* | *57.1%* | *n.a.* | *n.m.* | *n.m.* | *n.a.* | *n.a.* | *12.7%* | *n.m.* | *n.m.* | *n.a.* | *n.m.* |
| Depreciation, amortization and writedowns (-) | (139) | (3) | - | - | - | - | - | (9) | - | - | - | - |
| **EBIT** | **65** | **5** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1)** |
| **Profit (Loss)** | **27** | **3** | **8** | **-** | **-** | **-** | **-** | **(3)** | **-** | **-** | **-** | **(1)** |
| of which minority interest in profit (loss) | - | - | - | - | - | - | - | (1) | - | - | - | - |
| **Balance Sheet** | | | | | | | | | | | | |
| **Total assets** | **2,034** | **51** | **99** | **2** | **1** | **-** | **66** | **309** | **3** | **5** | **5** | **10** |
| **Shareholders' equity** | **1,078** | **37** | **22** | **1** | **-** | **-** | **66** | **94** | **-** | **-** | **-** | **9** |
| of which attributable to minority shareholders | - | - | - | - | - | - | - | 25 | - | - | - | - |
| **Net financial debt (financial assets)** | **569** | **11** | **(46)** | **-** | **-** | **-** | **-** | **178** | **(1)** | **-** | **(5)** | **(5)** |

(*) The company, now in liquidation, was consolidated by proportional method in the income statement until October 31, 2010.

# Valuation Criteria

## Property, Plant and Equipment and Investment Property

Property, plant and equipment used in the production process are classified as "Property, plant and equipment." Land and buildings that are not used in the production process are classified as "Investment property."
In the financial statements, these assets are shown at purchase or production cost, or at their conveyance value, including any attributable incidental costs and direct costs deemed necessary to make them operable, net of any capital grants.
Individual components of a facility that have different useful lives are recognized separately, so that each component may be depreciated at a rate consistent with its useful life. Under this principle, the value of a building and the value of the land over which it has been erected are recognized separately and only the building is depreciated.
Any costs that the Group expects to incur in the decommissioning and remediation of industrial sites are recognized as an amortizable asset component. The value at which these costs are recognized is equal to the present value of the costs that the Group expects to incur in the future.
Scheduled maintenance costs are charged in full to income in the year they are incurred.
Costs incurred for major maintenance that is performed at regular intervals are added to the respective assets and are written off over the remaining useful lives of the assets.
The estimated realizable value that the Group expects to recover at the end of an asset's useful life is not depreciated. Property, plant and equipment is depreciated each year on a straight-line basis at rates based on technical and financial estimates of the assets' remaining useful lives.
The table that follows shows the ranges of the depreciation rates applied by the Group:

| | Electric Power Operations | | Hydrocarbons Operations | | Corporate Activities and Other Segments | |
|---|---|---|---|---|---|---|
| | min. | max. | min. | max. | min. | max. |
| Buildings | 3.5% | 9.7% | 2.5% | 8.8% | - | 2.3% |
| Plant and machinery | 4.0% | 20.0% | 1.8% | 51.3% | 6.8% | 27.1% |
| Manufacturing and distribution equipment | 5.0% | 25.0% | 17.5% | 35.0% | 5.0% | 25.0% |
| Other assets | 6.0% | 20.0% | 6.0% | 25.0% | 6.0% | 20.0% |
| Investment property | - | - | - | - | 2.0% | 2.6% |

In addition, items of property, plant and equipment appurtenant to hydrocarbon production concessions and the related costs incurred to close mineral wells, clear the drill site and dismantle or remove structures are recognized as assets and depreciated in accordance with the unit of production (UOP) method, which is used to amortize the underlying concessions. The depreciation rate is determined as the ratio between the quantities produced during the year and the estimated remaining available reserves at the beginning of the year.
Thermoelectric power plant and wind farms that sell energy under the CIP 6/92 rate schedule are depreciated by a method based on the economic benefits produced. The resulting depreciation process follows a step-down process, with straight line depreciation for each of the periods. This method reflects the differences between the amounts charged under the CIP 6/92 rate schedule for the eight-year incentivized period, those for the following seven-year contract period and the market rates applicable upon the expiration of the CIP 6/92 contracts.
The depreciation of assets transferable at no cost is taken on a straight-line basis over the remaining term of the respective contracts or their estimated useful lives, whichever is shorter.
Assets acquired under financial leases are recognized as "Property, plant and equipment", offset by a financial liability of equal amount. The liability is gradually eliminated in accordance with the principal repayment schedule of the respective lease agreement. The value of the asset recognized as "Property, plant and equipment" is depreciated on a straight-line basis, based on technical and financial estimates of its useful life.

Upon first-time adoption of the IFRS principles, the Group used fair value as deemed cost. As a result, accumulated depreciation and amortization and the provision for writedowns booked through January 1, 2004 were derecognized. The accumulated depreciation and amortization and the provision for writedowns discussed in the notes to the financial statements refer exclusively to depreciation, amortization and writedowns accumulated after January 1, 2004.
If there are indications of a decline in value, assets are tested for an impairment in the manner described below under "Impairment of Assets". When the reasons for a writedown no longer apply, the asset's cost can be reinstated.
Beginning on January 1, 2009, borrowing costs directly attributable to the acquisition, construction or production of an asset with a significant useful life are capitalized, when the investment amount exceeds a predetermined threshold. Until December 31, 2008, financial expense was not capitalized.

## Goodwill, Hydrocarbon Concessions and Other Intangible Assets

Only identifiable assets that are controlled by the Company and are capable of producing future benefits can be identified as intangible assets. They include goodwill, when it is acquired for consideration.
Intangibles assets are recognized at their purchase or internal production cost, including incidentals, in accordance with the same criteria used for "Property, plant and equipment". Development costs can be capitalized, provided they can be identified reliably and it can be demonstrated that the asset is capable of producing future economic benefits.
Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives, starting when they are available for use.
Goodwill and other intangible assets with indefinite useful lives are not amortized, but the recoverability of their carrying amounts is tested annually (impairment test) for each Cash Generating Unit (CGU) or group of CGUs to which assets with indefinite lives can reasonably be allocated. The impairment test is described below in the paragraph entitled "Impairment of Assets". Concerning the goodwill, writedowns cannot be reversed in subsequent periods.

### Hydrocarbon Concessions, Exploration Activities and Measurement of Mineral Resources

The costs incurred to **acquire mineral leases** or extend the duration of existing concessions are recognized as intangible assets. If an exploration project is later abandoned, the residual cost is immediately recognized in profit and loss.
**Exploration costs** and costs incurred in connection with geological surveys, exploratory testing, geological and geophysical mapping and exploratory drilling are recognized as intangible assets but their full amount is amortized in the year they are incurred.
**Development costs** related to successful mineral wells and **production costs incurred to build facilities to extract and store hydrocarbons** are recognized as "Property, plant and equipment", in accordance with the nature of the asset, and are depreciated by the unit of production (UOP) method.
The costs incurred to shut down wells, abandon the drill site and dismantle or remove the equipment (**decommissioning costs**) are capitalized and amortized in accordance with the unit of production (UOP) method.
Hydrocarbon production concessions are amortized in accordance with the unit of production (UOP) method. The amortization rate is determined as the ratio between the quantities produced during the year and the estimated remaining available reserves at the beginning of the year, taking into account any significant change to reserves that occurred during the year. In addition, a test is conducted each year to make sure that the carrying amounts of these assets are not greater than their realizable value computed by discounting future cash flows, which are estimated based on future production programs or their market values if higher.
Exploration and Production activities in which Edison Group is the operator or the venturer (so-called "Profit Sharing Agreement - PSA") are recognized only to the extent of the interest held.

## Environmental Securities (Emissions Rights, Green Certificates, etc.)

The Group secures a supply of environmental securities (primarily emissions rights and green certificates) partly to meet its own requirements in the exercise of its Industrial Activities (so-called own use) and partly for trading purposes (so-called Trading Activities). The valuation criteria applied vary, depending on the intended use at the time of acquisition.

Specifically, "Other intangible assets" can include emissions rights and green certificates, which are recognized at the cost incurred to acquire them, provided that the rights or certificates carried by the Group at the end of the reporting period represent a surplus over its requirements of such instruments, based on the emissions released during the year, for the emissions rights, or the production generated, for the green certificates. Emissions rights and green certificates allocated free of charge are recognized at a zero carrying value. Since these assets are designed for instantaneous use, they are tested for impairment and cannot be amortized. Their recoverable value is their value in use or their market value, whichever is greater. On the other hand, if, at the end of the reporting period, the volume of the emissions actually generated is greater than the volume of allocated emissions and any purchased emissions, a special provision for risks is recognized to account for the difference. Any emissions rights and certificates that are surrendered each year, based on the volume of polluting emissions released into the atmosphere each year or the production generated, will be deleted using any reserves for risks set aside the previous year.

Environmental securities owned and held during the year in the exercise of Trading Activities are treated as inventory and measured at fair value, as explained in the "Trading Activities" and "Inventory" paragraphs of these Notes.

## Impairment of Assets

IAS 36 requires that an entity test its property, plant and equipment and intangible assets for impairment when there are indications that an impairment has occurred.

In the case of goodwill and other assets with indefinite lives or assets that are not available for use, an impairment test must be performed at least once a year.

The recoverability of a carrying amount is tested by comparing it against the asset's sales price, less cost to sell, or its value in use, whichever is greater.

As a rule, value in use is the present value of the future cash flows that an asset or a CGU is expected to generate plus the amount expected from its disposal at the end of its useful life.

CGUs, which have been identified in a way that is consistent with the Group's organizational and business structure, are homogeneous groups of assets that generate cash inflows independently, through the continued use of the assets included in each group.

## Financial Instruments

Financial instruments include equity investments (other than investments in subsidiaries, joint ventures and affiliate companies) that are held for trading (trading equity investments) and available-for-sale investments. They also include long-term loans and receivables, trade receivables and other receivables generated by the Company, and current financial assets, such as cash and cash equivalents. Cash and cash equivalents include bank and postal deposit accounts, readily marketable securities purchased as temporary investments of cash and loans receivable due within three months. Financial instruments also include loans payable, trade and other payables, other financial liabilities and derivatives.

Financial assets and financial liabilities are recognized at fair value when the Company acquires the rights or assumes obligations conveyed contractually by the financial instrument.

The initial amount at which these items are recognized must include transaction costs directly attributable to the purchase or issue costs that are included in the initial valuation of all those assets and liabilities that can be classified as financial instruments. Subsequent measurements will depend on the type of instrument, as follows:

- With the exception of derivatives, **assets held for trading** are valued at fair value, with any resulting gains or losses recognized in the income statement. This class of assets consists mainly of equity investments held for trading and the so-called Trading Activities reviewed below.
- Provided they are not derivatives and equity investments, **other financial assets and liabilities** with

fixed or determinable payments are valued at their amortized cost. Any transaction costs incurred in the purchasing/selling phases (e.g., issue premiums or discounts, the costs incurred to secure loans, etc.) are recognized directly as adjustments to the face value of the corresponding asset or liability. Financial income and expense is computed in accordance with the effective interest rate method. Financial assets are measured on a regular basis to determine whether there is any objective evidence that their value may have been impaired. More specifically, the measurement of receivables takes into account the solvency of creditors and the level of credit risk, which is indicative of individual debtors' ability to pay. Any losses are recognized in the income statement for the corresponding period. This category includes long-term loans and receivables, trade receivables and other receivables generated by the Company, as well as loans payable, trade and other payables and other financial liabilities.

- **Available-for-sale assets** are measured at fair value and any resulting gains or losses are recognized in equity until disposal, when they are transferred to the income statement. Losses that result from

In Greece, the Elpedison joint venture operates a 390-MW thermoelectric power plant in Thessaloniki and a new 420-MW power plant in Thisvi.

measurement at fair value are recognized directly in the income statement when there is objective evidence that the value of a financial asset has been impaired, even if the asset has not been sold. Equity investments in companies that are not publicly traded, the fair value of which cannot be measured reliably, are valued at cost less impairment losses, but the original cost can be reinstated in subsequent years if the reasons for the writedowns are no longer applicable. This category includes equity investments representing an interest of less than 20%.

- **Derivatives** are measured at fair value and, as a rule, any resulting changes are recognized in the income statement. However, whenever possible, the Group uses hedge accounting and, consequently, derivatives are classified as hedges when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedging relationship, which is tested periodically, is high in accordance with IAS 39 rules. If this is the case, the following accounting treatments are applied:
  a) When derivatives hedge the risk of fluctuations in the cash flow of the hedged items (Cash Flow Hedge), the effective portion of any change in the fair value of the derivatives is recognized directly in equity, while the ineffective portion is recognized directly in the income statement. The amounts recognized in equity are transferred to the income statement in conjunction with the gains or losses generated by the hedged item.

b) When derivatives hedge the risk of changes in the fair value of the hedged items (Faiir Value Hedge), any changes in the fair value of the derivatives are recognized directly in the income statement. The carrying amount of the hedged items is adjusted accordingly in the Income Statement, to reflect changes in fair value associated with the hedged risk.

Financial assets are derecognized when they no longer convey the right to receive the related cash flows and substantially all of the risks and benefits conveyed by the ownership of the assets have been transferred or when an asset is deemed to be totally non-recoverable after all necessary recovery procedures have been carried out.

Financial liabilities are derecognized when the corresponding contractual obligations are extinguished. Changes to existing contract terms can qualify as an extinguishing event if the new terms materially alter the original stipulations and, in any case, when the present value of the cash flows that will be generated under the revised agreements differs by more than 10% from the value of the cash flows of the original liability.

The fair value of financial instruments that are traded on an active market is based on their market price at the end of the reporting period. The fair value of financial instruments that are not traded on an active market is determined using appropriate valuation techniques.

## Trading Activities

Approved activities that are part of the core businesses of the Edison Group include physical and financial trading in commodities and environmental securities. These activities must be carried out in accordance with special procedures and are segregated at inception in special Trading Portfolios, separate from the other core activities (so-called Industrial Activities). Trading Activities include physical and financial contracts for commodities and environmental securities, which are measured at fair value, with changes in fair value recognized in the income statement. Individual contracts may require physical delivery.

In such cases, any inventories are measured at fair value, with changes in fair value recognized in the income statement.

The amounts show in income statement for revenues and raw materials and services used reflect a presentation that recognizes only the resulting “trading margin” (so-called net presentation).

## Inventories

Inventories attributable to the Industrial Activities are valued at purchase or production cost, including incidental expenses, determined primarily by the FIFO method, or at estimated realizable value, based on market conditions, whichever is lower. Inventories attributable to Trading Activities are deemed to be assets held for trading and, consequently, are measured at fair value, with changes in fair value recognized in the income statement.

## Valuation of Long-term Take-or-pay Contracts

Under the terms of medium/long-term contracts for the importation of natural gas, the importer is required to take delivery of a minimum annual quantity of natural gas. If delivery of the minimum annual quantity is not achieved, the importer is required to pay the consideration attributable to the undelivered quantity. This payment can be treated either as an advance on future deliveries or as a penalty for the failure to take delivery. The first situation (advance on future deliveries) occurs in the case of undelivered quantities for which there is a reasonable certainty that, over the remaining term of the contract, the shortfall will be made up in future years by means of increased deliveries, in excess of minimum annual contract quantities. The second situation (penalty for failure to take delivery) occurs in the case of undelivered quantities for which there is no expectation that the shortfall can be made up in the future. The portion of the payment that qualifies as an advance on future deliveries is recognized in "Other assets," current or non-current depending in expected timing of recovery, while the portion that qualifies as a penalty for failure to take delivery is recognized in the income statement. These valuations are also applicable to quantities that are undelivered and unpaid at the end of the reporting period, the payment for which will occur in the following period. The corresponding amount is recognized as a commitment in the memorandum accounts.

## Employee Benefits

The **provision for employee severance indemnities and the provision for pensions** are computed on an actuarial basis. The amount of employee benefits that vested during the year is recognized in the income statement as a "Labor Costs". The theoretical finance charge that the Company would incur if it were to borrow in the marketplace an amount equal to the provision for employee severance indemnities is posted to "Net financial income (expense)". Actuarial gains and losses that arise from changes in the actuarial assumptions used are recognized in the income statement, taking into account the average working lives of the employees.

Specifically, in accordance with Budget Law No. 296 of December 27, 2006, only the liability for vested employee severance benefits that remained at the Company was valued for IAS 19 purposes, since the portion applicable to future vesting benefits is being paid to separate entities (supplemental pension funds or INPS funds). As a result of these payments, the Company has no further obligations with regard to the work that employees will perform in the future (so-called "defined-contribution plan").

**Stock option plans** are valued at the time the options are awarded by determining the fair value of the option granted. This amount, net of any subscription costs, is allocated over the plan's vesting period. The corresponding cost is recognized in the income statement, with an offsetting entry posted to an equity reserve (so-called "equity settled payments").

## Provision for Risks and Charges

Provision for risks and charges are recognized exclusively when there is a present obligation arising from past events that can be reliably estimated. These obligations can be legal or contractual in nature or can be the result of representations or actions of the Company that created valid expectations in the relevant counterparties that the Company will be responsible for complying or will assume the responsibility of causing others to comply with an obligation (implied obligations). If the time value of money is significant, the liability is discounted and the effect of the discounting process is recognized as a financial expense.

## Recognition of Revenues and Expenses

Revenues and income and costs and expenses are recognized net of returns, discounts, allowances, bonuses and any taxes directly related to the sale of products or the provision of services. Sales revenues are recognized when title to the goods passes to the buyer. As a rule, this occurs when the goods are delivered or shipped. Materials used include the cost of green certificates, emissions rights and white certificates attributable to the period. Purchases of environmental securities held for trading are added to inventory. Financial income and expense is recognized when accrued. Dividends are recognized when the shareholders are awarded the rights to collect them, which generally occurs in the year when the disbursing investee company holds a Shareholders' Meeting that approves a distribution of earnings or reserves.

## Income Taxes

**Current income taxes** are recognized by each company, based on an estimate of its taxable income, in accordance with the tax rates and laws that have been enacted or substantively enacted in each country at the end of the reporting period and taking into account any applicable exemptions or available tax credits.
**Deferred-tax assets and liabilities** are computed on the temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases, using the tax rates that are expected to be in effect when the temporary differences are reversed. Deferred-tax assets are recognized only when their future recovery is reasonably certain. Otherwise, their value is written off. The valuation of deferred-tax assets must be carried out taking into account the Company's planning horizon, based on available approved Company plans. When gains and losses are recognized directly in equity, the corresponding current income taxes and deferred-tax assets or liabilities must also be recognized in equity. The deferred-tax liability on retained earnings of Group companies is recognized only if there is truly an intent to distribute those earnings and provided that the tax liability is not cancelled when a consolidated tax return is filed.

## Use of Estimated Values

The preparation of the financial statements 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 assets and 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. The use of estimates is particularly significant for the following items:

- Amortization and depreciation (assets with a finite useful life) and impairment tests of property, plant and equipment, goodwill and other intangible assets. The process of determining depreciation and amortization expense entails reviewing periodically the remaining useful lives of assets, the available hydrocarbon reserves, the decommissioning/shut down costs and the assets' recoverable value. Information about the impairment test is provided later in these Notes, in the paragraph entitled "Impairment Test in Accordance with IAS 36 applied to the Value of Goodwill, Property, Plant and Equipment and Other Intangibles", which includes a description of the methods and assumptions used.
- Valuation of derivatives and financial instruments in general. Information about valuation criteria and quantitative disclosures are provided, respectively, in the paragraph entitled "Financial instruments" and in the paragraph entitled "Analysis of Forward Transactions and Derivatives," which supplement and complete the financial statements. The methods applied to determine fair value and manage inherent risks in connection with energy commodities traded by the Group, foreign exchange rates and interest rates are described later in these Notes, in a section entitled "Group Financial Risk Management".
- Measurement of certain sales revenues, in particular for the CIP 6/92 contracts, of the provisions for risks and charges, of the allowances for doubtful accounts and other provisions for writedowns, of employee benefits and of income taxes. In these cases, the estimates used are the best possible estimates, based on currently available information.

# 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 the Board of Directors to manage the Group's business activities and for management reporting, planning and control purposes.

| INCOME STATEMENT | Electric Power Operations | | Hydrocarbons Operations | | Corporate Activities and Other Segments | | Disposal Group | | Adjustments | | Edison Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of euros) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **Sales Revenues** | **7,289** | **6,463** | **5,040** | **4,158** | **51** | **53** | **-** | **-** | **(1,934)** | **(1,807)** | **10,446** | **8,867** |
| - third parties sales revenues | 7,284 | 6,457 | 3,150 | 2,396 | 12 | 14 | - | - | - | - | 10,446 | 8,867 |
| - intra-Group sales revenues | 5 | 6 | 1,890 | 1,762 | 39 | 39 | - | - | (1,934) | (1,807) | - | - |
| **EBITDA** | **1,055** | **1,227** | **413** | **347** | **(99)** | **(103)** | **-** | **-** | **-** | **-** | **1,369** | **1,471** |
| *as a % of sales revenues* | *14.5%* | *19.0%* | *8.2%* | *8.3%* | *n.m.* | *n.m.* | - | - | - | - | *13.1%* | *16.6%* |
| Depreciation, amortization and writedowns | (663) | (533) | (421) | (229) | (12) | (10) | - | - | - | - | (1,096) | (772) |
| **EBIT** | **392** | **694** | **(8)** | **118** | **(111)** | **(113)** | **-** | **-** | **-** | **-** | **273** | **699** |
| *as a % of sales revenues* | *5.4%* | *10.7%* | *(0.2%)* | *2.8%* | *n.m.* | *n.m.* | - | - | - | - | *2.6%* | *7.9%* |
| Net financial income (expense) | | | | | | | | | | | (144) | (156) |
| Interest in result of companies valued by equity method | | | | | | | | | | | 1 | (5) |
| Income taxes | | | | | | | | | | | (83) | (278) |
| **Profit (Loss) from continuing operations** | | | | | | | | | | | **89** | **251** |
| **Profit (Loss) from discontinued operations** | | | | | | | **(40)** | **-** | | | **(40)** | **-** |
| **Minority interest in profit (loss)** | | | | | | | **-** | **-** | | | **28** | **11** |
| **Group interest in profit (loss)** | | | | | | | **(40)** | **-** | | | **21** | **240** |

| BALANCE SHEET | Electric Power Operations | | Hydrocarbons Operations | | Corporate Activities and Other Segments | | Disposal Group | | Adjustments | | Edison Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of euros) | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 |
| **Total assets** | **11,704** | **11,743** | **4,582** | **4,194** | **5,330** | **5,445** | **209** | **-** | **(5,312)** | **(4,925)** | **16,513** | **16,457** |
| **Total liabilities** | **4,447** | **4,031** | **2,873** | **2,826** | **4,184** | **4,327** | **4** | **-** | **(3,132)** | **(2,981)** | **8,376** | **8,203** |
| **Net Financial Debt** | | | | | | | **1** | **-** | | | **3,708** | **3,858** |

| OTHER INFORMATION | Electric Power Operations | | Hydrocarbons Operations | | Corporate Activities and Other Segments | | Disposal Group | | Adjustments | | Edison Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of euros) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Capital expenditures | 240 | 365 | 186 | 284 | 66 | 2 | - | - | - | - | 492 | 651 |
| Investments in exploration | - | - | 52 | 66 | - | - | - | - | - | - | 52 | 66 |
| Investments in intangibles | 2 | 7 | 7 | 1,012 | 4 | 9 | - | - | - | - | 13 | 1,028 |
| **Total capital investments** | **242** | **372** | **245** | **1,362** | **70** | **11** | **-** | **-** | **-** | **-** | **557** | **1,745** |

| | Electric Power Operations | | Hydrocarbons Operations | | Corporate Activities and Other Segments | | Disposal Group | | Adjustments | | Edison Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 | **12.31.2010** | 12.31.2009 |
| **Number of employees** | **1,830** | **1,946** | **1,357** | **1,357** | **633** | **620** | **119** | **-** | **-** | **-** | **3,939** | **3,923** |

Thus far, the Group has not viewed **geographic area** segment information as meaningful, since it is essentially located and active in Italy. However, beginning in 2009, the Group started to expand its international operations and, at the end of the year, net non-current assets held outside Italy totaled 1,485 million euros, including 254 million euros for assets of the Electric Power Operations, mainly in Greece, and 1,231 million euros for assets of the Hydrocarbons Operations, the largest component of which was 885 million euros for the Abu Qir concession in Egypt. At December 31, 2010, the contribution of foreign operations accounted for 9% of EBITDA and about 13% of net invested capital.

As for the disclosure about the so-called "**major customers**," the Group's sales are generally not concentrated, except for the Electric Power Operations, where one major customer, as defined by IFRS 8, generated sales revenues totaling 1,353 million euros in 2010, equal to about 18% of the total sales revenues of Electric Power Operations.

# NOTES TO THE INCOME STATEMENT

In 2010, domestic consumption of electric power and natural gas showed a modest improvement compared with the previous year, but demand was still below pre-crisis levels. At the same time, sales margins narrowed both for electric power and natural gas, due to excess production capacity in both areas. In the case of natural gas, the reduction in sales margins stems from a significant expansion in the supply of natural gas that generated a natural gas "bubble" in the European market. This development produced an increase in competitive pressure and, consequently, a sharp drop in spot prices, which fell to levels substantially lower than the cost of natural gas imported under long-term contracts. In the electric power market, an increase in consumption failed to produce better margins, due to the commissioning of new production capacity that contributed to the continued availability of a significant reserve margin.

Against this background, **EBITDA** decreased to 1,369 million euros, or 102 million euros less than the 1,471 million euros earned in 2009 (-6.9%). EBITDA include a positive contribution of 173 million euros recognized by the Electric Power Operations in connection with the early termination of CIP 6/92 contracts for the Jesi, Milazzo, Porcari and Porto Viro thermoelectric power plants. As a result, the adjusted EBITDA[1] of the **Electric Power Operations** increased to 1,130 million euros, up slightly (+4.1%) compared with 2009 (1,086 million euros). When the data are restated without the gain from the early termination of the CIP 6/92 contracts, EBITDA show a decrease of 11.9%, due mainly to a reduction in the margins earned on sales of electric power, offset only in part by the effect of a significant rise in sales volumes, and to the end of the incentivized periods and the expiration of contracts for some CIP 6/92 facilities. At 338 million euros, the adjusted EBITDA of the **Hydrocarbons Operations** were 30.7% lower than in 2009, when they totaled 488 million euros. A significant development that characterized 2010 was a sharp decrease in natural gas sales margins that reflected the impact of the massive volumes of natural gas available on the spot market, in some cases at more competitive prices than those of long-term procurement contracts. The impact of these negative developments was offset only in part by an increase in sales volumes and a positive performance by the international oil and gas production activities.

The **Group's interest in profit** totaled 21 million euros, or 219 million euros less than the 240 million euros reported at December 31, 2009 that was affected, in addition to the trends mentioned above, by the following factors:

- the writedowns for 368 million euros (56 million euros in 2009), of which 150 million euros referred to thermoelectric power plants and 213 million euros of Egyptian concessions due to the negative revision of estimated hydrocarbon reserves and to the foreseeable profitability risks due to the uncertainties and turbulence that currently characterize the reference political, economical and financial context in the country;
- a reduction of 12 million euros in financial expense, due mainly to net foreign exchange gains;
- the reversal in earnings of provisions for risks and charges established in previous years;
- a lower tax burden resulting from the positive impact of the so-called *Tremonti-ter* tax provision and the nonrecurring benefit arising from the reduction in the rate of the Robin Hood Tax for the 2009 reporting year;
- the net loss from discontinued operations (40 million euros), due to writedowns of non-current assets recognized upon the signing of a term sheet for the disposal of business operations concerning thermoelectric power plants.

In order to provide a better understanding of the cumulative results at December 31, 2010, the table

1 Adjusted EBITDA reflects the reclassification of the results of commodity and foreign exchange hedges executed in connection with contracts to import natural gas. Consistent with the policies to manage business risks, the purpose of these hedges is to mitigate the risk of fluctuations in the cost of natural gas earmarked for the production and sale of electric power and for direct gas sales. The gains and losses generated by these transactions, which are recognized by the Hydrocarbons Operations, were reclassified under the Electric Power Operations for the portion of gains and losses attributable to them (+75 million euros in 2010, -141 million euros in 2009). This reclassification is being made, in view of the exceptional impact of fluctuations in commodity prices and foreign exchange parities during the year, to provide an operational presentation of the industrial results.

below shows the progression of the data quarter by quarter and provides a comparison with the corresponding periods in 2009:

| | 1st quarter | | | 2nd quarter | | | 3rd quarter | | | 4th quarter | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of euros) | **2010** | 2009 | % change | **2010** | 2009 | % change | **2010** | 2009 | % change | **2010** | 2009 | % change | **2010** | 2009 | % change |
| Sales revenues | 2,742 | 2,710 | | 2,345 | 1,879 | | 2,506 | 1,912 | | 2,853 | 2,366 | | 10,446 | 8,867 | |
| **EBITDA** | **321** | **295** | 8.8% | **305** | **437** | (30.2%) | **304** | **396** | (23.2%) | **439** | **343** | 28.0% | **1,369** | **1,471** | (6.9%) |
| *as a % of sales revenues* | *11.7%* | *10.9%* | | *13.0%* | *23.3%* | | *12.1%* | *20.7%* | | *15.4%* | *14.5%* | | *13.1%* | *16.6%* | |
| Depreciation, amortizations, and writedowns | (172) | (188) | | (190) | (190) | | (200) | (188) | | (534) | (206) | | (1,096) | (772) | |
| **EBIT** | **149** | **107** | 39.3% | **115** | **247** | (53.4%) | **104** | **208** | (50.0%) | **(95)** | **137** | n.m. | **273** | **699** | (60.9%) |
| *as a % of sales revenues* | *5.4%* | *3.9%* | | *4.9%* | *13.1%* | | *4.2%* | *10.9%* | | *(3.3%)* | *5.8%* | | *2.6%* | *7.9%* | |
| Net financial income (expense) | (25) | (31) | | (26) | (49) | | (42) | (37) | | (51) | (39) | | (144) | (156) | |
| **Profit before taxes** | **131** | **71** | 84.5% | **111** | **206** | 46.1% | **67** | **171** | (60.8%) | **(137)** | **81** | n.m. | **172** | **529** | (67.5%) |
| *as a % of sales revenues* | *4.8%* | *2.6%* | | *4.7%* | *11.0%* | | *2.7%* | *8.9%* | | *(4.8%)* | *3.4%* | | *1.6%* | *6.0%* | |
| Income taxes | (63) | (40) | | (33) | (110) | | (23) | (83) | | 36 | (45) | | (83) | (278) | |
| **Group interest in profit (loss)** | **67** | **35** | 91.4% | **75** | **87** | (13.8%) | **37** | **81** | (54.3%) | **(158)** | **37** | n.m. | **21** | **240** | (91.3%) |

The quarterly breakdown provided above was computed based on balance sheets and income statements approved by the Board of Directors. Individual quarterly data are not audited.

## 1. Sales Revenues

Sales revenues totaled 10,446 million euros, or 17.8% more than the 8,867 million euros reported at December 31, 2009.

The table below provides a breakdown of sales revenues, which were booked for the most part in Italy:

| (in millions of euros) | **2010** | 2009 | Change | % change |
|---|---|---|---|---|
| Revenues from the sales of: | | | | |
| - Electric power | 6,179 | 5,586 | 593 | 10.6% |
| - Natural gas | 2,875 | 2,249 | 626 | 27.8% |
| - Steam | 127 | 106 | 21 | 19.8% |
| - Oil | 160 | 81 | 79 | 97.5% |
| - Green certificates | 125 | 66 | 59 | 89.4% |
| - Other sales revenues | 37 | 21 | 16 | 76.2% |
| **Total sales revenues** | **9,503** | **8,109** | **1,394** | **17.2%** |
| Revenues from services provided | 25 | 21 | 4 | 19.0% |
| Storage services | 49 | 37 | 12 | 32.4% |
| Margin on trading activities | 39 | 12 | 27 | n.m. |
| Transmission revenues | 802 | 658 | 144 | 21.9% |
| Other revenues from sundry services | 28 | 30 | (2) | (6.7%) |
| **Total for the Group** | **10,446** | **8,867** | **1,579** | **17.8%** |

### Breakdown by Business Segment

| (in millions of euros) | **2010** | 2009 | Change | % change |
|---|---|---|---|---|
| Electric Power Operations | 7,289 | 6,463 | 826 | 12.8% |
| Hydrocarbons Operations | 5,040 | 4,158 | 882 | 21.2% |
| Corporate Activities and Other Segments | 51 | 53 | (2) | (3.8%) |
| Eliminations | (1,934) | (1,807) | (127) | 7.0% |
| **Total for the Group** | **10,446** | **8,867** | **1,579** | **17.8%** |

An analysis of sales revenues is provided below:

- The significant gain in sales revenues reported by the **Electric Power Operations** compared with 2009 (+12.8%) reflects the impact of higher sales volumes of about 11.5 TWh (gains of 75% for wholesalers, 9% for end customers and 48% for captive customers), which more than offset the impact of a slight reduction in average unit sales prices. In addition, the consolidation of the Greek operations and higher production from renewable sources (+31%) also contributed to the improvement in sales revenues. On the other hand, revenues generated in the Dispatching Services Market decreased, due to an increased competition in this market.
- The sales revenues of the **Hydrocarbons Operations** increased by 21.2% compared with the 2009, thanks to rising domestic demand for natural gas, which boosted sales volumes (gains of 26% for thermoelectric users and 6% for industrial users). This improvement was offset in part by the impact of lower unit sales prices. A beneficial factor was the growing contribution provided by the Exploration & Production operations, due to production increases in crude oil and natural gas (respectively +31% and +7%) and a rise in crude oil prices compared with the previous year.

## 2. Other Revenues and Income

Other revenues and income totaled 638 million euros. A breakdown is as follows:

| (in millions of euros) | 2010 | 2009 | Change | % change |
|---|---|---|---|---|
| Income from CIP 6/92 contracts early termination | 173 | - | 173 | n.m. |
| Commodity derivatives | 180 | 147 | 33 | 22.4% |
| Margin on trading activities | 11 | 11 | - | - |
| Recovery of fuel costs from Edipower's Tollers | 93 | 162 | (69) | (42.6%) |
| Out-of-period income | 74 | 88 | (14) | (15.9%) |
| Recovery of costs from partners in hydrocarbon exploration projects | 23 | 16 | 7 | 43.8% |
| Reversals in earnings of provisions for risks on receivables and other risks | 22 | 3 | 19 | n.m. |
| Gains on the sale of property, plant and equipment | 2 | 26 | (24) | (92.3%) |
| Sundry items | 60 | 64 | (4) | (6.3%) |
| **Total for the Group** | **638** | **517** | **121** | **23.4%** |

**Income from CIP 6/92 contracts early termination**, for 173 million euros, generated by the early termination, pursuant to Ministry Decree of August 2, 2010, of CIP 6/92 contracts for Jesi, Milazzo, Porcari and Porto Viro thermoelectric power plants.

The increase in income from **commodity derivatives**, which should be analyzed together with **raw materials and services used** (which decreased from 239 million euros to 65 million euros), reflects primarily the results of Brent and foreign exchange hedges executed to mitigate the risk of fluctuation in the cost of natural gas used for the production and sale of electric power and of the gas earmarked for outright sale. This positive performance is due to a different scenario effect on the hedged physical commodity: in 2010, a spike in the prices of petroleum products drove natural gas costs higher, with a negative scenario effect on the hedged physical commodity, offset by the positive results shown as net income from commodity derivatives.

The decrease in **recovery of fuel costs from Edipower's Tollers**, which should be analyzed in conjunction with **purchases of oil and fuel** (down from 326 million euros to 187 million euros), reflects a reduction in output by Edipower's thermoelectric power plants that use these raw materials.

**Out-of-period income**, which amounted to 74 million euros, includes 5 million euros for refunds of costs incurred in 2008 for $CO_2$ emissions rights attributable to some CIP 6/92 power plants and, for 10 million euros, a refund for the utilization of strategic storage capacity in 2005 and 2006. In 2009,

this item reflected the positive impacts of AEEG Resolution No. 30/09, concerning the criteria for reimbursement of the costs incurred to purchase green certificates, and the contractual penalty payments received for late deliveries of some components of a thermoelectric power plant.

The **gains on the sale of property, plant and equipment** (2 million euros) were generated by the sale of some lands and building held as investment property and equipment parts.

**Sundry items** include insurance settlements totaling 22 million euros for past accidents that occurred at thermoelectric power plants.

## Margin on Trading Activities

The table below, which is provided for the sake of greater clarity, shows the results from trading in physical and financial energy commodity contracts held in Trading Portfolios included in sales revenues and in other revenues and income:

| (in millions of euros) | See note | 2010 | 2009 | Change |
|---|---|---|---|---|
| **Margin on physical contracts included in trading portfolios** | | | | |
| Sales revenues | | 2,732 | 1,170 | 1,562 |
| Raw materials and services used | | (2,693) | (1,158) | (1,535) |
| **Total included in sales revenues** | 1 | **39** | **12** | **27** |
| **Margin on financial contracts included in trading portfolios** | | | | |
| Other revenues and income | | 60 | 26 | 34 |
| Raw materials and services used | | (49) | (15) | (34) |
| **Total included in other revenues and income** | 2 | **11** | **11** | **-** |
| **Total margin on trading activities** | | **50** | **23** | **27** |

In 2010, the Group began physical trading of natural gas. However, the margins generated at December 31, 2010 did not represent a material amount (4 million euros).

## 3. Raw Materials and Services Used

Raw materials and services used totaled 9,462 million euros, or 23.3% more than in 2009 (7,673 million euros) affected by prices and volumes trends above mentioned.
The table that follows provides a breakdown of raw materials and services used:

| (in millions of euros) | 2010 | 2009 | Change | % change |
|---|---|---|---|---|
| Purchases of: | | | | |
| - Natural gas | 4,116 | 3,111 | 1,005 | 32.3% |
| - Electric power | 1,879 | 1,345 | 534 | 39.7% |
| - Dispatching and balancing market | 443 | 192 | 251 | n.m. |
| - Blast furnace gas, recycled and coke | 340 | 229 | 111 | 48.5% |
| - Oil and fuel | 187 | 326 | (139) | (42.6%) |
| - Demineralized industrial water | 36 | 33 | 3 | 9.1% |
| - Green certificates | 141 | 155 | (14) | (9.0%) |
| - $CO_2$ emissions rights | 51 | 25 | 26 | n.m. |
| - Coal, utilities and other materials | 115 | 126 | (11) | (8.7%) |
| **Total** | **7,308** | **5,542** | **1,766** | **31.9%** |
| - Facilities maintenance | 183 | 177 | 6 | 3.4% |
| - Transmission of electric power and natural gas | 1,232 | 1,181 | 51 | 4.3% |
| - Regasification fee | 108 | 24 | 84 | n.m. |
| - Professional services | 125 | 121 | 4 | 3.3% |
| - Insurance services | 30 | 27 | 3 | 11.1% |
| - Writedowns of trade and other receivables | 36 | 49 | (13) | (26.5%) |
| - Commodity derivatives | 65 | 239 | (174) | (72.8%) |
| - Additions to provisions for miscellaneous risks | 35 | 30 | 5 | 16.7% |
| - Change in inventories | (12) | 6 | (18) | n.m. |
| - Use of property not owned | 98 | 84 | 14 | 16.7% |
| - Losses on sales of property, plant and equipment | 8 | 17 | (9) | (52.9%) |
| - Sundry items | 246 | 176 | 70 | 39.8% |
| **Total for the Group** | **9,462** | **7,673** | **1,789** | **23.3%** |

### Breakdown by Business Segment

| (in millions of euros) | 2010 | 2009 | Change | % change |
|---|---|---|---|---|
| Electric Power Operations | 6,550 | 5,501 | 1,049 | 19.1% |
| Hydrocarbons Operations | 4,746 | 3,877 | 869 | 22.4% |
| Corporate Activites and Other Segments | 111 | 112 | (1) | (0,9%) |
| Eliminations | (1,945) | (1,817) | (128) | 7.0% |
| **Total for the Group** | **9,462** | **7,673** | **1,789** | **23.3%** |

The increase in the amount shown for **natural gas** (1,005 million euros), compared with 2009, is due to higher consumption by thermoelectric power plants (+26%) and industrial users (+6%), coupled with the effect of higher natural gas purchase prices. The amount of natural gas purchases reflects the full availability of the facilities operated by Terminale GNL Adriatico Srl, as well as the positive impact of the effective portion of derivatives that hedge foreign exchange risks on commodities (21 million euros).

The higher amount paid to purchase **electric power** (534 million euros), compared with 2009, reflects an increase in Power Exchange purchases, due to the significant rise of the Group's sales volumes.

The reduction (14 million euros) in **green certificate** costs is due to the newly acquired cogenerating status of a thermoelectric power plant and to an increase in the production of green certificates by renewable energy sources.

The increase in costs for **$CO_2$ emission rights** (26 million euros) is the combined result of a reduction in emissions rights awarded free of charge and a rise in emissions caused by higher production of electric power.

**Regasification fee** (108 million euros) reflects the charges paid to Terminale GNL Adriatico Srl for regasification services, which it began to provide in the last quarter of 2009.

**Writedowns of trade and other receivables** (36 million euros) includes additions to allowances for doubtful accounts and losses on uncollectible accounts, net of specific utilizations. In addition, allowances for doubtful accounts totaling 15 million euros were reversed in earnings in 2010. This item is included in Reversals in Earnings of provisions for risks on receivables and other risks listed in Note 2 **Other Revenues and Income**.

The increase in the costs incurred for the **use of property not owned**, amounting to 14 million euros, is due in part to Law No. 122 of July 30, 2010, which introduced, starting in 2010, an additional annual concession fee for the holders of large-scale water diversion concessions (6 million euros).

**Change in inventories** refers mainly to an increase in natural gas held in storage.

**Sundry items** include:
- sundry services (61 million euros);
- out-of-period charges (43 million euros);
- advertising expense incurred mainly for corporate communication campaigns (23 million euros);
- indirect taxes and fees (12 million euros);
- corporate services costs (11 million euros);
- memberships in trade associations (9 million euros).

## 4. Labor Costs

Labor costs totaled 253 million euros, or about 5.4% more than in 2009, when they amounted to 240 million euros.
This increase is mainly the combined result of a larger average payroll and salary increases.

The tables that follow provide breakdowns of the Group's staff by business segment and show the changes that occurred in the different employee categories:

### Breakdown by Business Segment

| (number of employees) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Electric Power Operations | 1,830 | 1,946 | (116) |
| Hydrocarbons Operations | 1,357 | 1,357 | - |
| Corporate Activities and Other Segments | 633 | 620 | 13 |
| **Total Core Business** | **3,820** | **3,923** | **(103)** |
| Disposal group | 119 | - | 119 |
| **Total for the Group** | **3,939** | **3,923** | **16** |

### Changes by employee category

| (number of employees) | 01.01.10 | Added to payroll | Removed from payroll | Other/Change of classification | 12.31.2010 | Average payroll |
|---|---|---|---|---|---|---|
| Executives | 189 | 1 | (10) | 12 | 192 | 194 |
| Office staff and Middle managers | 2,782 | 137 | (116) | 39 | 2,842 | 2,817 |
| Production staff | 952 | 44 | (40) | (51) | 905 | 924 |
| **Total for the Group** | **3,923** | **182** | **(166)** | **-** | **3,939** | **3,935** |

## 5. EBITDA

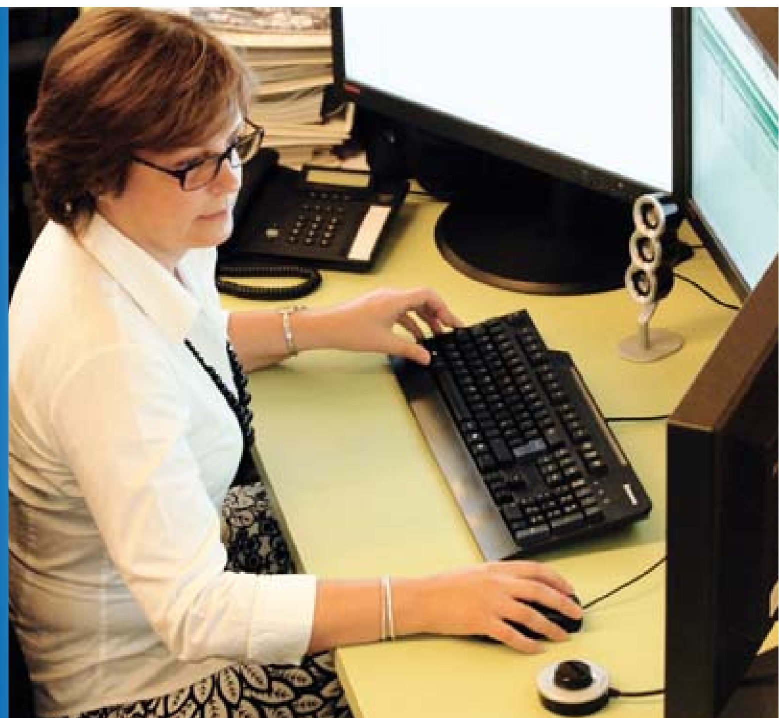
EBITDA totaled 1,369 million euros, or 102 million euros less (-6.9%) than the 1,471 million euros earned in 2009.

The table below provides a breakdown by business segment of the Group's reported and adjusted EBITDA, which include the reclassification 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. Given the exceptional magnitude of fluctuations in commodity prices and foreign exchange rates during the year and in order to provide an adequate basis of comparison, it seems appropriate to show the adjusted EBITDA amount, restated to reflect the applicable portion of the result from hedging transactions attributable to the Electric Power Operations.

| (in millions of euros) | 2010 | as a % of sales revenues | 2009 | as a % of sales revenues | EBITDA % change |
|---|---|---|---|---|---|
| **Reported EBITDA** | | | | | |
| Electric Power Operations | 1,055 | 14.5% | 1,227 | 19.0% | (14.0%) |
| Hydrocarbons Operations | 413 | 8.2% | 347 | 8.3% | 19.0% |
| Corporate Activities and Other Segments | (99) | n.m. | (103) | n.m. | n.m. |
| **Total for the Group** | **1,369** | **13.1%** | **1,471** | **16.6%** | **(6.9%)** |
| **Adjusted EBITDA** | | | | | |
| Electric Power Operations | 1,130 | 15.5% | 1,086 | 16.8% | 4.1% |
| Hydrocarbons Operations | 338 | 6.7% | 488 | 11.7% | (30.7%) |
| Corporate Activities and Other Segments | (99) | n.m. | (103) | n.m. | n.m. |
| **Total for the Group** | **1,369** | **13.1%** | **1,471** | **16.6%** | **(6.9%)** |

The comments that follow review the performance in terms of adjusted EBITDA, which provide a clearer presentation of the industrial results of its operations:

- The adjusted EBITDA of the **Electric Power Operations** totaled 1,130 million euros, up slightly compared with last year (+4.1%). The gain of 173 million euros generated by the early termination of the CIP 6/92 contracts for some thermoelectric power plants is the reason for this improvement. Absent this factor, the adjusted EBITDA would be down 11.9%, due to the impact of lower unit margins on sales of electric power, offset only in part by a significant rise in unit sales and an increase in hydroelectric production (+6%). In addition, in CIP 6/92 segment, some incentivized periods and some contracts have expired. All of these negative effects were offset in part by improved results from trading activities and a positive performance in the area of renewable energy sources, thanks to the commissioning of new wind farms and to the acquisition of the company Parco Eolico San Francesco Srl during the year.
- The adjusted EBITDA of the **Hydrocarbons Operations** totaled 338 million euros, down sharply (-30.7%) compared with 2009 (488 million euros). Unit sales margins contracted significantly in 2010, particularly in the natural gas distribution business, due to lower sales prices in the residential and industrial markets resulting mainly from the heightened competitive pressure generated by massive volumes of spot natural gas marketed in Europe at prices below those charged under conventional long-term procurement contracts and from the time lag with which changes in commodity prices are reflected in sales prices. The negative impact of this development was offset only in part by a substantial increase in the Group's sales volumes and by changes in sales policies implemented during the latest sales campaign. The performance of the Hydrocarbons Operations was also aided by a positive contribution from the domestic and international exploration and production activities, which reported increases in natural gas and crude oil production of 7% and 31%, respectively, and benefited from an upturn in crude oil prices. The natural gas distribution and storage operations also performed well, following a revision of the rate system.



A major concern for the development of its human resources has always been a key element of Edison's mission.

## 6. Depreciation, Amortization and Writedowns

A breakdown of this item, which totaled 1,096 million euros, is provided below:

| (in millions of euros) | 2010 | 2009 (*) | Change | % change |
|---|---|---|---|---|
| **Depreciation and amortization:** | **728** | **716** | **12** | **1.7%** |
| - of property, plant and equipment | 585 | 576 | 9 | 1.6% |
| - of hydrocarbon concessions | 72 | 53 | 19 | 35.8% |
| - of other intangible assets | 71 | 87 | (16) | (18.4%) |
| **Writedowns:** | **368** | **56** | **312** | **n.m.** |
| - of property, plant and equipment | 161 | 54 | 107 | n.m. |
| - of goodwill | 4 | - | 4 | n.m. |
| - of hydrocarbon concessions | 202 | - | 202 | n.m. |
| - of other intangible assets | 1 | 2 | (1) | (50.0%) |
| **Total for the Group** | **1,096** | **772** | **324** | **42.0%** |

(*) The data for "Depreciation of property, plant and equipment" and "Amortization of other intangible assets" are being re-presented merely for comparative purpose to reflect the adoption of IFRIC 12.

### Breakdown by Business Segment

| (in millions of euros) | 2010 | 2009 | Change | % change |
|---|---|---|---|---|
| Electric Power Operations | 663 | 533 | 130 | 24.4% |
| Hydrocarbons Operations | 421 | 229 | 192 | 83.8% |
| Corporate Activities and Other Segments | 12 | 10 | 2 | 20.0% |
| **Total for the Group** | **1,096** | **772** | **324** | **42.0%** |

The increase of 130 million euros for the **Electric Power Operations** is the combined result of:

- higher writedowns for 133 million euros, broken down as follows:

| (in millions of euros) | 2010 | 2009 | Change | % change |
|---|---|---|---|---|
| Writedowns of property, plant and equipment | 150 | 19 | 131 | n.m. |
| Writedowns of goodwill | 3 | - | 3 | n.m. |
| Writedowns of other intangible assets | 1 | 2 | (1) | (50.0%) |
| **Total** | **154** | **21** | **133** | **n.m.** |

The writedowns recognized in 2010 include a charge of 88 million euros related to the early termination of CIP 6/92 contracts for some thermoelectric power plants and 62 million euros referred to thermoelectric power plants due to the presence of impairment indicators;

- a net decrease of 3 million euros in depreciation and amortization, due to a reassessment of the useful lives and of the residual values of some assets in the hydroelectric and thermoelectric areas (11 million euros), offset in part by a change in the scope of consolidation.

The increase of 192 million euros for the **Hydrocarbons Operations** is the combined result of:

- higher writedowns for 179 million euros, as shown in the table below:

| (in millions of euros) | 2010 | 2009 | Change | % change |
|---|---|---|---|---|
| Writedowns of property, plant and equipment | 11 | 35 | (24) | (68.6%) |
| Writedowns of goodwill | 1 | - | 1 | n.m. |
| Writedowns of hydrocarbons concessions | 202 | - | 202 | n.m. |
| **Total** | **214** | **35** | **179** | **n.m.** |

The writedowns recognized in 2010 take into account a charge of 83 million euros of Abu Qir's assets, due to the negative revision of estimated hydrocarbon reserves, and 130 million euros of Egyptian concessions due to foreseeable profitability risks related to the uncertainties and turbulence that currently characterize the reference political, economical and financial context in the country;

- an increase in amortization of concessions (27 million euros) attributable mainly to Abu Qir, due to a reduction of estimated hydrocarbon reserves, and to the extraction profiles of hydrocarbon deposits;
- a decrease in exploration costs of 14 million euros.

A detailed analysis of the impact of the impairment test of the Edison Group is provided later in these Notes in the disclosure about the "Impairment Test in Accordance with IAS 36 applied to the Value of Goodwill, Property, Plant and Equipment and Other Intangibles" (Note 17).

## 7. Net Financial Income (Expense)

Net financial expense totaled 144 million euros, or 12 million euros less than in 2009 (156 million euros).

A breakdown of net financial expense is as follows:

| (in millions of euros) | 2010 | 2009 | Change |
|---|---|---|---|
| **Financial income** | | | |
| Financial income from financial derivatives | 53 | 37 | 16 |
| Interest earned on finance leases | 14 | 13 | 1 |
| Interest earned on bank and postal accounts | 4 | 3 | 1 |
| Interest earned on trade receivables | 13 | 11 | 2 |
| Other financial income | 12 | 3 | 9 |
| **Total financial income** | **96** | **67** | **29** |
| **Financial expense** | | | |
| Interest paid on bond issues | (80) | (68) | (12) |
| Financial expense on financial derivatives | (68) | (36) | (32) |
| Interest paid to banks | (39) | (68) | 29 |
| Bank fees | (17) | (12) | (5) |
| Financial expense on decommissioning projects | (15) | (15) | - |
| Financial expense in connection with employee severance benefits | (3) | (3) | - |
| Interest paid to other lenders | (11) | (5) | (6) |
| Other financial expense | (15) | (3) | (12) |
| **Total financial expense** | **(248)** | **(210)** | **(38)** |
| **Foreign exchange translation gains (losses)** | | | |
| Foreign exchange translation gains | 112 | 73 | 39 |
| Foreign exchange translation losses | (104) | (86) | (18) |
| **Net foreign exchange translation gains (losses)** | **8** | **(13)** | **21** |
| **Net financial income (expense) for the Group** | **(144)** | **(156)** | **12** |

The improvement achieved during the year is the combined result of several factors. More specifically:

- with regard to net expense on financial debt, the positive effect of the strategies implemented to optimize financing sources, coupled with a favorable trend in interest rates, offset in part the impact of an increase in average indebtedness and of a negative trend in the fair value of interest rate derivatives;
- the net foreign exchange gains (8 million euros), reflect primarily the positive results generated by derivative transactions executed to hedge purchases of natural gas in foreign currencies, which more than offset net foreign exchange losses on commercial transactions.

## 8. Income from (Expense on) Equity Investments

A breakdown of the negative balance of 1 million euros is shown below:

| (in millions of euros) | 2010 | 2009 | Change |
|---|---|---|---|
| **Income from equity investments** | | | |
| Dividends | 1 | 1 | - |
| Revaluations and valuations of investments by the equity method | 2 | 1 | 1 |
| Revaluations of trading securities | - | 3 | (3) |
| **Total income from equity investments** | **3** | **5** | **(2)** |
| **Expenses on equity investments** | | | |
| Writedowns and valuations of investments by the equity method | (3) | (7) | 4 |
| Writedowns of trading securities | (1) | (1) | - |
| **Total expenses on equity investments** | **(4)** | **(8)** | **4** |
| **Total Group income from (expense on) equity investments** | **(1)** | **(3)** | **2** |

**Writedowns and valuations of investments by the equity method** refer primarily to the investment in Galsi Spa (1 million euros).

## 9. Other Income (Expense), Net

Net other income of 44 million euros reported at December 31, 2010 (expense of 11 million euros at December 31, 2009) is the result of nonrecurring items that are not directly related to the Group's industrial operations. The main items included in this account are:

- **Income** of 68 million euros, mainly from the reversal into earnings of some provisions for risks and charges recognized in previous years (33 million euros) and the favorable conclusion of arbitration proceedings (25 million euros).
- **Expense** of 24 million euros, which includes 10 million euros for legal disputes arising from industrial and real estate activities carried out in the past and 11 million euros for registration fees paid in connection with divestments.

## 10. Income Taxes

The tax burden recognized in the financial statements decreased to 83 million euros in 2010, or 195 million euros less than in the previous year (278 million euros). The tax liability for 2009 and 2010 was affected by the following nonrecurring events:

- In 2009, the enactment of Decree Law No. 1441 (later converted into Law No. 99/2009, the so-called Robin Hood Tax Law) raised by one percentage point the corporate income tax rate, which had a negative impact of 19 million euros, including 11 million euros for deferred taxes.
- In 2010:
  - Circular No. 35/E issued by the Revenue Agency on June 18, 2010, clarified that the abovementioned surcharge was applicable only starting in 2010, which produced a positive effect of 8 million euros;
  - the tax benefit (16 million euros) provided by Law No. 10 of August 23, 2009 (the so-called *Tremonti-ter* Law), which was enacted to encourage investments in capital goods.

A breakdown of income taxes is provided below:

| (in millions of euros) | 2010 | 2009 | Change |
|---|---|---|---|
| Current taxes | 299 | 357 | (58) |
| Net deferred-tax liabilities (assets) | (204) | (77) | (127) |
| Income taxes attributable to previous years | (12) | (2) | (10) |
| **Total for the Group** | **83** | **278** | **(195)** |

**Current taxes** include 250 million euros for corporate income taxes (IRES), 44 million euros for regional taxes (IRAP) and 22 million euros for foreign taxes, offset only in part by a tax benefit of 17 million euros generated by filing a consolidated income tax return.

In relative terms the tax rate is reduced as shown in the following table:

| (in millions of euros) | 2010 | | 2009 | | Change |
|---|---|---|---|---|---|
| **Profit before taxes** | **172** | | **529** | | |
| Tax calculated at domestic tax rate | 58 | 34.0% | 180 | 34.0% | (122) |
| Permanent differences | 3 | 1.7% | 9 | 1.7% | (6) |
| Foreign taxes and tax assets not recognized | 5 | 2.9% | 21 | 4.0% | (16) |
| Changes to tax rates/Income tax surcharge | (8) | -4.7% | 11 | 2.1% | (19) |
| "Tremonti-ter" | (16) | -9.3% | - | - | (16) |
| IRAP - regional taxes | 44 | 25.6% | 52 | 9.8% | (8) |
| Other differences | (3) | -1.7% | 5 | 0.9% | (8) |
| **Income taxes** | **83** | **48.3%** | **278** | **52.6%** | **(195)** |

The table below provides a breakdown of deferred-tax liabilities and deferred-tax assets and shows the changes that occurred in 2010:

| (in millions of euros) | 12.31.2009 | Additions | Utilizations | IAS 32/39 to sharehold. equity | Other changes/ Reclassif./ Offsets | 12.31.2010 |
|---|---|---|---|---|---|---|
| **Provision for deferred taxes:** | | | | | | |
| Valuation differences of property, plant and equipment and intangibles | 614 | 1 | (151) | - | 23 | 487 |
| Adoption of IAS 17 to value finance leases | 18 | 3 | - | - | 2 | 23 |
| Adoption of IAS 39 to value financial instruments | | | | | | |
| with impact on shareholders' equity | 18 | - | - | 31 | - | 49 |
| Other deferred-tax liabilities | 7 | 2 | (1) | - | 2 | 10 |
| | **657** | **6** | **(152)** | **31** | **27** | **569** |
| Offsets | (73) | - | - | - | 8 | (65) |
| **Provision for deferred taxes net of offsets** | **584** | **6** | **(152)** | **31** | **35** | **504** |
| **Deferred-tax assets:** | | | | | | |
| Tax loss carryforward | 9 | 2 | (1) | - | - | 10 |
| Taxed provisions for risks | 108 | 28 | (25) | - | (4) | 107 |
| Adoption of IAS 39 to value financial instruments: | | | | | | |
| - impact on the income statement | 1 | 1 | - | - | - | 2 |
| - impact on shareholders' equity | 7 | - | - | (4) | - | 3 |
| Valuation differences of property, plant and equipment and intangibles | 38 | 72 | (22) | - | 21 | 109 |
| Other deferred-tax assets | 13 | 5 | (2) | - | - | 16 |
| | **176** | **108** | **(50)** | **(4)** | **17** | **247** |
| Offsets | (73) | - | - | - | 8 | (65) |
| **Deferred-tax assets net of offsets** | **103** | **108** | **(50)** | **(4)** | **25** | **182** |

## 11. Profit (Loss) from Discontinued Operations

Due to the signing in December of a term sheet for the disposal of the business operations comprised of two thermoelectric power plants located in Taranto, the carrying amount of these facilities, recorded on "Assets and Liabilites held for sale", was written down by 40 million euros.

## 12. Earnings per Share

A breakdown of earnings per share is as follows:

| (in millions of euros) | 2010 | | 2009 | |
|---|---|---|---|---|
| | Common shares | Savings shares [1] | Common shares | Savings shares [1] |
| Group interest in profit (loss) | 21 | 21 | 240 | 240 |
| Profit (loss) attributable to the different classes of shares (A) | 17 | 4 | 232 | 8 |
| Weighted average number of shares outstanding (common and savings) determined for the purpose of computing earnings per share: | | | | |
| - basic (B) | 5,181,108,251 | 110,592,420 | 5,181,108,251 | 110,592,420 |
| - diluted (C) [2] | 5,181,108,251 | 110,592,420 | 5,181,108,251 | 110,592,420 |
| Earnings per share (in euros) | | | | |
| - basic (A/B) | 0.0034 | 0.0334 | 0.0448 | 0.0748 |
| - diluted (A/C) [2] | 0.0034 | 0.0334 | 0.0448 | 0.0748 |

[1] 3% 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, the potential shares are deemed to have no dilutive effect.

# NOTES TO THE BALANCE SHEET

## Assets

### 13. Property, Plant and Equipment

The table that follows shows a breakdown of the changes that occurred in 2010:

| (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 12.31.2009, as published (*)** | **814** | **5,624** | **487** | **34** | **10** | **5** | **543** | **7,517** |
| Adoption of IFRIC 12 | - | (60) | (9) | - | (3) | - | - | (72) |
| **Balance at 12.31.2009, comparative (A)** | **814** | **5,564** | **478** | **34** | **7** | **5** | **543** | **7,445** |
| Changes in 2010: | | | | | | | | |
| - Additions | 66 | 193 | 3 | - | 1 | 3 | 226 | 492 |
| - Disposals (-) | - | (11) | - | - | - | (1) | (1) | (13) |
| - Depreciation (-) | (43) | (481) | (55) | (2) | (2) | (2) | - | (585) |
| - Writedowns (-) | (2) | (159) | - | - | - | - | - | (161) |
| - Reclassification of "Assets held for sale" | (30) | (204) | - | - | (1) | - | - | (235) |
| - Changes in scope of consolidation | - | 48 | - | - | - | - | - | 48 |
| - Decommissioning costs | - | 6 | - | - | - | - | - | 6 |
| - Other changes | 8 | 323 | 3 | 6 | 3 | 2 | (340) | 5 |
| **Total changes (B)** | **(1)** | **(285)** | **(49)** | **4** | **1** | **2** | **(115)** | **(443)** |
| **Balance at 12.31.2010 (A+B)** | **813** | **5,279** | **429** | **38** | **8** | **7** | **428** | **7,002** |
| Breakdown: | | | | | | | | |
| - Historical cost | 1,063 | 8,192 | 872 | 41 | 19 | 17 | 457 | 10,661 |
| - Accumulated depreciation (-) | (244) | (2,564) | (443) | (3) | (11) | (10) | - | (3,275) |
| - Writedowns (-) | (6) | (349) | - | - | - | - | (29) | (384) |
| **Net carrying amount** | **813** | **5,279** | **429** | **38** | **8** | **7** | **428** | **7,002** |

(*) The opening balances for "Land and buildings" and "Plant and machinery" are being re-presented in order to give a separate presentation of "Assets transferable at no cost" and "Asset acquired under finance leases".

The Group adopted IFRIC 12 prospectively. Consequently, the opening balances for "Property, plant and equipment" and "Other intangible assets" attributable to the natural gas distribution infrastructures reflect reclassifications totaling 72 million euros.

A breakdown by business segment of **additions** totaling 492 million euros is as follows:

| (in millions of euros) | 2010 | 2009 |
|---|---|---|
| **Electric Power Operations** | **240** | **365** |
| broken down as follows: | | |
| - Thermoelectric area | 154 | 211 |
| - Hydroelectric area | 47 | 60 |
| - Renewable sources area (wind power, photovoltaic, etc.) | 39 | 94 |
| **Hydrocarbons Operations** | **186** | **284** |
| broken down as follows: | | |
| - Hydrocarbon fields in Italy | 23 | 69 |
| - Hydrocarbon fields outside Italy | 136 | 164 |
| - Transmission and storage infrastructures | 27 | 51 |
| **Corporate Activities and Other Segments** | **66** | **2** |
| **Total for the Group** | **492** | **651** |

A significant addition in 2010 was the purchase by Corporate Activities and Other Segments of a building at 35, Foro Buonaparte, in Milan, for a total amount of 62 million euros. The building is used for office space.

Moreover, the additions in the thermoelectric and hydroelectric area are essentially due to the repowering of some plants, while in hydrocarbons fields outside Italy are generated essentially in Egypt concessions.

During the month of December went into operation the power plant of 420 MW of Thisvi in Greece, operated by Elpedison Power Sa, that generated additions for 41 million euros during the year.

**Disposals** of 13 million euros refer mainly to retirements of some components of hydroelectric and thermoelectric power plants, which, in the aggregate, generated a net loss of 7 million euros.

A more detailed analysis of **depreciation**, which amounted to 585 million euros (576 million euros in 2009), is provided in Note “Depreciation, amortization and writedowns” to the income statement.

**Writedowns** of 161 million euros (54 million euros in 2009) reflect mainly the effects of the impairment test. Information about the impairment test is provided in Note “Depreciation, amortization and writedowns” to the income statement and in the section of these Notes entitled “Impairment Test in Accordance with IAS 36 applied to the Value of Goodwill, Property, Plant and Equipment and Other Intangibles” (Note 17).

The **reclassification of “Assets held for sale”**, amounting to 235 million euros, refers to the Taranto power plants that are being divested.

**Changes in scope of consolidation** (48 million euros) refers to the acquisition of Parco Eolico San Francesco Srl effective as of July 2010.

The change in **decommissioning costs** mainly reflects for the Electric Power Operations (5 million euros) the revision of projected costs for some thermoelectric power plants.

Capitalized borrowing costs recognized as part of property, plant and equipment, as required by IAS 23 Revised, amounted to 4 million euros.

The **other changes** of assets acquired under finance leases, recognized in accordance with the IAS 17 Revised method, included new power plant in the renewable source segment for 6 million euros. The balance of the remaining financial liability, which amounts to 35 million euros, is shown part under “Long-term financial debt and other financial liabilities” (32 million euros) and part under “Short-term financial debt” (3 million euros).

## 14. Investment Property

The Group’s investment property, which consists of land and buildings that are not used for production purposes, is valued at 11 million euros. A breakdown of the change that occurred in 2010 is provided below:

| (in millions of euros) | |
|---|---|
| **Balance at 12.31.2009 (A)** | **12** |
| Changes in 2010: | |
| - Disposals (-) | (1) |
| **Total changes (B)** | **(1)** |
| **Balance at 12.31.2010 (A+B)** | **11** |
| Breakdown: | |
| - Historical cost | 13 |
| - Accumulated depreciation (-) | (1) |
| - Writedowns (-) | (1) |
| **Net carrying amount** | **11** |

## 15. Goodwill

Goodwill totaled 3,534 million euros, 4 million euro less compared with December 31, 2009 (3 million euros in Electric Power Operations and 1 million euro in Hydrocarbons Operations) as described in the section of these Notes entitled "Impairment Test in Accordance with IAS 36 applied to the Value of Goodwill, Property, Plant and Equipment and Other Intangibles" (Note 17).

The balance in this account is an intangible asset 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.

## 16. Hydrocarbons Concessions

Concessions for the production of hydrocarbons, which include 83 mineral leases in Italy and abroad (including 3 storage concessions) for the extraction of hydrocarbon deposits, were valued at 985 million euros. The table below shows the changes that occurred in this account in 2010:

| (in millions of euros) | |
|---|---|
| **Balance at 12.31.2009 (A)** | **1,259** |
| Changes in 2010: | |
| - Writedowns (-) | (202) |
| - Amortization (-) | (72) |
| **Total changes (B)** | **(274)** |
| **Balance at 12.31.2010 (A+B)** | **985** |
| Breakdown: | |
| - Historical cost | 1,458 |
| - Accumulated amortization (-) | (267) |
| - Writedowns (-) | (206) |
| **Net carrying amount** | **985** |

### Disclosure About the Group's Concessions

The table below shows a breakdown of the concessions held by the Edison Group. As explained earlier, the corresponding carrying amounts are included under "Property, plant and equipment", "Hydrocarbon concessions" and "Other Intangible Assets".

| | | Remaining life (years) | |
|---|---|---|---|
| | Number | from | to |
| Storage concessions | 3 | 4 | 19 |
| Hydroelectric concessions | 71 | 1 | 25 |
| Distribution concessions | 62 | 1 | 13 |
| Hydrocarbon concessions | 80 | (*) unit of production | |

(*) The amortization and the remaining life of mineral deposits are computed as a ratio of the quantity extracted to the available reserves.

## 17. Other Intangible Assets

The table below shows the main changes that occurred in 2010:

| (in millions of euros) | Patents, licenses and similar rights | $CO_2$ emissions rights | Green Certificates | Exploration costs | Other intangible assets | Work in progress and advances | Total |
|---|---|---|---|---|---|---|---|
| **Balance at 12.31.2009, as published** | **20** | **5** | **-** | **-** | **6** | **5** | **36** |
| Adoption of IFRIC 12 | 72 | - | - | - | - | - | 72 |
| **Balance at 12.31.2009, comparative (A)** | **92** | **5** | **-** | **-** | **6** | **5** | **108** |
| Changes in 2010: | | | | | | | |
| - Additions | 8 | - | - | 52 | - | 5 | 65 |
| - Amortization (-) | (18) | - | - | (52) | (1) | - | (71) |
| - Disposal (-) | (1) | - | - | - | - | - | (1) |
| - Other changes | 5 | 1 | 5 | - | 1 | (4) | 8 |
| **Total changes (B)** | **(6)** | **1** | **5** | **-** | **-** | **1** | **1** |
| **Balance at 12.31.2010 (A+B)** | **86** | **6** | **5** | **-** | **6** | **6** | **109** |
| Breakdown: | | | | | | | |
| - Historical cost | 194 | 6 | 5 | 311 | 13 | 6 | 535 |
| - Accumulated amortization (-) | (106) | - | - | (311) | (5) | - | (422) |
| - Writedowns (-) | (2) | - | - | - | (2) | - | (4) |
| **Net caffying amount** | **86** | **6** | **5** | **-** | **6** | **6** | **109** |

As of January 1, 2010, as required by IFRIC 12, **Patents, licenses and similar rights** include the infrastructures used by the Group to distribute natural gas under the 62 concessions it holds in this area of business.

**$CO_2$ emissions rights** (6 million euros) and **green certificates** (5 million euros) include the rights exceeding the Group's requirements.

The **exploration costs** incurred in 2010 totaled 52 million euros (66 million euros in 2009). The entire amount was amortized during the year and no exploration costs were capitalized in connection with successful exploration project subsequently leading to production.

**Impairment Test in accordance with IAS 36 applied to the Value of Goodwill, Property, Plant and Equipment and Other Intangibles**

Because goodwill is an intangible asset with an indefinite useful life and, therefore, cannot be amortized in regular installments, IAS 36 requires that its value be tested for impairment at least once a year. Since goodwill does not generate cash flow independently and cannot be sold separately, IAS 36 requires a test of the value that can be recovered on a residual basis. This is accomplished by determining the cash flows generated by the complex of assets that constitute the business or businesses to which goodwill is attributable (the cash generating unit or units - CGUs).

Keeping in mind the strategic and organizational decisions of the Edison Group, goodwill was tested by making reference to the two different cash generating units to which goodwill has been allocated. These CGUs were identified as the "Electric Power Operations" and the "Hydrocarbons Operations."

### Allocation of goodwill

| (in millions of euros) | 12.31.2010 | 12.31.2009 |
|---|---|---|
| Electric Power Operations | 2,835 | 2,838 |
| Hydrocarbons Operations | 699 | 700 |
| **Total** | **3,534** | **3,538** |

Consistent with past practice, the test was carried out by an independent appraiser using cash flows based on the 2011 Budget approved by the Board of Directors on January 14, 2011 and on the projections developed by management, as presented in the document entitled "2011-2018 Company Plan." This document reflects the best estimates of top management with regard to the Company's operating activities (macroeconomic and price trends, working hypothesis for operational assets and business development). These assumptions and corresponding financial were deemed to be suitable for impairment test performance purposes.
The independent appraiser verified the assumptions contained in the abovementioned document, making reference to alternative external sources. He also asked management to develop analyses and simulations in support of the "2011-2018 Company Plan," using valuations and estimates different from those applied in the abovementioned "2011-2018 Company Plan." In addition, the independent appraiser reviewed the 2010-2017 Plan previously approved by the Company's Board of Directors and the Company's 2011 Budget.
The recoverable value (understood as value in use) of each of the two abovementioned operations was determined by estimating the present value of future cash flows from operations before taxes (as expressly required by the applicable rules) that these operations are expected to generate over the length of the Company's plan (until 2018) and a terminal value beyond the plan's horizon, taking into account the nature of the investments and the types of businesses in which Edison operates. The terminal value of both operations was estimated by determining an operating cash flow, duly normalized to reflect regular operating conditions and a nominal annual growth rate between zero and 2%. In addition, for terminal value computation purposes, the cash flows attributed to the Electric Power Operations were estimated taking into account the impact of the expiration of CIP 6/92 contracts and incentives in 2016 and afterwards. In estimating the terminal value of the Hydrocarbons Operations, the cash flows were normalized to eliminate the effect of renegotiating long-term natural gas importation contracts attributable to 2010.
Consistent with the cash flows described above, the discount rates applied were estimated by determining the average weighted cost of capital.
The recoverable value was estimated using the financial method. It was obtained by using simulations for different variables - the most significant of which include the margins generated by the activities of the Electric Power Operations that engage in production and market sales, discount rates, the euro/U.S. dollar exchange rate, growth rates and nondiscretional investments required to keep the Company operating at a normal level - and applying such statistical simulation techniques as the Montecarlo method. Specifically with regard to the Hydrocarbons Operations, the effects of different scenarios for the negotiation processes currently under way in the oil and gas area were also taken into account.
Specifically for discount rates, the median pretax rates used were 10.3% for the Electric Power Operations and 11.3% for the Hydrocarbons Operations. These rates were increased further when estimating the recoverable value of the cash flows from a CGU's business operations exposed to a country risk at a level appreciable different than that of Italy.
The recoverable values determined by applying the process described above were not lower than the corresponding carrying amounts of the various cash generating units.

For both Electric Power Operations and Hydrocarbons Operations, the amounts by which the CGUs' recoverable values exceed their carrying amounts (including goodwill) significantly decreased in 2010. As described above, the impairment tests are based on Management's best current estimates and take into account key assumptions (WACC, margins, hydrocarbon reserves, etc.) and market scenarios. Should those key assumptions and scenarios change in a foreseeable future, the recoverable value of the CGUs would be affected.

In order to determine if the value of its **property, plant and equipment and intangibles** had been impaired, Edison tested in the same manner the components of property, plant and equipment and intangibles held by the Group's core businesses that could be identified as cash generating units. These assets are used for the production activities of the Electric Power and Hydrocarbons Operations and for natural gas distribution and storage activities.

The composition of the CGUs to which property, plant and equipment is allocated takes into account the current makeup of the Group's markets and businesses and is consistent with its management reporting and segment information systems. From a management standpoint, the portfolio of property, plant and equipment is divided into macro-groups that operate as separate units (CIP 6/92 Thermoelectric, Captive Thermoelectric, Merchant Thermoelectric, Merchant Hydroelectric, CIP 6/92 Wind Power, Merchant Wind Power, Photovoltaic, Natural Gas Italy, Natural Gas International, Natural Gas Distribution, Natural Gas Transmission and Natural Gas Storage), while the flows generated by market sales of electric power and natural gas (Power Exchange and wholesalers) reflect the total quantity of commodities traded, irrespective of the production asset from which they originated.

Therefore, the CGUs to which specific non-current assets are allocated are based on a three-dimensional approach that takes into account: the source (electric power or hydrocarbons), the current target market (dedicated, captive, market) and whether the party that owns a given non-current asset is a separate legal entity.
As was the case for the goodwill impairment test, the analysis was carried out by identifying the recoverable value (understood as value in use) of the CGUs, based on the operating and financial plans for each CGU and on a time horizon equal to the useful lives of its assets.
The financial flows used in connection with the abovementioned plans were indicative of specific production profiles and prices and took into account such items as decommissioning costs and residual values, when identifiable.
As was done when testing goodwill for impairment, the recoverable value was estimated by applying the financial method, used in combination with the Montecarlo simulation technique.
The pretax cash flows used for each CGU were discounted at rates that were the same as those applied when testing goodwill for impairment (except for Natural Gas Distribution, Natural Gas Transmission and Natural Gas Storage for which regulated rates were used). These rates were increased further when estimating the recoverable value of the cash flows from a CGU's business operations exposed to a country risk at a level appreciable different than that of Italy (rates increased from 0.7% to 4.8% and, as explained later, raised even higher for Egypt).
The impairment test carried out with the process described above showed impairment losses for some thermoelectric CGUs, for a wind power CGU, for a CGU engaged in the sale of hydrocarbons and for CGUs corresponding to hydrocarbon production fields in Egypt. The total resulting writedown amounted

The Group's hydroelectric power plants have an installed capacity of 1,741 MW and produce 5,734 GWh. In the pictures hydroelectric power plants in the Valtellina.

to 384 million euros, including 181 million euros for the electric power CGUs and 203 million euros for the hydrocarbons CGUs.

Specifically with regard to the **thermoelectric CGUs**, which included two “merchant” thermoelectric CGUs, two CIP 6/92 thermoelectric CGUs and a “captive” thermoelectric CGU, writedowns were required primarily by the presence of the following impairment indicators:

a) the early termination of CIP 6/92 contracts, which had a negative impact of 88 million euros, but a termination benefit of 173 million euros;
b) the planned divestment of a group of facilities, which had an impact of 40 million euros;
c) a changed market scenario that caused a reduction both in the demand for electric power, with an attendant decrease in production volumes, and in the profitability of merchant power plant, with an impact quantified at 34 million euros;
d) the impact of the current economic crisis on the customers of the captive facility, which accounts for the balance.

The writedowns of 203 million euros recognized by the **CGUs in the hydrocarbon sector** included the following:

- a writedown of relatively small amount by the **CGU engaged in the sale of hydrocarbons**, due mainly to an increase in fixed costs;
- a writedown of 202 million euros by the **CGUs comprised of hydrocarbon fields in Egypt**, broken down as follows: 72 million euros for a downward revision of the estimated hydrocarbon reserves and 130 million euros for probable risks affecting the profitability of the corresponding assets, due to the turbulence and the political, economic and financial instability that developed recently in Egypt, requiring the adoption of even more conservative valuations.

Additional writedowns of property, plant and equipment were made during the year by:

- the **Electric Power Operations** for thermoelectric power plant components (12 million euros);
- the **Hydrocarbons Operations** for a well unsuccessfully drilled in Egypt (11 million euros).

When these additional charges are included, the total amount written down increases to 407 million euros.

## 18. Investments in Associates and Available-for-sale Investments

The total includes 48 million euros in investments in associates and in unconsolidated subsidiaries and affiliated companies and 293 million euros in available-for-sale investments. The latter amount includes an investment in RCS Mediagroup Spa (8 million euros) and in Terminale GNL Adriatico Srl (278 million euros), which owns the offshore regasification terminal near Porto Viro (RO).
The table below shows the main changes that occurred in 2010:

| (in millions of euros) | Investments in associates | Available-for-sale investments | Total |
|---|---|---|---|
| **Balance at 12.31.2009 (A)** | **43** | **304** | **347** |
| Changes in 2010: | | | |
| - Changes in share capital | 5 | (8) | (3) |
| - Valuations at equity | (1) | - | (1) |
| - Valuations at fair value | - | (2) | (2) |
| - Other changes | 1 | (1) | - |
| **Total changes (B)** | **5** | **(11)** | **(6)** |
| **Balance at 12.31.2010 (A+B)** | **48** | **293** | **341** |
| Breakdown: | | | |
| - Historical cost | 47 | 318 | 365 |
| - Revaluations | 9 | - | 9 |
| - Writedowns (-) | (8) | (25) | (33) |
| **Net carrying amount** | **48** | **293** | **341** |

A breakdown of **changes in share capital**, negative for 3 million euros, is as follows:
- a repayment of capital contributions by Terminale GNL Adriatico Srl (8 million euros);
- a capital increase carried out by Galsi Spa (5 million euros).

**Valuations at equity**, with a negative balance of 1 million euros, reflect primarily the effects of a writedown of the investment in Galsi Spa.
**Valuations at fair value**, negative for 2 million euros, reflect for the most part the impact of marking to market the investment in RCS Mediagroup Spa, with the resulting loss recognized in equity.

With regard to the investments in Terminale GNL Adriatico Srl, after December 31, 2010, Edison exercised its tag-along right, which enabled it to dispose of a portion of its investment, equal to a 2.703% interest, for a price of about 80 million euros. However, it is worth noting that the transfer price, defined in accordance with the agreements between the partners, cannot be viewed as indicative of the fair value of the investee company.

## 19. Other Financial Assets

Other financial assets consist of loans receivable due in more than one year. Other financial assets include the following:

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Loan receivables from Ibiritermo (IFRIC 4) | 86 | 79 | 7 |
| Interest-bearing escrow deposit (*) | - | 14 | (14) |
| Bank deposits that secure project financing facilities | 4 | 4 | - |
| Sundry items | 1 | 1 | - |
| **Total other financial assets** | **91** | **98** | **(7)** |

(*) Provided in connection with the sale of equity investments.

The **interest-bearing escrow deposit** provided in connection with the sale of equity investments was released and became available in 2010.

## 20. Deferred-tax Assets

Deferred-tax assets, which were valued based on realistic assumptions that they would be realized and the tax benefits recovered within the limited time horizon covered by the industrial plans of the various companies, amounted to 182 million euros (103 million euros at December 31, 2009).
They reflect differences in the valuation of:

- differences in the valuation of property, plant and equipment and intangibles of 104 million euros;
- taxed provisions for risks of 55 million euros;
- a tax-loss carryforward of 8 million euros;

with differences stemming from the adoption of IAS 39 and sundry reversals accounting for the balance.

## 21. Other Assets

Other assets totaled 112 million euros, or 91 million euros more than December 31, 2009. This account includes:

- 91 million euros for advances paid under long-term natural gas procurement contracts, corresponding to natural gas volumes that Edison Spa was required to pay for, even though it was unable to take delivery (take-or-pay clause). The Company expects to make up the undelivered volumes over the remaining lives of the contracts;
- 7 million euros (net of an allowance for doubtful accounts of 1 million euros) in tax refunds receivable, including accrued interest through December 31, 2010;
- 14 million euros in sundry receivables, consisting mainly of security deposits.

## 22. Current Assets

A breakdown of the components of current assets is provided below:

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Inventories | 331 | 308 | 23 |
| Trade receivables | 2,375 | 1,862 | 513 |
| Current-tax assets | 35 | 33 | 2 |
| Other receivables | 655 | 545 | 110 |
| Current financial assets | 69 | 30 | 39 |
| Cash and cash equivalents | 472 | 748 | (276) |
| **Total current assets** | **3,937** | **3,526** | **411** |

A review of the individual components is provided below:

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

| (in millions of euros) | Engineering consumables | Stored natural gas | Fuels | Other | Total 12.31.2010 | Total 12.31.2009 | Change |
|---|---|---|---|---|---|---|---|
| Electric Power Operations | 26 | - | 33 | 15 | 74 | 80 | (6) |
| Hydrocarbons Operations | 34 | 212 | 11 | - | 257 | 228 | 29 |
| **Total for the Group** | **60** | **212** | **44** | **15** | **331** | **308** | **23** |

The increase that occurred in 2010 refers mainly to stored natural gas (about 11 million euros). Inventories also include about 24 million euros in strategic reserves of natural gas, the use of which is restricted. In addition, the inventories attributable to the Taranto power plants (14 million euros) were reclassified to "Assets held for sale" in 2010;

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

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Electric Power Operations | 1,910 | 1,527 | 383 |
| Hydrocarbons Operations | 760 | 475 | 285 |
| Corporate Activities and Other Segments and Eliminations | (295) | (140) | (155) |
| **Total trade receivables** | **2,375** | **1,862** | **513** |
| **Allowance for doubtful accounts** | **(133)** | **(129)** | **(4)** |

Edison reached the one-million-customers milestone. A performance by a championship team of women rhythmic gymnasts created a flash mob in the center of Rome.

Trade receivables stem from contracts to supply electric power and steam, contracts to supply natural gas, Power Exchange transactions and, for 117 million euros, the fair value of physical contracts for energy commodities that are part of the Group's Trading Portfolios, essentially attributable to the Electric Power Operations.
The overall increase of 513 million euros in trade receivables is primarily a consequence of significant higher sales volumes in both of the Group's core businesses and of a modest increase in past due receivables.
Lastly, transactions involving the assignment of receivables without recourse on a revolving (monthly and quarterly) and spot basis executed during the year, consistent with the previous year's practice, totaled 4,335 million euros (2,828 million euros at December 31, 2009). As required by its credit policies, the Group uses these transactions to control and minimized credit risks. The residual risk of recourse associated with these transactions is not material.

- **Current-tax assets** of 35 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 Srl, the Group's controlling company.

- A breakdown of **other receivables**, which totaled 655 million euros, is provided in the table below:

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Receivables arising from the valutation of derivatives | 218 | 117 | 101 |
| Amounts owed by partners and associates in hydrocarbon exploration projects | 77 | 33 | 44 |
| Advances to suppliers | 63 | 67 | (4) |
| Advances paid for the acquisition of equity investments | - | 30 | (30) |
| Amounts owed by the controlling company in connection with the filing of the consolidated income tax return | 59 | 70 | (11) |
| VAT credit | 13 | 19 | (6) |
| Sundry items | 225 | 209 | 16 |
| **Total other receivables** | **655** | **545** | **110** |

The higher amount shown for **receivables arising from the valuation of derivatives**, which should be analyzed in conjunction with the corresponding liability included in **Current liabilities** (up from 60 million euros to 73 million euros), reflects primarily an increase in the derivatives executed to lock-in the purchase price of natural gas. A comprehensive review of the effects of derivatives is provided in a special disclosure later in this Report.

- 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) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Derivatives | 26 | 18 | 8 |
| Equity investments held for trading | 8 | 9 | (1) |
| Loans receivable | 35 | 3 | 32 |
| **Total current financial assets** | **69** | **30** | **39** |

A comprehensive presentation of the overall effects of financial derivatives is provided in a separate section of these Notes.

- **Cash and cash equivalents** of 472 million euros (748 million euros at December 31, 2009) consist of short-term deposits in bank and postal accounts and other short-term investments.

## 23. Assets held for sale

Assets held for sale, which amounted to 209 million euros, include the assets comprising the Disposal Group recognized further to the signing on December of a term sheet for the disposal of two thermoelectric power plants (CET 2 and CET 3) located in Taranto.
For further information, see the section entitled "Disclosure about Disposal Group (IFRS 5)", provided later in these Notes.

# Liabilities and Shareholders' Equity

## 24. Shareholders' Equity Attributable to Parent Company Shareholders and Shareholders' Equity Attributable to Minority Shareholders

Shareholders' equity attributable to Parent Company shareholders amounted to 7,939 million euros, for a decrease of 138 million euros compared with December 31, 2009 (8,077 million euros). This reduction is the net result of the resolution approving a dividend distribution totaling 228 million euros (equal to a dividend of 0.0425 euros on each common share and 0.0725 euros on each savings share), offset in part by a change in the reserve for Cash Flow Hedge transactions (increase of 58 million euros) and by the profit for the year amounting to 21 million euros.

Shareholders' equity attributable to minority shareholders totaled 198 million euros, or 21 million euros more than at December 31, 2009 (177 million euros) due mainly to a share capital increase carried out by joint ventures (10 million euros) and the profit for the year (28 million euros), offset in part by the impact of the distribution of dividends attributable to minority shareholders (16 million euros).

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 | 5,181,108,251 | 5,181 |
| Savings shares | 110,592,420 | 111 |
| **Total** | | **5,292** |

The table below provides a breakdown of the changes that occurred in the reserve for Cash Flow Hedge transactions, established upon the adoption of IAS 32 and IAS 39 for the accounting treatment of derivatives. The change refers to the provisional recognition in equity of changes in the fair value of derivatives executed to hedge price and foreign exchange risks on energy commodities and interest rates.

### Cash Flow Hedge reserve

| (in millions of euros) | Gross reserve | Deferred taxes | Net reserve |
|---|---|---|---|
| Reserve at December 31, 2009 | 28 | (11) | 17 |
| Changes in 2010 | 93 | (35) | 58 |
| **Reserve at December 31, 2010** | **121** | **(46)** | **75** |

The table below shows the changes that occurred in the reserve for available-for-sale investments:

### Reserve for available-for-sale investments

| (in millions of euros) | Gross reserve | Deferred taxes | Net reserve |
|---|---|---|---|
| Reserve at December 31, 2009 | (2) | - | (2) |
| Changes in 2010 | (2) | - | (2) |
| **Reserve at December 31, 2010** | **(4)** | **-** | **(4)** |

## 25. Provision for Employee Severance Indemnities and Provisions for Pensions

These provisions, which amounted to 62 million euros, reflect the accrued severance indemnities and other benefits owed to employees. A valuation in accordance with the actuarial criteria of IAS 19 was performed only for the liability corresponding to the provision for Employee Severance Indemnities that is still held at the Company.

The economic and financial parameters used for valuation purposes are listed below:

- Technical annual discount rate 4.35%
- Annual inflation rate 2.00%

The table below shows the changes that occurred in 2010:

| (in millions of euros) | Provision for employee severance indemnities | Provisions for pensions | Total |
|---|---|---|---|
| **Balance at 12.31.2009 (A)** | **54** | **10** | **64** |
| Changes in 2010: | | | |
| - Financial expense | 2 | 1 | 3 |
| - Actuarial (gains) losses (+/-) | 1 | - | 1 |
| - Utilizations (-)/Other changes | (6) | - | (6) |
| **Total changes (B)** | **(3)** | **1** | **(2)** |
| **Total at 12.31.2010 (A+B)** | **51** | **11** | **62** |

## 26. Provision for Deferred Taxes

The balance of 504 million euros (584 million euros at December 31, 2009) reflects mainly the deferred tax liability from the use during the transition to the IFRS of fair value as the deemed cost of property, plant and equipment.

The following table shows a breakdown of this reserve by type of underlying temporary difference, keeping in mind that certain Group companies that meet the requirements of IAS 12 offset their deferred-tax liabilities against their deferred-tax assets:

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| **Deferred-tax liabilities:** | | | |
| - Differences in the valuation of property, plant and equipment and intangibles | 487 | 614 | (127) |
| - Adoption of standard on finance leases (IAS 17) | 23 | 18 | 5 |
| - Adoption of standard on financial instruments (IAS 39) with impact on shareholders' equity | 49 | 18 | 31 |
| - Other deferred taxes | 10 | 7 | 3 |
| **Total deferred-tax liabilities (A)** | **569** | **657** | **(88)** |
| **Deferred-tax assets usable for offset purposes:** | | | |
| - Taxed provisions for risks | 52 | 68 | (16) |
| - Tax loss carryforward | 2 | 2 | - |
| - Differences in the valuation of property, plant and equipment and intangibles | 5 | - | 5 |
| - Other prepaid taxes | 6 | 3 | 3 |
| **Total deferred-tax assets (B)** | **65** | **73** | **(8)** |
| **Total provision for deferred taxes (A-B)** | **504** | **584** | **(80)** |

## 27. Provisions for Risks and Charges

The provisions for risks and charges, which are established to cover contingent liabilities, totaled 823 million euros, for a decrease of 14 million euros compared with December 31, 2009.

The table below shows the changes that occurred in 2010:

| (in millions of euros) | 12.31.2009 | Additions | Utilizations | Other changes and reclassifications | 12.31.2010 |
|---|---|---|---|---|---|
| - Disputed tax items | 71 | 4 | (3) | - | 72 |
| - Risks for disputes, litigation and contracts | 159 | 7 | (14) | 3 | 155 |
| - Charges for contractual guarantees on sale of equity investments | 79 | 1 | (21) | - | 59 |
| - Provisions for decommissioning and remediation of industrial sites | 354 | 15 | (6) | 6 | 369 |
| - Environmental risks | 27 | 3 | (7) | 26 | 49 |
| - Other risks and charges | 147 | 33 | (18) | (43) | 119 |
| **Total for the Group** | **837** | **63** | **(69)** | **(8)** | **823** |

The changes that occurred in 2010 are reviewed below:

- The main components of **additions** of 63 million euros reflect essentially financial expense on decommissioning provisions (15 million euros), statutory and tax interest accrued on existing provisions (10 million euros), additions to provisions for environmental risks (3 million euros) and legal and tax related risks for the balance.
- **Utilizations** of 69 million euros refer primarily to the cancellation of some guarantees provided in connection with the sale of equity investments and charges for legal disputes (33 million euros), reversals of provisions for environmental risks (7 million euros) and reversals of the portions of provisions for risks that exceeded the actual charge (7 million euros).
- **Other changes and reclassifications**, negative for 8 million euros, refer mainly to:
  - utilizations for purchases of environmental securities to cover the Group's requirements for 2009;
  - recognition of a provision for decommissioning costs established in connection with new hydrocarbon production facilities put into service in Croatia;
  - a revision of the amounts of some projected decommissioning and site remediation costs.

  During the year, some reclassifications were made to provide a more effective presentation of provisions for risks and charges.

More detailed information about the entries that resulted in the current composition of the provisions for risks and charges is provided in the paragraph of these Notes entitled "Status of the Main Legal and Tax Disputes Pending at December 31, 2010".

## 28. Bonds

The balance of 1,791 million euros (1,199 million euros at December 31, 2009) represents the non-current portion of the bonds issued by Edison Spa, valued at amortized cost.

In March and November 2010, two bond issues with a face value of 500 million euros and 600 million euros, respectively, were floated within the framework of the Euro Medium Term Note Program. Additional information about these bonds is provided in the section of this Report entitled "Group Financial Risk Management."

The table below shows the balance outstanding at December 31, 2010 and indicates the fair value of each bond issue:

| (in millions of euros) | | | | | | | Carrying value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Market where traded | Currency | Par value outstanding | Coupon | Rate | Maturity | Non-current portion | Current portion | Total | Fair value |
| Edison Spa | Luxembourg Secur. Exch. | EUR | 500 | Quarterly in arrears | 1.593% | 07.19.2011 | - | 504 | 504 | 500 |
| Edison Spa | Luxembourg Secur. Exch. | EUR | 700 | Annual in arrears | 4.250% | 07.22.2014 | 697 | 26 | 723 | 715 |
| Edison Spa | Luxembourg Secur. Exch. | EUR | 500 | Annual in arrears | 3.250% | 03.17.2015 | 498 | 14 | 512 | 503 |
| Edison Spa | Luxembourg Secur. Exch. | EUR | 600 | Annual in arrears | 3.875% | 11.10.2017 | 596 | (16) | 580 | 572 |
| **Total for the Group** | | | **2,300** | | | | **1,791** | **528** | **2,319** | **2,290** |

The valuation at amortized cost of the November 2010, March 2010 and July 2009 bond issues, a portion of which was hedged with derivatives against the risk of changes in fair value caused by the interest rate fluctuation, was carried out in accordance with hedge accounting rules to reflect the change in hedged risk.

## 29. Long-term Financial Debt and Other Financial Liabilities

A breakdown of this liability account is as follows:

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Due to banks | 891 | 2,138 | (1,247) |
| Due to other lenders | 51 | 46 | 5 |
| **Total for the Group** | **942** | **2,184** | **(1,242)** |

The main changes, compared with December 31, 2009, included the following:

- Early repayment of a 600-million-euro facility provided to Edison Spa on a club deal basis in May 2009.
- The reclassification to short-term debt of Edison's pro rata share (face value of 625 million euros) of a facility provided to Edipower Spa by a pool of banks, which is due in December 2011.
- Inclusion in the amount due to other lenders of the long-term portion (6 million euros) of the liability under a new lease for equipment used in the renewable sources business segment.

## 30. Other Liabilities

Other liabilities of 34 million euros represent sundry liabilities, including the suspension of a gain on the sale in 2008 of a 51% interest in Dolomiti Edison Energy Srl (which continues to be consolidated line by line) while agreements providing both parties with put and call options are in effect.

## 31. Current Liabilities

A breakdown of current liabilities is provided below:

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Bonds | 528 | 721 | (193) |
| Short-term financial debt | 1,073 | 611 | 462 |
| Trade payables | 2,153 | 1,469 | 684 |
| Current taxes payable | 82 | 38 | 44 |
| Other liabilities | 380 | 466 | (86) |
| **Total current liabilities** | **4,216** | **3,305** | **911** |

The main current liability accounts are reviewed below:

- **Bonds**, amounting to 528 million euros, represent the carrying amount of the bond issue maturing on July 19, 2011 (500 million euros face value) included the total accrued interest at December 31, 2010. In December 2010, Edison Spa reimbursed a bond for a total face value of 700 million euros.

- **Short-term financial debt**, which totaled 1,073 million euros, essentially includes:
  - 814 million euros due to banks, 37 million euros of which represent the effect of measuring interest rate derivatives at fair value;
  - 30 million euros owed to minority shareholders of consolidated companies;
  - 226 million euros due to other lenders;
  - 3 million euros due to leasing companies.

- **Trade payables** totaled 2,153 million euros. A breakdown by business segment is provided below:

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Electric Power Operations | 1,583 | 1,098 | 485 |
| Hydrocarbons Operations | 839 | 492 | 347 |
| Corporate Activities and Other Segments and Eliminations | (269) | (121) | (148) |
| **Total trade payables** | **2,153** | **1,469** | **684** |

Trade payables reflect mainly purchases of electric power, natural gas and other utilities, as well as services related to plant maintenance.
The higher level of trade payables compared with December 31, 2009 is consistent with the gain in the Group's sales volumes and the corresponding increase in purchases. In the case of the Hydrocarbons Operations it also reflects the effect of the extended payment terms negotiated for some of the Group's natural gas procurement contracts.
This item also includes 96 million euros for the fair value of the physical energy commodity contracts held in the Trading Portfolios, essentially attributable to Electric Power Operations.

- **Current taxes payable** of 82 million euros represent the income taxes liability of Group companies that are not included in the consolidated tax return filed by the controlling company (Transalpina di Energia Srl). These taxes are paid directly by the companies upon which they are levied.

- A breakdown of **other liabilities**, which totaled 380 million euros, is as follows:

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Amounts owed to joint holders of permits and concessions for the production of hydrocarbons | 126 | 60 | 66 |
| Liabilities stemming from the measurement at fair value of derivatives | 73 | 60 | 13 |
| Payables for consulting and other services | 32 | 77 | (45) |
| Payables owed to Tax Administration (other than current tax payables) | 24 | 36 | (12) |
| Amount owed to employees | 32 | 29 | 3 |
| Payables owed to social security institutions | 26 | 27 | (1) |
| Amounts owed to shareholders | 3 | 18 | (15) |
| Amount owed to the controlling company in connection with the filing of a consolidated tax return | 17 | 68 | (51) |
| Sundry items | 47 | 91 | (44) |
| **Total other liabilities** | **380** | **466** | **(86)** |

## 32. Liabilities Held for Sale

Liabilities held for sale, which amounted to 4 million euros, include the liabilities comprising the Disposal Group recognized further to the signing in December of a term sheet for the disposal of two thermoelectric power plants (CET 2 and CET 3) located in Taranto.
For further information, see the section entitled "Disclosure about Disposal Group (IFRS 5)", provided later in these Notes.

# NET FINANCIAL DEBT

At December 31, 2010, net financial debt totaled 3,708 million euros, or 150 million euros less than the 3,858 million euros owed at the end of 2009.
The change reflects the positive effect of the cash flow from operations, which more than offset the period's outlays for capital expenditures (557 million euros), dividend payments (259 million euros) and income taxes (304 million euros), and net financial expense (144 million euros).

Consistent with the practice followed at the end of 2009, the table below provides a simplified breakdown of the Group's net financial debt:

| (in millions of euros) | See note | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|---|
| Bonds - non-current portion | 28 | 1,791 | 1,199 | 592 |
| Non-current bank loans | 29 | 891 | 2,138 | (1,247) |
| Amounts due to other lenders - non-current portion | 29 | 51 | 46 | 5 |
| Other non-current financial assets (*) | 19 | (86) | (79) | (7) |
| **Medium/long-term net financial debt** | | **2,647** | **3,304** | **(657)** |
| Bonds - current portion | 31 | 528 | 721 | (193) |
| Short-term financial debt | 31 | 1,073 | 611 | 462 |
| Current financial assets | 22 | (69) | (30) | (39) |
| Cash and cash equivalents | 22 | (472) | (748) | 276 |
| Financial debt held for sale | 32 | 1 | - | 1 |
| **Short-term net financial debt** | | **1,061** | **554** | **507** |
| **Net financial debt** | | **3,708** | **3,858** | **(150)** |

(*) Includes the long-term portion of financial receivables, as required by the adoption of IFRIC 4.

The following changes occurred in the 2010:
- medium/long-term net financial debt decreased mainly as the combined result of the following developments:
  - early repayment of a 600-million-euro bank facility provided in 2009 to Edison Spa on a club deal basis;
  - reclassifications to short-term financial debt totaling about 1,125 million euros euro: 625 million euros (face value) representing Edison's pro rata share of a facility provided to Edipower Spa by a pool of banks and Edison Spa bond with a face value of 500 million euros maturing in July 2011;
  - the previous effects have been partially offset by the placement of new bond issues: 500 million euros in March 2010 and 600 million euros in November 2010;
- short-term net financial debt increased due to the abovementioned reclassifications, the repayment of Edison Spa bond with a face value of 700 million euros that matured in December 2010 and the utilization of cash and cash equivalents.

Net financial debt includes 195 million euros stemming from transactions with significant parties (149 million euros owed to Mediobanca, 16 million euros owed to Banca Popolare di Milano and 30 million euros owed to SEL Spa).
In addition, "Short-term financial debt" includes 15 million euros owed to unconsolidated Group subsidiaries.

# DISCLOSURE ABOUT BUSINESS COMBINATIONS (IFRS 3 REVISED)

In July 2010, Edison Energie Speciali Spa acquired 100% control of the company Parco Eolico San Francesco Srl from Gamesa Unipersonal Sa at the price of 42 million euros (subject to adjustments). Parco Eolico San Francesco Srl operates a wind farm with capacity of 26 MW in the municipality of Melissa (KR).

The acquired company was valued in accordance with IFRS 3 revised, measuring the acquired asset, liabilities and contingent liabilities at their fair value at the acquisition date, which required the recognition of a revaluation of property, plant and equipment amounting to 5 million euros together with the related tax effects. It is worth mentioning that the abovementioned amounts should be viewed as provisional amounts, since, pursuant to IFRS 3 revised, the valuation becomes final 12 months after the date of acquisition.

The impact of this transaction on the Group's balance sheet and net financial debt is shown below:

| (in millions of euros) | Original amounts | Fair value of acquired assets and liabilities |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | 43 | 48 |
| Deferred-tax assets | 1 | 1 |
| **Current assets** | | |
| Other receivables | 2 | 2 |
| **Total assets** | **46** | **51** |
| **Non-current liabilities** | | |
| Provision for deferred taxes | - | 2 |
| Other liabilities | 6 | 6 |
| **Current liabilities** | | |
| Trade payables | 1 | 1 |
| **Total liabilities** | **7** | **9** |
| **Fai value of net acquired assets** | **39** | **42** |
| - Edison's % interest (100%) | | 42 |
| **Acquisition cost:** | | |
| Price paid | | 42 |
| **Total acquisition costs** | | **42** |
| **Goodwill from acquisition** | | **-** |

# DISCLOSURE ABOUT DISPOSAL GROUP (IFRS 5)

A term sheet for the disposal of the business operations comprised of the CET 2 and CET 3 thermoelectric power plants, located in Taranto, was signed in December 2010. The final agreement will be set forth in a contract to be executed afterwards.

The closing is expected to take place on January 15, 2012 or at an earlier date in the event of an early termination of the CIP 6/92 contract, at Edison's discretion, after conveyed to a new company the power plants.

The transaction, which in the aggregate is valued at about 165 million euros, or a higher amount in the event of an earlier closing, will close after it is approved by the relevant antitrust authorities.

Both generating facilities are located at industrial sites: one of the power plants operates pursuant to a CIP 6/92 contract expiring in 2011, while the other power plant operates as a captive facility.

Even though the assets and liabilities subject of the transaction do not constitute a business operation, they were treated as a Disposal Group, as required by IFRS 5, and are shown on the balance sheet under "Asset and Liabilities held for sale", without any reclassification in the income statement.

The carrying amount of these facilities was written down by 40 million euros in order to reflect the realizable value.

The assets and liabilities included in the Disposal Group are listed below:

(in millions of euros)

| Balance sheet | 12.31.2010 |
|---|---|
| Non-current assets (*) | 195 |
| Current assets | 14 |
| **Total assets** | **209** |
| **Shareholders' equity** | **205** |
| Non-current liabilities | 2 |
| Current liabilities | 2 |
| **Total liabilities** | **4** |
| **Total liabilities and shareholders' equity** | **209** |

(*) Net of a writedown for 40 million euros recognized in the income statement as item "Profit (Loss) from discontinued operations".

# COMMITMENTS AND CONTINGENT RISKS

| (in millions of euros) | 12.31.2010 | 12.31.2009 | Change |
|---|---|---|---|
| Guarantees provided | 1,379 | 1,527 | (148) |
| Collateral provided | 1,390 | 1,391 | (1) |
| Other commitments and risks | 580 | 530 | 50 |
| **Total for the Group** | **3,349** | **3,448** | **(99)** |

**Guarantees provided** totaled 1,379 million euros at December 31, 2010. This figure, which was determined based on the undiscounted amount of contingent commitments on the balance sheet, includes 150 million euros in guarantees provided to the Revenue Office on behalf of subsidiaries for offsetting VAT credits and those provided in connection with the intra-Group assignment of tax credits. Guarantees provided by the Group's Parent Company to secure the performance of contractual obligations by its subsidiaries account for most of the balance.
As a result of the renegotiation of its financing facility by the invested company Elpedison Power Sa, guarantees totaling 136 million euros were cancelled and new guarantees amounting 40 million euros were provided.

**Collateral provided**, which amounted to 1,390 million euros reflects the carrying amounts of the assets or rights pledged as collateral on the balance sheet date. This account includes collateral provided for liabilities listed on the balance sheet, including the value of Edipower shares (1,078 million euros) pledged to a pool of banks to secure a financing facility.
Collateral provided includes additional collateral for liabilities listed on the balance sheet (312 million euros), which generally consist of mortgages and encumbrances granted on facilities of the Electric Power Operations to secure financing. In 2010 a collateral has been provided on a hydroelectric plant for a new financing facility.

**Other commitments and risks**, which totaled 580 million euros, reflect primarily commitments undertaken to complete investment projects under construction in Italy and abroad.

The main commitments are reviewed below:

- With regard to the procurement of $CO_2$ certificates and Certified Emission Reductions (CERs)/Emission Reduction Units (ERUs), for the 2008-2012 period, Edison Spa, the Group's Parent Company, signed the following contracts, for a commitment of up to 55 million euros:
  - Emission Reductions Purchase Agreement (ERPA) to purchase CERs in China by 2013, a 22-million-euro commitment;
  - Management Agreement with EDF Trading Ltd (EDF Carbon Fund) for the fixed-price purchase of CERs and ERUs by 2013, a 29-million-euro commitment;
  - Purchasing and Management Agreement with Natsource Asset Management Europe (Nat-CAP) for the purchase of CERs and ERUs by 2013, a 4-million-euro commitment.

- The Group entered into long-term contracts for the importation of natural gas, which contain take-or-pay clauses that obligate the buyer to pay for any shortage between the stipulated minimum quantities and the quantity actually used (when the shortage is due to causes that are not specified in the contract). In the accounting records of Edison Spa, the Group's Parent Company, the item "Other Assets" (note 21) includes advances to suppliers for an amount of 91 million euros and commitments include 140 million euros for accrued amounts owed to but not yet paid to counterparties. In any case, gas delivery profiles and the economic recoverability are periodically updated during the year.

- Edison Spa granted to:
  - Cartiere Burgo Spa a call option to purchase a 51% interest in Gever Spa. This option is exercisable when the contract under which Gever supplies Cartiere Burgo with electric power and steam expires

(in 2017) at a price equal to the corresponding pro rata interest in the company's shareholders' equity (14 million euros);
- Petrobras an option to buy its interest in Ibiritermo Sa, exercisable in 2022.

- For 16 million euros, a commitment undertaken by Edison Spa in connection with companies sold in previous years.

## Unrecognized Commitments and Risks

Significant commitments and risks not included in the amounts listed above are reviewed below:

1) The **Hydrocarbons Operations** entered into long term contracts for the importation of natural gas from Russia, Libya, Norway, Algeria and Qatar (the supply contract with Qatar went into effect in 2009), for a total supply of 15.8 billion cubic meters of natural gas a year. The duration of these contracts ranges between 1 and 24 years.

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 $m^3$ | 14.8 | 67.4 | 190.7 | **272.9** |

Furthermore, contracts to import additional quantities of natural gas in future years include an agreement to import natural gas from Algeria (*Protocolle d'accord*), signed with Sonatrach in November 2006, that calls for the supply of 2 billion cubic meters of natural gas a year through a new pipeline that will be built by the associate Galsi Spa.

2) The contract concerning Terminale GNL Adriatico Srl, a regasification company in which Edison Spa holds a 10% interest that became operational in November 2009, includes the following conditions:
   - for Edison, the obligation not to transfer its equity interest until July 1, 2011;
   - for the other shareholders, the right to buy the 10% interest held by Edison, should Edison cancel the supply contract with RasGas, at a price equal to the sum of the capital contributions provided until the option is exercised;
   - Edison will benefit from 80% of the terminal's regasification capacity for 25 years and the annual regasification fee is estimated in about 100 million euros.

   With regard to the regasification fee payable, Edison's risk is limited to the following situations:
   - Edison has the right to cancel the regasification contract for force majeure events affecting the LNG chain (upstream and midstream) by paying an amount that may not be greater than the regasification fee payable for three years;
   - if a force majeure event affects Terminale GNL Adriatico, Edison will no longer be required to pay the regasification fee and may terminate the regasification contract after 36 months without being required to pay any amount;
   - in the event of a breakdown of the terminal that does not constitute a force majeure event, Edison will not be required to pay any regasification fee.

   In addition, Edison will be provided compensation for damages by RasGas, its supplier, which will include the regasification fee, based on circumstances set forth in the contract.

3) Insofar as the **Electric Power Operations** are concerned, pursuant to the terms stipulated with the counterparty in connection with the sale of 51% interest in Dolomiti Edison Energy Srl, Edison holds a call option exercisable only if no extension of the hydroelectric concession held by Dolomiti Edison Energy Srl is granted by March 31, 2018.

As part of the agreements among the shareholders of RCS Mediagroup Spa who are members of the Blocking and Consultation Syndicate, any Participant who, in response to a tender offer, wishes to exit the Syndicate will be required to sell the syndicated shares to the other Participants. The buyers will have the right, but not the obligation, to buy the shares that are being offered in proportion to the percentage of the shares they contributed to the Syndicate.

## Status of the Main Legal and Tax Disputes Pending at December 31, 2010

A review, based on information currently available, of the main legal and tax disputes currently outstanding is provided below, listing separately actions involving Edison Spa and actions involving other Group companies. Legal disputes were subdivided further between those that could give rise to a probable liability, for which it was possible to develop a reliable estimate of the underlying obligation and recognize a corresponding provision for risks in the balance sheet, and those that could give rise to a contingent liability, which is dependent on the occurrence of events that are possible, but not probable, or are probable but their impact cannot be quantified reliably. With regard to contingent liabilities, only a disclosure is provided in the notes to the financial statements.

Legal disputes that could give rise to a probable liability for which a provision for risks was recognized in the balance sheet are reviewed below.

### A) Edison Spa

**European Commission - Antitrust Proceedings Against Ausimont**

A oral argument hearing was held on September 2, 2010 in the appeal filed by Edison before the E.U. Court of First Instance against the temporarily enforceable decision by the European Commission in the proceedings regarding violations of Article 81 of the EC Treaty and Article 53 of the SEE Agreement concerning a cartel in the market for hydrogen peroxide and its derivatives, sodium perborate and sodium percarbonate, by which Edison was fined 58.1 million euros, 25.6 million euros of which are payable jointly with Solvay Solexis. The purpose of the appeal is to see the fine voided or, alternatively, reduced. In 2006, Edison paid on a provisional basis the amount of 45.4 million euros, which is equal to the sum of the entire fine levied on it and one-half of the fine levied jointly on Edison and Solvay Solexis.
The outcome of these proceedings is still uncertain. The Court is expected to hand down a decision by the end of 2011.

**Stava Dam Disaster**

There were no new developments concerning the ongoing negotiations to settle the remaining claim of a party injured by the collapse of the Prestavel Dams in 1985.

**Actions for Damages Arising from the Operation of Chemical Facilities Conveyed to Enimont**

***Cesano Maderno Plant - Civil Lawsuits against the Other Parties to the Proceedings***

There were no significant developments in the dispute pending before the Court of Milan between Bracco Imaging (formerly Dibra), Syndial (formerly EniChem) and Edison (formerly Montecatini) for damages stemming from the sale by Montecatini of a portion of the Cesano Maderno factory. Earlier, these proceedings had been put on hold pending a decision in another dispute, the resolution of which would affect the outcome of this lawsuit.

***Porto Marghera Petrochemical Facility - Civil Lawsuits Following the Conclusion of the Criminal Proceedings for Injuries Caused by Exposure to Monovinyl Chloride and for Damages to the Environment***

The preliminary phases of the lawsuits filed against Edison before the Venice Tribunal and Court of Appeals by some of the parties who had joined the criminal proceedings for injuries caused by exposure to monovinyl chloride and for damages to the environment at the Porto Marghera petrochemical facility as plaintiffs seeking damages continued without noteworthy developments. These plaintiffs, who include the Municipality and Province of Venice, the Veneto Region and some associations, are seeking compensation for damages and the reimbursement of the legal costs incurred in connection with the abovementioned criminal proceedings.

***Mantua Petrochemical Complex - Criminal Proceedings for Personal Injuries and Environmental Damages***

In the criminal proceedings pending before the Court of Mantua against certain former Directors and executives of Montedison Spa (now Edison) for the alleged harm caused to the health of plant workers

(former Montedison employees), who were exposed to benzene and asbestos at the local petrochemical complex through 1989, the preliminary hearing judge dismissed the charges against three defendants and issued indictment against the other defendants.

**Claims for Damages Caused by Exposure to Asbestos**

In recent years, there has been a significant increase in the number of claims for damages arising from the deaths or illnesses of workers that were allegedly caused by exposure to different forms of asbestos at factories formerly owned by Montedison Spa (now Edison) or from judicial cases taken over by Edison as a result of corporate transactions. Without rendering an opinion on the merits of these claims, considering the long latency of illnesses related to exposure to different types of asbestos and the industrial activities carried out in the past by Group companies that belonged to the chemical industry, the presence of these companies throughout Italy and the manufacturing technologies used (considering the dates when these activities were carried out and the state of technological advancement at the time), which complied fully with the laws in force at that time, the possibility that new legitimate claims for damages may emerge in addition to those that are already the subject of several civil and criminal proceedings cannot be excluded.

**Savings Shareholders/UBS: Challenge of the Resolution Approving the Merger of Edison into Italenergia and Claim of Compensation for Damages**

In the lawsuit filed by UBS AG and the Joint Representative of the savings shareholders against Edison, Italenergia Spa and others challenging the merger of Edison and Italenergia Spa, in which the Court of Milan handed down a decision on July 16, 2008 that led to a settlement with UBS AG in June 2009, the Company is considering the position of some savings shareholders who, even though they failed to take legal action or take any other action that may have legal consequences, are nevertheless claiming compensation.

**Sesto Siderservizi - Environmental Remediation of Concordia South Properties**

On April 8, 2010, consistent with the terms of a broader settlement agreement reached by Edison and Falck, the latter agreed, promising and guaranteeing performance by its subsidiary Sesto Siderservizi pursuant to Article 1381 of the Italian Civil Code, to desist from all activities and actions related to the lawsuit filed by Sesto Siderservizi against Edison (in its capacity as the company that absorbed Termica Narni Spa) before the Court of Milan seeking payment for part of the costs incurred for the environmental remediation of the properties called Concordia South, in the city of Sesto San Giovanni, in connection with which Edison filed claims asking Falck to stand surety. As a result of the settlement, Edison paid to Sesto Siderservizi 2.4 million euros in full settlement of any and all claims filed by all parties.

**Industria Chimica Saronio Spa Factory - Municipal Administrations of Melegnano and Cerro al Lambro**

The Company filed appeals before the Council of State against the decisions handed down on July 16, 2009, by which the Regional Administrative Court of Lombardy dismissed the appeals filed by Edison challenging two feasible and urgent orders issued by the municipal administrations of Cerro and Melegnano, ordering the Company to implement the activities needed to prevent the contamination deriving from a facility decommissioned in the 1960s, formerly owned by Industria Chimica Saronio Spa (of which Edison is the assign), from migrating from the upper aquifer to the deeper aquifer. Edison and the municipal administrations continue to be engaged in negotiations to implement the abovementioned emergency activities.

**Farmoplant - 1988 Accident at the Massa Plant**

On March 30, 2010, Edison reached a settlement with the Province of Massa-Carrara, the Municipalities of Massa and Carrara and the Ministry of the Environment and Civil Protection in connection with the civil action filed against Farmoplant (now Edison) seeking compensation for damages caused by an accident that occurred at Farmoplant's Massa facility in 1988. Pursuant to the settlement agreement, Edison paid

a total of about 3 million euros in full settlement of any and all claims filed against it in connection with the abovementioned accident. SAI Fondiaria, a company that at the time of the accident provided insurance for the plant, will provide Edison with a reimbursement amounting to 1.8 million euros.

**Spinetta Marengo Industrial Site**

Edison filed an application for voluntary remediation action, subsequently granted, in the environmental remediation proceedings that Ausimont Spa, a company sold in 2002 to Solvay Solexis Spa, a company of the Solvay Group, started pursuant to Ministry Decree No. 471/1999 in connection with the contaminated state of the Spinetta Marengo industrial site in order to better protect its rights. Edison's application was filed after Solvay Solexis (current operator of the facility after its merger by absorption with Ausimont) petitioned the Regional Administrative Court of Piedmont asking that the administrative decisions requiring it to ensure the safety and environmental remediation of the abovementioned site be held in abeyance and voided, insofar as they fail to identify Edison as a liable (or jointly liable) party in the abovementioned proceedings. Further to understandings reached earlier, Edison participates in the Service Conferences, as they are convened from time to time.

**Industrial Site in Bussi sul Tirino**

Within the framework of the site remediation process that Ausimont Spa, a company sold in 2002 to Solvay Solexis Spa, a company of the Solvay Group, is implementing in accordance with Ministry Decree No. 471/1999 in connection with the contamination of the Bussi sul Tirino industrial property, Solvay Solexis and Solvay Chimica Bussi, the former in its capacity as the owner of the property, following Ausimont's merger by absorption, and the latter in its capacity as the current operator of the property, served notice on Edison that they filed a series of administrative complaints with the Regional Administrative Court of Latium - Rome seeking, among other remedies, the suspension of the enforcement and the subsequent voiding of the administrative decisions pursuant to which they are responsible for implementing activities to ensure the safety and remediation of the abovementioned property, insofar as these decisions fail to list Edison as a liable (or jointly liable) party in the abovementioned proceedings. Edison filed defense briefs contesting in fact and law the complainant's conclusions. On the other hand, in the criminal proceedings filed by the Public Prosecutor before the Court of Pescara in connection with the environmental conditions at the abovementioned industrial site and the consequences on the aquifer used also as a supply of drinking water, the preliminary hearing concerning the motion for indictment on the charges of water poisoning and disaster, for which several parties, including former directors and executives of Ausimont and Montedison Spa (now Edison), are being investigated, is continuing.

## B) Other Group Companies

**Pizzo Sella Real Estate Development and Seizure of Assets in Sicily**

There were no significant new developments with regard to the negative assessment action filed by Finimeg (now Nuova Cisa), formerly the parent company of Poggio Mondello, asking the administrative law judge to rule that the seizure of the Pizzo Sella real estate development for unlawful property subdivision ordered by the Court of Palermo and upheld by the Court of Cassation in December 2001 be ruled unenforceable (the seizure also covers other real estate assets owned by Poggio Mondello) and the appeal concerning the same issues that was filed against the decision handed down by the Court of Palermo. With regard to the appeal, the lower court handed down a decision stating that it lacked jurisdiction (the criminal court being the proper court of venue) and denying the claims for damages filed by Finimeg (now Nuova Cisa) against the City of Palermo.

The lawsuits filed by certain buyers and prospective purchasers of the homes included in the real estate development affected by the order of seizure for criminal violations at the Pizzo Sella development, who sued Edison, Finimeg (now Nuova Cisa), Poggio Mondello and the Municipality of Palermo to recover damages incurred as a result of the seizure of these properties, proceeded through the various levels of the judicial system. In these proceedings, on June 14, 2010, the Palermo Court of Appeals, having ascertained that the buyers acted in good faith and with due diligence at the time of purchase, issued

an order voiding the seizure of 14 of the homes sold by Poggio Mondello in connection with the abovementioned real estate development project.

**Multiutility vs Edison Energia Spa**

In the proceedings pending before the Court of Milan, in which Multiutility Spa is suing Edison Energia Spa alleging failures to comply with obligations arising from contracts executed by the two companies in 2004, 2005 and 2006 involving the wholesale supply of electric power the examining magistrate denied all of the discovery motions and exceptions filed by the plaintiff and postponed the hearing for closing arguments to October 2011.

**Montedison Srl - Property in Bussi sul Tirino**

Within the framework of the administrative proceedings launched with regard to the state of contamination of an industrial property owned by Montedison Srl adjacent to the industrial site in Bussi sul Tirino operated by Ausimont Spa, which was sold to Solvay Solexis Spa (a subsidiary of Solvay Sa) in 2002, discussions continued with the Delegated Commissioner, appointed by the Council of Ministers, with the aim of finding an understanding with regard to the implementation of certain initial emergency activities to ensure the safety of the property. In addition, there were no significant new developments in the two separate appeals filed with the Regional Administrative Court by Montedison Srl, which never operated any activity at the property in question.

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The current status of the principal legal disputes that have arisen from past events which are dependent on the occurrence of events that are possible, but non probable, or are probable but their impact cannot be quantified reliably and that are likely to result in a cash outlay of an amount that cannot reasonably be estimated as a result of obligations that existed on the balance sheet date, based on available information, is reviewed below:

**Environmental Legislation**

In recent years, we have witnessed an expansion and evolution of environmental laws (most recently with Legislative Decree No. 152 of April 3, 2006 “Environmental Regulations”, as amended), specifically with regard to liability for environmental damages, which is especially relevant to the purposes of these notes. In particular, the discussion and adoption in several legal systems of the principle of “internalization” of environmental costs (summarized in the expression “those who pollute must pay”) have resulted in the development of two new types of liabilities for the act of polluting: objective liability (which does not require the subjective element of guilt) and indirect liability (which stems from the actions of others), which can arise as a result of an earlier act that constitutes a violation of acceptable contamination levels under current laws. In Italy, this approach is becoming established practice at both the administrative level (the relevant provisions are being enforced very aggressively) and the judicial level (criminal laws and civil liability provisions concerning instances of environmental damage are being interpreted very restrictively).
In this area, several proceedings are pending before administrative judges, at different stages of development and judicial levels, against decisions issued by national and local governments ordering the Company to carry out environmental remediation projects both at facilities that the Company no longer owns and at industrial properties that it still owns (mainly thermoelectric power plants) that were contaminated by activities pursued in past years. More in general, without questioning the validity of these new legislative assumptions and the procedural accuracy of their implementation and interpretation, and taking into account the current and past scope of the Company and Group’s industrial operations, particularly in the chemical industry, their wide geographical distribution and their environmental impact based on the time when they were being carried out and the technology existing at the time, which was in compliance with the statutes then in force, it cannot be excluded that in light of current legislation, new charges may be levied against the Company in addition to those issued in the existing administrative and civil proceedings. It is also probable that current legislation will be applied with the

strictness and severity mentioned above to all contamination events that occurred in the past.
At this point, based on the available information and the documents filed in the proceedings reviewed above, it is impossible to determine whether damages will in fact be assessed nor the amount of those damages.

## A) Edison Spa

**Verbania Factory/1 - Criminal Proceedings for Injuries Caused by Exposure to Asbestos Dust**
In the trial for injuries caused by exposure to asbestos dust at a Verbania plant formerly owned by Montefibre Spa, the Court of Cassation upheld the complaint filed by the defendants, former Directors and executives of Montefibre Spa, some of whom were also Directors and executives of Montedison Spa (now Edison), setting aside a decision by the Court of Appeals of Turin that found all defendants guilty of involuntary manslaughter and returning the proceedings to the lower court.

Edison's presence in renewable energy has been growing. In this field, it operates facilities with a generating capacity of 2,160 MW, including 400 MW from wind farms, photovoltaic systems and biomass facilities.

**Verbania Factory/2 - Criminal Proceedings for Injuries Caused by Exposure to Asbestos Dust**
The preliminary hearing is continuing in the criminal proceedings that followed the filing of a motion by the Public Prosecutor of the Court of Verbania seeking an indictment against the same defendants as in the proceedings discussed in the preceding paragraph in connection with the death or illness of other employees allegedly caused by exposure to asbestos in different forms at the Verbania factory.

**ACEA Unfair Competition**
There were no significant developments requiring disclosure in the lawsuit filed by ACEA Spa before the Court of Rome against several parties, including AEM Spa (now A2A Spa), EdF Sa, Edipower Spa and Edison Spa, which is still in the discovery phase. ACEA alleges that the acquisition of joint control of Edison by EdF and AEM constitutes a violation of the 30% ceiling in the ownership of Edipower by a government-owned company, as set forth in the Prime Minister Decree dated November 8, 2000. Such ownership would constitute an instance of unfair competition, pursuant to Article 2598, Section 3, of the Italian Civil Code, and is injurious to ACEA, which is asking that AEM and EdF be ordered to pay damages and take the actions necessary to void the consequences of their

actions (such as the proportional divestment of equity interests held in excess of the abovementioned ceiling and the prohibition to receive energy produced by Edipower in excess of the corresponding allowable quantity).

**Montedison (now Edison) - Finanziaria Agroindustriale Merger**

The action filed before the Court of Appeals seeking to overturn the decision handed down by the Court of Genoa in December 2000 in the suit filed by Mittel Investimenti Finanziari and other shareholders of Finanziaria Agroindustriale against Edison ended with a decision that granted only in part the requests put forth by plaintiffs who refused to join the settlement reached by Edison and Mittel Investimenti Finanziari. In view of the inconsequential financial impact of the abovementioned decision, the Company chose not to further pursue the matter and paid the amounts owed to the eligible parties.

**Sale of Tecnimont: Edison/Falck Arbitration**

On April 8, 2010, Edison and Falck signed a settlement agreement that ended the arbitration proceedings started by Edison due to the failure to complete the sale of the entire share capital of Tecnimont Spa to Falck. This agreement also settled three other disputes pending between the parties and/or their subsidiaries concerning Termica Lucchese and Termica Narni (absorbed by Edison following its acquisition of the Falck Group) and a lawsuit pending before the Trieste Court of Appeals that was filed by Neviera Srl against Edison, with a call on Ecosesto Srl (a Falck Group company) as guarantor. Pursuant to the settlement agreement, Falck paid to Edison the sum of 22.5 million euros, including 15 million euros originally paid by Falck to Edison as an advance on the price of the Tecnimont shares, in full settlement of any and all claims filed by Edison in the abovementioned arbitration proceedings, as well as 2 million euros for claims filed by Edison against Falck in the dispute concerning Termica Lucchese. Concurrently, Edison paid to Sesto Siderservizi 2.4 million euros in full settlement of any and all claims filed by Sesto Siderservizi against Edison in the dispute concerning Termica Narni. Lastly, with regard to the lawsuit pending before the Trieste Court of Appeals, Ecosesto Spa agreed to hold Edison harmless for an amount of up to 500,000 euros in the event of an unfavorable decision for Edison, it being understood

that, by accepting the abovementioned amount, Edison agreed to stand surety for Sesto Siderservizi in the event of third-party claims.

**Pagnan vs Edison**

By a decision handed down on February 4, 2010, the Court of Venice denied the claim filed against Edison, by means of a third-party summons, by Pagnan Spa, a defendant in an action filed by the Ministry of the Environment and for the Protection of the Land and the Sea and the Ministry of Infrastructures for alleged environmental damages caused in the area of the South Channel Dockyard in the Malcontenta section of the Porto Marghera Industrial Park.

**Vega Offshore Hydrocarbon Field - Vega Oil Vessel**

A preliminary hearing is currently under way in the proceedings filed by the Public Prosecutor of Modica against several parties, including some Edison Directors and executives, in connection with the alleged pollution caused by the Vega Oil vessel.

**Meraklon/Edison - Edison Energia Spa Dispute**

The lawsuit filed by Meraklon against Edison Energia Spa and Edison Spa in relation to a contract to supply electric power to Meraklon's plant in Terni, following Meraklon's challenge of an injunction issued by the Court of Milan in favor of Edison Energia Spa for the purpose of collecting receivables owed pursuant to the abovementioned contract, is continuing in the discovery phase. In the course of the abovementioned proceedings, Meraklon sued Edison Energia Spa and Edison Spa (the original counterpart in the abovementioned supply contract), putting forth a series of counterclaims against both companies in connection with disputes concerning the supply of electric power, heat and other utilities to the Terni factory.

**Angelo Rizzoli/Edison et al.**

The lawsuit filed by Angelo Rizzoli, on September 25, 2009, before the Court of Milan against Edison (as assign for Iniziativa Meta Spa), RCS Media Group, Mittel and Giovanni Arvedi in connection with the purchase in 1984 by the abovementioned parties of a controlling interest in Rizzoli Editore (owner of the *Corriere della Sera* newspaper) continued in the discovery phase. Intesa San Paolo is also being sued. The plaintiff, alleging that the prohibition against covenants of forfeiture had been violated with regard to a highly complex series of instruments spanning a considerable length of time, demands that the contracts that resulted in the abovementioned purchase be found to be and declared null and void and that the defendants be ordered to make restitution by paying the financial equivalent of the rights and equity interests subject of the abovementioned contracts, quantified in an amount between 650 and 724 million euros, or the amount that will be determined in the proceedings, based on expert appraisals, if required. In addition, the plaintiff is demanding compensation for damages or compensation for unjustified enrichment.

**Torviscosa Power Plant - Cooperativa Fabbri Meccanici a r.l vs Edison**

The arbitration proceedings activated by Cooperativa Fabbri Meccanici a r.l., in composition with creditors proceedings, against Edison are continuing. The complainant is asking that Edison be ordered to pay about 950,000 euros for alleged receivables arising from the performance of a contract for the construction of a building at the Torviscosa power plant. Edison countersued asking that the cooperative be ordered to pay it about 560,000 euros.

**Cartel Damage Claims - Ausimont: Claim for Damages**

In April 2010, Edison was served with notices setting forth four amended briefs filed by Akzo Nobel Nv, Kemira Oyi, Arkema Sa and FMC Foret Sa in proceedings before the Court of Dusseldorf in which Cartel Damage Claims Hydrogen Peroxide Sa, a Belgian company specialized in class action lawsuits, is claiming compensation for alleged damages to competition caused by the members of a cartel for the production and distribution of peroxides and perborates on which the European Commission levied a fine in 2006.

Edison is being sued due to Ausimont's involvement in the antitrust proceedings launched by the Commission. The lawsuit is currently in the preliminary phase.

## B) Other Group Companies

**Edison Energie Speciali Spa (Edens) - VSV Srl Arbitration**

The arbitration proceedings activated by the sellers of an equity interest in VSV Srl, a company that owned wind farm projects in Calabria, which Edison Energie Speciali Spa (Edens) purchased in November 2008, in which the sellers were complaining that Edens failed to pay the second installment of the equity interest's purchase price, amounting to 1.5 million euros, the payment of which, pursuant to the terms of the sales contract, was subject to the condition precedent of ascertaining that the VSV wind farm projects would not suffer any harmful consequences as a result of the implementation of Calabrian Regional Law No. 15/2008, by which the Regional Administration of Calabria established a moratorium on the construction of new wind farms, and Edens claimed that certain contractual guarantees have been violated, was settled out of court at the beginning of October 2010, with the Company incurring a charge of 750 thousand euros in exchange for the sellers waiving any all present and future claims in any way related to the sales contract.

**Edison Trading Spa - Investigative Proceedings Concerning Prices in Sicily**

On December 22, 2010, the Italian Antitrust Authority agreed to close without finding any violations the investigative proceedings it launched on February 2, 2010 targeting Edison Spa, Edison Trading Spa and Edipower Spa, as well as A2A Spa, A2A Trading Srl, Iride Mercato Spa, Alpiq Energia Italia Spa and Alpiq Holding Sa for an alleged agreement restricting competition executed by the abovementioned parties in their capacity as Tollers under a Tolling Contract with Edipower Spa and/or as shareholders of Edipower Spa. By the decision with which it closed the investigative proceedings, the Antitrust Authority accepted and made binding certain commitments offered by the Tollers and shareholders of Edipower Spa with the aim of eliminating the alleged anticompetitive conduct on which the investigative proceedings were based. These commitments include, on the one hand, devolving to Edipower Spa responsibility for fuel procurement and for scheduling and operating the generating units of the San Filippo del Mela thermoelectric power plant and, on the other hand, Edipower Spa agreeing to subject the abovementioned facilities to the current dispatching rules for "must run units," as set forth in Resolution No. 111/06 by the Electric Power and Natural Gas Authority.

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The developments that affected the status of the main tax disputes in 2010 are reviewed below:

**Old Edison Spa - Income Tax Assessments for the 1994 -1999 Fiscal Years**

The disputes concerning the corporate income tax (IRPEG) and local income tax (ILOR) assessments for the 1995, 1996 and 1997 fiscal years of the old Edison Spa, absorbed by the current Edison Spa, are still pending before the Court of Cassation following appeals filed by the Revenue Administration. A special provision has been established to recognize the risks entailed by these disputes and its balance has been updated to reflect the accrued statutory interest.

**Old Calcestruzzi Spa - Income Tax Assessments for the 1991 and 1992 Fiscal Years**

Following a ruling handed down by the Court of Cassation in 2008 overturning the decisions handed down by the Regional Tax Commission of Emilia Romagna concerning the corporate income tax (IRPEG) and local income tax (ILOR) assessments for the 1991 and 1992 fiscal years of Calcestruzzi Spa, of which Edison Spa is the current assign, and returning the proceeding to the lower jurisdiction for review, the proceedings are currently pending before the abovementioned Regional Commission. No date has yet been set for a hearing.
The disputed items arise from transactions involving the beneficial ownership of shares executed with a foreign company by the existing Ferruzzi Group, which were challenged before the Court of Cassation

on the grounds of "use of a statute to justify an unintended, illegitimate purpose." The Company believes that its arguments will be fully upheld in the review proceedings, following a detailed and merit analysis of the specific transactions in question. However, taking also into account recent radical changes in the case law, the Company recognized a special provision for contingent risks related to these disputed items, the balance of which is updated annually to reflect the accrued statutory interest.

**Edison Spa - Assessment for the 2002 Fiscal Year**

The appeal filed by the Office of the Solicitor General, acting on behalf of Milan Revenue Agency No. 1, against the decision, substantially favorable to the Company, handed down in 2009 by the Regional Tax Commission in connection with a corporate income tax (IRPEG) and regional tax (IRAP) assessment for the 2002 fiscal year is still pending before the Court of Cassation. The incidental appeal filed by the Company against a (marginal) section of the decision, pursuant to which the assessment was not voided for the full amount (about 26,000 euros in taxable income), is also pending. No date has been set for a hearing in the appellate proceedings.

**EDF Energia Italia Srl - Customs VAT Assessment for 2001, 2002 and 2003**

By a decision handed down in November 2010, the Milan Regional Tax Commission denied the appeal filed by Edison Energia Spa, as the assign for EDF Energia Italia Srl, against an unfavorable decision handed down by the Milan Provincial Tax Commission in connection with an assessment for VAT owed for 2001, 2002 and 2003.
The Company intends to appeal this decision to the Court of Cassation, seeking a ruling upholding the lawfulness of the actions taken by EDF Energia Italia Srl, which it later absorbed.
In any case, any charges that may be incurred as a result of the abovementioned assessment are covered by special contractual guarantees provided by EDF International Sa.

**Edison Spa - Assessment of Registration Fees for 2008**

In December 2010, the Milan Provincial Tax Commission hear the challenge filed by the Company in July 2010, against the payment notice for proportional registration, mortgage and cadastral fees totaling about 11 million euros issued due to the reclassification as a sale of "a business entity" of the conveyance, in February 2008, of certain business operations comprised of five thermoelectric power plants to Co Energy Power Srl and the subsequent sale of the beneficiary company, which is still in existence, to Cofathec Spa (now Cofely Italia Spa) - GdF Suez Group. A decision by the Tax Commission has not yet been filed.
The Company believes that this reclassification is totally illegitimate and devoid of merit and looks forward to a successful outcome of this dispute, with full acknowledgment of the legality of its actions. However, having been unable to obtain a stay of the payment obligation within the requisite deadline and in order to avoid serious negative consequences, it paid the requested amount while the proceedings are pending, subject to restitution once a decision in its favor is handed down.

**Edison Spa and Edison Trading Spa - General Audit by the Revenue Police**

On September 9, 2010, the Revenue Police (Milan Tax Police Unit - Fist Revenue Assurance Group - Fourth Complex Audits Section) launched a tax audit of Edison Spa concerning income taxes, regional taxes (IRAP) and VAT for the tax years from 2005 to 2010 (up to the starting date of the audit). No specific issues have been raised thus far and no notices of assessment have been notified.
On the same date, the Revenue Police (Milan Tax Police Unit - Fist Revenue Assurance Group - Fourth Complex Audits Section) launched a tax audit of Edison Trading Spa concerning income taxes, regional taxes (IRAP) and VAT for the tax years from 2006 to 2010 (up to the starting date of the audit). The audit is currently on hold, waiting for the audit of Edison Spa to be completed.

**Edison Trading Spa - IRES, IRAP and VAT Assessments for the 2005 Tax Year**

In December 2010, Edison Trading Spa was served with a notice of assessment and a payment notice concerning corporate income taxes (IRES), regional taxes (IRAP) and VAT for the 2005 tax year, issued

following a general audit for the same year performed in 2008 by the Milan Revenue Agency. These notices, which the Company challenged in the appropriate venues, reproduce verbatim the finding of the audit report produced at the end of the audit.
In 2008, in light of the findings of the audit report, the Company deemed it prudent to recognize a provision of about 4.2 million euros, increased each year for the accrued statutory interest, for the contingent risk of increased taxes, penalties and interest related to some of the audit's findings.
After reviewing the abovementioned notices, the Company does not believe that it should increase the existing provision or recognize an additional provision for the VAT audit findings concerning green certificates for electric power belonging to Edison Trading Spa that was produced pursuant to a Tolling Contract with Edipower Spa (the Tollee). The Revenue Agency's position is that the delivery of green certificates to Edipower Spa for the purpose complying with its "green" obligations constitutes a sale of the certificates within the framework of a swap transaction and, consequently, it is demanding payment of additional VAT totaling 3.8 million euros, in addition to levying the applicable penalties.
Further to a more in-depth analysis of this issue, carried out together with the other Tollers, the Company believes that the Agency's position is devoid of merit and is illegitimate. Consequently, it filed an appeal in February 2011, asking that the assessment for additional taxes and incidental expenses be voided.
It is worth mentioning that, because Edison Trading Spa is included in the consolidated corporate income tax (IRES) return filed by Edison Spa, any payment of additional IRES owed for 2005 will affect the consolidating company, which will be required to make the corresponding payment and rebill this charge to the consolidated company.

**Edipower Spa - Assessment for VAT Due on Green Certificates for 2004**
In February 2010, Edipower filed an appeal challenging the notice of assessment for VAT penalties for 2004, asking the Tax Commission of venue to void in full the assessment. The Revenue Agency has joined these proceedings. No notice setting date for a hearing has been issued thus far.

**Edipower Spa - Assessment for VAT Due on Green Certificates for 2005**
In December 2010, the Revenue Agency served Edipower with a new assessment for VAT penalties for 2005 amounting to 4.5 million euros on the same grounds as for the penalties levied for 2004. Edipower challenged this assessment.

**Edipower Spa - Assessment for VAT on Excise Taxes for 2004**
In February 2010, Edipower filed an application asking that the assessment be automatically voided by virtue of its lack of merit and, subsequently, applied for a negotiation settlement. The Revenue Agency scheduled a meeting with Edipower for April 2, 2010 to begin the process of seeking a negotiated settlement and hear Edipower's defense. Subsequently, the Revenue Agency reaffirmed its interpretation, refusing, for the time being, to void the assessment. In May 2010, Edipower filed an appeal challenging the assessment and asking the Tax Commission of venue to void it in full. The Revenue Agency has joined these proceedings. No notice setting date for a hearing has been issued thus far.

**Edipower Spa - Assessment for VAT on Excise Taxes for 2005 and IRES-IRAP for 2005**
In December 2010, the Revenue Agency served Edipower with a notice of assessment for VAT due on excise taxes for 2005 (an issue with regard to which a notice of assessment was already issued for 2004) and for the recovery of corporate income taxes (IRES) and regional taxes (IRAP) for 2005. The amount demanded for taxes and penalties totals 3.5 million euros. Edipower challenged this assessment.

# GROUP FINANCIAL RISK MANAGEMENT

This chapter describes 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 ($CO_2$ emissions credits, green certificates and white certificates) and other risks related to financial instruments (foreign exchange risk, interest rate risk, credit risk and liquidity risk).
In accordance with IFRS 7 and consistent with the disclosure provided in the 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

The Edison Group is exposed to the risk of fluctuations in the prices of all of the energy commodities that it handles (electric power, natural gas, coal, petroleum products and environmental securities), which have an impact on the revenues and expenses of its production, storage and marketing operations. These fluctuations affect the Group both directly and indirectly through indexing mechanisms contained in pricing formulas. Moreover, because some of the abovementioned commodity prices are quoted in U.S. dollars, the Group is also exposed to the resulting exchange rate risk.

Consistent with its Energy Risk Policies, the Group may use hedging derivatives to minimize or contain risk. From an organizational standpoint, the governance model adopted by the Group requires the separation of the risk control and management functions from the derivatives trading activity.
At the operational level, the net exposure is computed for the Group's entire portfolio of assets and contracts (so-called Industrial Portfolio), except for those related to trading activities described below (so-called Trading Portfolios), which is the net residual exposure after maximizing all available vertical and horizontal integrations provided by the different business operations. This net exposure is then used to compute the overall level of Economic Capital involved (stated in millions of euros), which measured in terms of Profit at Risk (PaR[1]) with a confidence index of 97.5% and an annual time horizon.
Each year, the Board of Directors Edison Spa approves the Economic Capital ceiling concurrently with the approval of the annual budget. The Risk Management Committee, which is headed by a representative of Senior Management, reviews monthly the Group's net exposure and, if the Profit at Risk is higher then the predetermined ceiling, defines the appropriate Strategic Hedging policies, which may involve the use of suitable derivatives instruments.
Provided transactions are approved in advance by the Risk Office, which determines whether they are consistent with the Group's risk management objectives and with the Group's total exposure, the Edison Group, responding to specific requests from individual Business Units, may also use other types of hedges called Operational Hedges.

At December 31, 2010, outstanding derivatives instruments were measured at fair value against the forward market curve at the end of the reporting period, when the underlying assets were traded on markets that provided official and liquid forward prices. When no forward market quotes were available, projected price curves based on simulation models developed internally by the Edison Group were used.
The Italian forward market for electric power does not yet meet IFRS requirements to qualify as an active market. Specifically, both the OTC markets operated by brokerage firms (e.g., TFS) and those operated by Borsa Italiana (IDEX) and the GME (MTE) lack sufficient liquidity for peak and off-peak products and for maturities longer than one year.
Consequently, market price data obtained from those market should be viewed as input for the internal valuation model used to measure at fair value the abovementioned products.

1 Profit at Risk is a statistical measurement of the maximum potential negative variance in the budgeted margin in response to unfavorable market moves, within a given time horizon and confidence interval.

As required by IFRS 7, 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 Hedges) while others qualify as Economic Hedges, to assess the potential impact that fluctuations in the market prices of the underlying assets could have on the fair value of outstanding derivatives. The simulation is carried out for a length of time equal to the residual lives of outstanding derivatives contracts, the farthest maturity of which is currently December 31, 2012. For derivatives contracts maturing in 2011, the method requires the simulation of 10,000 scenarios, as they apply to each material price driver, taking into account the volatility data and correlations of the spot markets. For financial contracts maturing after 2011, the method requires the use of the volatilities and correlations of the forward markets. If available, the forward market curves at the end of the reporting period are used as a reference level.
Having thus obtained a probability distribution for changes in fair value, it then becomes possible to extrapolate the maximum expected negative change in the fair value of outstanding derivatives contracts over the length of a reporting year with a level of probability of 97.5%.
Based on the method explained above, the maximum negative variance in the fair value of hedging derivatives instruments expected by the end of 2011, with a 97.5% probability, compared with the fair value determined at December 31, 2010, is 178.5 million euros (87.4 million euros at December 31, 2009), as shown in the table below:

| *Profit at Risk (PaR)* | **12.31.2010** | | 12.31.2009 | |
|---|---|---|---|---|
| | Level of probability | Expected negative variance in fair value (in millions of euros) | Level of probability | Expected negative variance in fair value (in millions of euros) |
| **Edison Group** | **97.5%** | **178.5** | **97.5%** | **87.4** |

In other words, compared with the fair value determined for hedging derivatives contracts outstanding at December 31, 2010, the probability of a negative variance greater than 178.5 million euros by the end of 2011 is limited to 2.5% of the scenarios.
The higher amount, compared with the level measured at December 31, 2009, is due primarily to an increase in the derivative hedges executed during the year, due to the higher volume of electric power sold at a fixed price in Italy, in order to lock-in the cost of the natural gas needed to produce the electric power.
The hedging strategy deployed in 2010 enabled the Group to comply with its risk management objectives, lowering the Industrial Portfolio's commodity price risk profile within the approved limit of Economic Capital. Without hedging, the average amount of Economic Capital absorbed in 2010 by the Industrial Portfolio would have been equal to 98% of the approved limit, with a peak of 128% in December 2010 (in 2010, the approved limit was exceeded by an average of 10%). With hedging, the average amount of Economic Capital absorbed in 2010 by the Industrial Portfolio was 62%, with a peak of 96% in December 2010.

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. The daily Value-at-Risk (VaR[2]) limit with a 95% probability on the Trading Portfolios is 3.1 million euros, with a stop loss limit of 16.5 million euros. The VaR limit was 2% utilized at December 31, 2010, with an average utilization of 43% for the year.
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

2 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.

for possible illiquid positions. The Economic Capital ceiling for the entire set of Trading Portfolios is 48 million euros. This limit was 2% utilized at December 31, 2010, with an average utilization of 43% for the year. This measurement, like the use of VaR, takes also into account transfers of electric power from physical assets, the impact of which on the financial statements is monitored with other ad hoc limits.

## 2. Foreign Exchange Risk

The foreign exchange risk arises from the fact that some of Edison's activities are carried out in currencies other than the euro or are influenced by changes in foreign exchange rates through indexing formulas. Revenues and expenses denominated in foreign currencies can be affected by fluctuations in foreign exchange rates that have an impact on sales margins (economic risk). Likewise, the amount of trade and financial payables and receivables denominated in foreign currencies can be affected by the translation rates used, with an impact on profit or loss (transaction risk). Lastly, fluctuations in foreign exchange rates have an impact on consolidated results and on shareholders' equity attributable to Parent Company shareholders because the financial statements of subsidiaries denominated in a currency other than the euro are translated into euros from each subsidiary's functional currency (translation risk).
Edison's policy in managing its foreign exchange risk is to minimize its exposure both to the economic risk and the transaction risk inherent in commodity activities (see the preceding paragraph with regard to this issue). Also with regard to the transaction risk, the Group is exposed to the foreign exchange risk on some cash flows in foreign currencies (U.S. dollars, for the most part) in connection with international development and exploration projects by the hydrocarbons operations and, for limited amounts, purchases of equipment. Lastly, the Group has a marginal exposure to the translation risk, specifically with regard to the translation of the financial statements of certain foreign subsidiaries. As a rule, foreign subsidiaries use the same currencies in the invoices they issue and the invoices they pay.

## 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 manages with hedging derivatives, some of which qualify for hedge accounting under IAS 39 (Cash Flow Hedges and Fair Value Hedges), while others qualify as Economic Hedges. The Euribor is the interest rate to which the Group has the largest exposure.

| *Gross Financial Debt* | 12.31.2010 | | | 12.31.2009 | | |
|---|---|---|---|---|---|---|
| *Mix fixed and variable rate:* (in millions of euros) | without derivatives | with derivatives | % with derivatives | without derivatives | with derivatives | % with derivatives |
| - fixed rate portion (included structures with CAP) | 1,863 | 1,490 | 34% | 1,419 | 1,109 | 24% |
| - variable rate portion | 2,472 | 2,845 | 66% | 3,296 | 3,606 | 76% |
| **Total gross financial debt (*)** | **4,335** | **4,335** | **100%** | **4,715** | **4,715** | **100%** |

(*) For a breakdown of gross financial debt see the "Liquidity Risk" paragraph of this Report.

Considering that, at December 31, 2010, the Group held 472 million euros in liquid assets earning interest at market rates, when the abovementioned percentages are computed based on net financial debt, including outstanding derivative transactions, they become about 61% (variable rate) and about 39% (fixed rate), respectively.
The interest rate risk exposure shown in the analysis schedule provided above can be explained by taking into account both operating developments that had an impact on the financial structure of Edison Group and trends in market interest rates in 2010.
More specifically, Edison Spa floated two fixed-rate bond issues in 2010, in connection with which it executed hedging derivative transactions as follows:

- In March 2010, it floated a 500-million-euro bond issue maturing on March 17, 2015, maintaining a portion of the total amount (275 million euros) at the fixed contractual rate of 3.25% and converting

the balance (225 million euros) to a variable rate by means of Interest Rate Swaps that qualify as Fair Value Hedges.

- In November 2010, it floated a 600-million-euro bond issue maturing on November 10, 2017 that accrues interest at a fixed rate (3.875%), converted to a variable rate by means of Interest Rate Swaps that qualify as Fair Value Hedges.
- It negotiated a derivatives structure for 500 million euros that currently enables it to stay floating within a contractually established cap and floor. Thanks to this structure, Edison Spa was able to reset a portion of its debt exposure at a fixed rate and retain a funding source protected from the risk of an increase in interest rates, without giving up the benefits provided by the low level of short-term interest rates.

The strategy pursued in 2010, which consisted of selecting long-term financial instruments with a fixed interest rate and combining them with hedging transactions that, over the short term, make it possible to benefit from variable rates that are lower than the fixed rate and reduce borrowing costs, is similar to the one implemented in 2009. Specifically, in the case of the 700-million-euro (face value) bond issue floated by Edison Spa in July 2009, which accrues interest at a fixed rate of 4.25% and matures on July 22, 2014, a portion of the face value amounting to 500 million euros was converted to a variable rate also by means of Interest Rate Swaps.

With regard to the indebtedness of other Group companies, it is worth mentioning that a portion of the financial debt of Edipower Spa, which was the recipient of a variable rate syndicated facility carried at 1,250 million euros face value (Edison's pro rate share is 625 million euros) in the financial statements at December 31, 2010, was hedged with financial derivatives. More specifically, 64% of Edipower's outstanding debt at December 31, 2010 was converted to a variable rate by means of Interest Rate Swaps that qualify as Cash Flow Hedges.

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 2010 and provides a comparison with the same period in 2009.

| *Sensitivity analysis* | **2010** | | | **12.31.2010** | | |
|---|---|---|---|---|---|---|
| (in millions of euros) | Impact on the income statement (P&L) | | | Impact on the Cash Flow Hedge reserve (S.E.) | | |
| | +50 bps | base | -50 bps | +50 bps | base | -50 bps |
| **Edison Group** | **144** | **129** | **113** | **(9)** | **(11)** | **(12)** |

| *Sensitivity analysis* | 2009 | | | 12.31.2009 | | |
|---|---|---|---|---|---|---|
| (in millions of euros) | Impact on the income statement (P&L) | | | Impact on the Cash Flow Hedge reserve (S.E.) | | |
| | +50 bps | base | -50 bps | +50 bps | base | -50 bps |
| Edison Group | 155 | 129 | 102 | (18) | (22) | (25) |

## 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. This risk arises primarily from economic/financial factors (i.e., that the counterpart defaults on its obligations), as well as from factors that are technical/commercial or administrative/legal in nature (disputes over the type/quantity of goods supplied, the interpretation of contractual clauses, supporting invoices, etc.).

The Edison Group's exposure to credit risk is related mainly to sales of electric power and natural gas. To control this risk (a task specifically assigned to the Credit Management Office, which is part of the Central Finance Department), Edison 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. The policies and tools used to preventively assess credit worthiness and the monitoring and collection activities employed vary depending on the customer type and the consumption level profile. As required by internal credit policies and depending on the customer's credit worthiness, in some cases the Group may ask customers to provide it with guarantees. Generally, these are sight bank or insurance

sureties issued by entities with a high credit rating. In addition, during the year, Edison executed transaction assigning receivable without recourse on a revolving and spot basis for a total amount of 4,335 million of euros. At December 31, 2010, the risk of recourse that still existed on these transactions was not material. Lastly, when it comes to choosing counterparties for transactions to manage temporary excess liquidity or execute financial hedging contracts (derivatives), Edison deals only with entities with a high credit rating. At December 31, 2010, there were no significant exposures to risks related to a possible further deterioration of the overall financial environment.
The payment terms applied to most customers require payment within 30 days from the date of the invoice, which, as a rule, is issued monthly during the month that follows the month when the service was provided. In cases of late payment, Edison, consistent with express provisions of the underlying supply contracts, charges customers delinquent interest at the rate allowed under the applicable laws, reserving the right to termination, i.e., physically cutting off supply, for the most serious cases.
Trade receivables are shown in the financial statements net of any writedowns, which are recognized with a conservative approach using different rates that reflect the degree by which different groups of receivables were being disputed on the balance sheet date.

The table below shows an overview of gross trade receivables, the corresponding allowance for doubtful accounts and the guarantees that the Group holds to secure its receivables. The higher amount of receivables outstanding at December 31, 2010, compared with the previous year, is largely due to an increase in revenues booked in the year.

| (in millions of euros) | 12.31.2010 | 12.31.2009 |
|---|---|---|
| Gross trade receivables | 2,508 | 1,991 |
| Allowance for doubtful accounts (-) | (133) | (129) |
| **Trade receivables** | **2,375** | **1,862** |
| Guarantees held | 692 | 556 |
| Receivables 9 to 12 months in arrears | 28 | 34 |
| Receivables more than 12 months in arrears | 141 | 73 |

## 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, showing undiscounted nominal future cash flows required for financial liabilities that include, in addition to principal and accrued interest, all future interest payments estimated for the entire length of the underlying debt obligation, and taking into account the effect of interest rate derivatives. The result is a disclosure of the aggregate liability, which is an amount greater 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* | 12.31.2010 | | | 12.31.2009 | | |
|---|---|---|---|---|---|---|
| (in millions of euros) | 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 | 18 | 558 | 2,094 | 2 | 772 | 1,329 |
| Financial debt and other financial liabilities | 30 | 769 | 991 | 170 | 178 | 2,282 |
| Trade payables | 2,077 | 76 | - | 1,413 | 56 | - |
| **Total** | **2,125** | **1,403** | **3,085** | **1,585** | **1,006** | **3,611** |
| **Guarantees provided to third parties (*)** | **586** | **327** | **466** | 763 | 198 | 566 |

(*) 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 and Contingent Risks" section of this Report.

The Group's strategic objective is to minimize the impact of financial debt maturities by maintaining access to existing credit lines and adequate liquidity and implementing on a timely basis negotiations for the funding of maturing financing facilities, as well as through the placement of bond issues.
As shown in the table above, short-term financial debt (due within one year) totaled 1,375 million euros at December 31, 2010. Net of available liquid assets of 472 million euros, this amount is less than the balance of the unused committed credit lines (958 million euros). Most of these credit lines are part of a standby syndicated facility of 1,500 million euros that expires in 2013, 650 million euros of which had been drawn down at December 31, 2010. This amount was recognized as a financial debt due after one year. Moreover, in December 2010, Edison Spa and the European Investment Bank executed a loan agreement pursuant to which the Bank is making available to Edison a long-term credit facility of 250 million euros to finance certain natural gas storage projects. This credit line was not included among the available facilities because at December 31, 2010 the conditions precedent governing disbursement were still being negotiated.

The main components of short-term financial debt are:
- 500 million euros for a variable rate bond issue floated by Edison Spa in 2003 and maturing on July 19, 2011;
- 636 million euros for principal repayment and accrued interest due on a loan owed by Edipower Spa that matures on December 31, 2011.

In addition, the Elpedison Power Sa investee company renegotiated its financing facilities, changing their due date to September 30, 2011.

The early repayment in 2010 of the bank facility provided to Edison Spa on a club deal basis (600 million euros) and the abovementioned reclassification to current liabilities of Edipower's financial debt account for the reduction of "Financial debt and other financial liabilities" due after one year.
At the same time, the portion of long-term debt (due after one year) represented by bonds increased, reflecting the Edison Spa placement of two bond issues with a total face value of 1,100 million euros in 2010. The first bond issue, with a face value of 500 million euros, a term of five years and a fixed 3.25% coupon, was floated in March. The second bond issue, which was floated in November, after the Euro Medium Term Note Program had been increased to 3 billion euros in October 2010, totaled 600 million euros, has a term of seven years and carries a gross annual fixed coupon of 3.875%. Both bond issues were placed with institutional investors and are traded on the Luxembourg Stock Exchange. These new capital market transactions enabled the Group to stabilize it sources of funds and lengthen their maturity.

The table that follows provides a breakdown by maturity of the Group's gross financial debt at December 31, 2010. However, the amounts shown are not accurately indicative of the exposure to the liquidity risk because they do not reflect expected nominal cash flows, using instead amortized cost or fair value valuations for derivatives, i.e., the amounts at which financial liabilities were recognized in the accounting records at December 31, 2010.

| (in millions of euros) | 12.31.2011 | 12.31.2012 | 12.31.2013 | 12.31.2014 | 12.31.2015 | After 5 year | Total |
|---|---|---|---|---|---|---|---|
| Bonds | 528 | (2) | (2) | 698 | 499 | 598 | 2,319 |
| Financial debt and other financial liabilities | | | | | | | |
| - due to banks | 814 | 117 | 678 | 74 | 11 | 11 | 1,705 |
| - due to other lenders | 259 | 5 | 5 | 12 | 5 | 24 | 310 |
| Financial debt held for sale | 1 | - | - | - | - | - | 1 |
| **Gross financial debt** | **1,602** | **120** | **681** | **784** | **515** | **633** | **4,335** |

Helping fight climate change and developing an energy system with a low environmental impact is one of the challenges that are inherent in Edison's responsibility.

## 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).

Four issues of debt securities (Euro Medium-term Notes), for a total face value of 2,300 million euros, are outstanding. As mentioned earlier in these Notes, the last two bond issues (500 million euros, with a term of five years, and 600 million euros, with a term of seven years) were floated in March and November 2010, respectively. Their conditions are described in the paragraphs below.

| Description | Issuer | Market where traded | ISIN Code | Term (years) | Maturity | Face value (in millions of euros) | Coupon | Current rate |
|---|---|---|---|---|---|---|---|---|
| EMTN 12/2003 | Edison Spa | Luxembourg Stock Exch. | XS0196762263 | 7 | 07.19.2011 | 500 | Variable quarterly | 1.593% |
| EMTN 07/2009 | Edison Spa | Luxembourg Stock Exch. | XS0441402681 | 5 | 07.22.2014 | 700 | Fixed annual | 4.250% |
| EMTN 03/2010 | Edison Spa | Luxembourg Stock Exch. | XS0495756537 | 5 | 03.17.2015 | 500 | Fixed annual | 3.250% |
| EMTN 11/2010 | Edison Spa | Luxembourg Stock Exch. | XS0557897203 | 7 | 11.10.2017 | 600 | Fixed annual | 3.875% |

In addition, considering the pro rata consolidation of Edipower's debt, the Group is a party to non-syndicated loan agreements for a total face value of 285 million euros and syndicated loan agreements with a total face value of 2,328 million euros (958 million euros unused at December 31, 2010).

Consistent with international practice for similar transactions, both the bank loan agreements and the Euro Medium Term Note Program provide the lender bank or the bondholder with the right to demand the payment of the loaned amount and terminate ahead of schedule their relationship with the borrower whenever the borrower is declared insolvent and/or is a party to bankruptcy proceedings (such as receivership or composition with creditors) or is undergoing liquidation or another procedure with similar effects.
Specifically, the bond indentures, consistent with market practices, include a series of standard clauses that, in the event of non-performance, require that the issuer immediately redeem the bonds. The main clauses of this type are: (i) negative pledge clauses, by virtue of which the borrower undertakes to refrain

to provide Group assets as collateral beyond a specific amount; (ii) cross default/cross acceleration clauses, which establish an obligation to immediately repay the bonds in the event of material failures to perform obligations that arise from or are generated by other loan agreements that affect a significant portion of the indebtedness owed by Group companies; and (iii) clauses that establish an obligation of immediate repayment even if just some Group companies were to be declared insolvent.

As for credit line agreements and bilateral or syndicated loan agreements to which Edison is a party, it is important to note that the agreement for a syndicated credit line of 1,500 million euros provided to Edison sets forth, among other clauses, Edison's obligation to comply with certain commitments, which include making sure that the lender banks are being afforded a treatment equal to the one offered under other unsecured creditors (*pari passu* clause), as well as restrictions on Edison's Spa ability to provide collateral to new lenders (negative pledge clause).

Neither the loan agreements governing the bank facilities provided to Edison Spa nor the bond indentures contain clauses allowing early termination of the loan if the credit rating assigned to Edison Spa by the rating agencies is downgraded or cancelled. Moreover, following the early repayment, in March and April 2010, of the club deal facility of 600 million euros, Edison Spa is no longer required to comply with specific financial covenants under the terms of any of its credit lines.

As for the other Group companies, certain loan agreements that some of them have negotiated set forth, in addition to the clauses discussed above, the obligation to achieve and/or maintain certain financial ratios (typically indicative of a borrower's ability to repay the indebtedness over the long term - Long Life Cover Ratio, or ratio between net financial debt and EBITDA or shareholders' equity, clause) and place restrictions on the ability to distribute dividends. Any violation of these clauses would accelerate the repayment of the loaned amount.

Lastly, the syndicated loan agreement executed by Edipower in January 2007 for a total contractual amount of 2,000 million euros (1,000 million euros attributable to Edison) contains negative pledge, *pari passu* and cross default clauses and includes the obligation to comply with certain financial covenants, which include ratios between minimum EBITDA and financial expense and between net financial debt and EBITDA of Edipower. The content of the abovementioned financial covenants was determined by Edipower, based on its industrial plan and using a suitably conservative approach.

At present, none of the Group companies has been declared in default by any of the lender banks.

# 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 reported EBITDA. 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 interest rate and foreign exchange and price risk on energy commodities. For all derivatives that comply with internal risk policies and procedures, realized results and expected values are either included in EBITDA, if they refer to activities related to the Industrial Portfolio, or recognized as financial income or expense, in the case of financial transactions.
   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 7

IFRS 7 requires that the classification of financial instruments in accordance with their fair value be based on the reliability of inputs used to measure fair value.

The IFRS 7 ranking 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 the moment, there are three types of instruments that are included in this category.

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.

## Instruments Outstanding at December 31, 2010

The tables that follow provide an illustration of the information listed below:

- fair value hierarchy;
- derivatives that were outstanding, classified by maturity;
- the value at which these contracts are reflected on the balance sheet, which is their fair value;
- the pro rata share of the fair value referred to above that was recognized on the income statement as of the date of execution.

The difference, if any, between the value on the balance sheet and the fair value recognized on the income statement is the fair value of contracts that qualify as Cash Flow Hedges, which, in accordance with the reference accounting principles, is posted directly to equity reserves.

### A) Interest Rate and Foreign Exchange Rate Risk Management

| (in millions of euros) | Fair Value Hierarchy (****) | Notional amount (*) | | | Balance sheet amount (**) | Cumulative impact on the income statement at 12.31.10 (***) |
|---|---|---|---|---|---|---|
| | | due within 1 year | due between 2 and 5 years | due after 5 years | | |
| **Interest rate risk management:** | | | | | | |
| - Cash Flow Hedges in accordance with IAS 39 | 2 | 403 | 5 | - | (11) | - |
| - Fair Value Hedges in accordance with IAS 39 | 2 | - | 725 | 600 | 3 | 3 |
| - contracts that do not qualify as hedges in accordance with IAS 39 | 2 | 22 | 566 | 6 | (3) | (3) |
| **Total interest rate derivatives** | | **425** | **1,296** | **606** | **(11)** | **-** |

| (in millions of euros) | Fair Value Hierarchy (****) | due within 1 year | | due between 2 and 5 years | due after 5 years | Balance sheet amount (**) | Cumulative impact on the income statement at 12.31.10 (***) |
|---|---|---|---|---|---|---|---|
| | | receivable | payable | receivable | receivable | | |
| **Foreign exchange rate risk management:** | | | | | | | |
| - contracts that qualify as hedges in accordance with IAS 39: | | | | | | | |
| - on commercial transactions | 2 | 1,481 | 31 | 28 | - | 8 | - |
| - on financial transactions | - | - | - | - | - | - | - |
| - contracts that do not qualify as hedges in accordance with IAS 39: | | | | | | | |
| - on commercial transactions | 2 | 85 | - | 12 | - | 2 | 2 |
| - on financial transactions | 2 | 241 | - | - | - | (1) | (1) |
| **Total foreign exchange rate derivatives** | | **1,807** | **31** | **40** | **-** | **9** | **1** |

(*) Represents the sum of the notional amounts of the basic contracts that would result from an unbundling of complex contracts.
(**) Represents the net receivable (+) or payable (-) recognized on the balance sheet following the measurement of derivatives at fair value.
(***) Represents the cumulative adjustment to fair value of derivatives recognized on the income statement from the inception of the contract until the date of the financial statements.
(****) For the definition see the previous paragraph "Fair Value hierarchy according to IFRS 7".

## B) Commodity Risk Management

| | Fair Value Hierarchy (****) | Notional amount (*) Unit of measure | Due within one year | Due within two years | After two years | Balance sheet value (**) (in millions of euros) | Cumulative impact on the income statement at 12.31.10 (***) (in millions of euros) |
|---|---|---|---|---|---|---|---|
| **Price risk management for energy products** | | | | | | | |
| **A. Cash Flow Hedges pursuant to IAS 39, broken down as follows:** | | | | | | **123** | **(1)** |
| - LNG and oil | 2 | Barrels | 23,434,805 | 631,900 | - | 123 | (1) |
| **B. Contracts that qualify as Fair Value Hedges pursuant to IAS 39** | | | | | | **-** | **-** |
| **C. Contracts that do not qualify as margin hedges pursuant to IAS 39:** | | | | | | **-** | **-** |
| - LNG and oil | 2 | Barrels | 36,600 | - | - | - | - |
| - Coal | 2 | Millions of tons | - | - | - | - | - |
| **Total** | | | | | | **123** | **(1)** |

(*) + for net purchases, - for net sales.
(**) Represents the net receivable (+) or payable (-) recognized on the balance sheet following the measurement of derivatives at fair value.
(***) Represents the cumulative adjustment to fair value of derivatives recognized on the income statement from the inception of the contract until the date of the financial statements.
(****) For the definition see the previous paragraph "Fair Value hierarchy according to IFRS 7".

## C) Trading Portfolios

| | Fair Value Hierarchy (****) | Notional amount (*) Unit of measure | Due within one year | Due within two years | After two years | Balance sheet value (**) (in millions of euros) | Cumulative impact on the income statement at 12.31.10 (***) (in millions of euros) |
|---|---|---|---|---|---|---|---|
| **Derivatives** | | | | | | **13** | **13** |
| - Electric power | 2 | TWh | (1.20) | - | 0.10 | 13 | 13 |
| - LNG and oil | 2 | Barrels | 4,760 | - | - | - | - |
| **Physical contracts** | | | | | | **21** | **21** |
| - Electric power | 1/2 | TWh | 0.94 | (0.09) | (0.09) | 18 | 18 |
| - $CO_2$ | 1 | Millions of tons | 0.01 | 0.01 | - | 1 | 1 |
| - Natural gas | 3 | TWh | - | - | - | 2 | 2 |
| **Total** | | | | | | **34** | **34** |

(*) + for net purchases, - for net sales.
(**) Represents the net receivable (+) or payable (-) recognized on the balance sheet following the measurement of derivatives at fair value.
(***) Represents the cumulative adjustment to fair value of derivatives recognized on the income statement from the inception of the contract until the date of the financial statements.
(****) For the definition see the previous paragraph "Fair Value hierarchy according to IFRS 7".

## Effects of Hedging Derivative and Trading Transactions on the Income Statement and Balance Sheet in 2010

The disclosure below provides an analysis of the financial results generated by derivative hedging and trading transactions in 2010, including the effects of physical energy commodity contracts.

| (in millions of euros) | Realized in 2010 (A) | Fair Value recognized for contracts outstanding at 12.31.2009 (B) | Portion of (B) contracts realized in 2010 (B1) | Fair Value recognized for contracts outstanding at 12.31.2010 (C) | Change in fair value in 2010 (D=C-B) | Amounts recognized in earnings (A+D) |
|---|---|---|---|---|---|---|
| **Sales revenues and Other revenues and income** (see Notes 1 and 2 to the Income Statement) | | | | | | |
| **Price risk hedges for energy products** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) (**) | 119 | 2 | 2 | - | (2) | 117 |
| - not definable as hedges pursuant to IAS 39 | 61 | 12 | 12 | 1 | (11) | 50 |
| **Exchange risk hedges for commodities** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) | - | - | - | - | - | - |
| - not definable as hedges pursuant to IAS 39 | 11 | - | - | 2 | 2 | 13 |
| **Margin on Trading Activities** | | | | | | |
| - Sales revenues from physical contracts included in the Trading Portfolios (***) | 2,720 | 105 | 105 | 117 | 12 | 2.732 |
| - Other revenues and income from derivatives included in the Trading Portfolios (****) | 18 | 11 | 11 | 53 | 42 | 60 |
| - Raw materials and services used from physical contracts included in the Trading Portfolios (***) (&) | (2,687) | (90) | (90) | (96) | (6) | (2,693) |
| - Raw materials and services used from derivatives included in the Trading Portfolios (****) | (18) | (9) | (9) | (40) | (31) | (49) |
| *Total margin on trading activities* | *33* | *17* | *17* | *34* | *17* | *50* |
| **Total (A)** | **224** | **31** | **31** | **37** | **6** | **230** |
| **Raw materials and services used** (see Note 3 to the Income Statement) | | | | | | |
| **Price risk hedges for energy products** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) (**) | (33) | - | - | (1) | (1) | (34) |
| - not definable as hedges pursuant to IAS 39 | (41) | (12) | (11) | (1) | 11 | (30) |
| **Exchange risk hedges for commodities** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) (*) (**) | 21 | - | - | - | - | 21 |
| - not definable as hedges pursuant to IAS 39 | (1) | - | - | - | - | (1) |
| **Total (B)** | **(54)** | **(12)** | **(11)** | **(2)** | **10** | **(44)** |
| **TOTAL INCLUDED IN EBITDA (A+B)** | **170** | **19** | **20** | **35** | **16** | **186** |
| **Interest rates hedges, broken down as follows:** | | | | | | |
| **Financial income** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) | - | - | - | - | - | - |
| - definable as hedges pursuant to IAS 39 (FVH) | 15 | 7 | 3 | 22 | 15 | 30 |
| - not definable as hedges pursuant to IAS 39 | 31 | 12 | 4 | 4 | (8) | 23 |
| **Total financial income (C)** | **46** | **19** | **7** | **26** | **7** | **53** |
| **Financial expense** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) | (17) | - | - | - | - | (17) |
| - definable as hedges pursuant to IAS 39 (FVH) | (9) | - | - | (19) | (19) | (28) |
| - not definable as hedges pursuant to IAS 39 | (22) | (6) | - | (7) | (1) | (23) |
| **Total financial expense (D)** | **(48)** | **(6)** | **-** | **(26)** | **(20)** | **(68)** |
| **Margin on interest rate hedging transactions (C+D)=(E)** | **(2)** | **13** | **7** | **-** | **(13)** | **(15)** |
| **Foreign exchange rate hedges broken down as follows:** | | | | | | |
| **Foreign exchange gains** | | | | | | |
| - definable as hedges pursuant to IAS 39 | 12 | - | - | - | - | 12 |
| - not definable as hedges pursuant to IAS 39 | 61 | 3 | 3 | - | (3) | 58 |
| **Total foreign exchange gains (F)** | **73** | **3** | **3** | **-** | **(3)** | **70** |
| **Foreign exchange losses** | | | | | | |
| - definable as hedges pursuant to IAS 39 | - | - | - | - | - | - |
| - not definable as hedges pursuant to IAS 39 | (36) | - | - | (1) | (1) | (37) |
| **Total foreign exchange losses (G)** | **(36)** | **-** | **-** | **(1)** | **(1)** | **(37)** |
| **Margin on foreign exchange hedging transactions (F+G)= (H)** | **37** | **3** | **3** | **(1)** | **(4)** | **33** |
| **TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE) (E+H)** (see Note 7 to the Income Statement) | **35** | **16** | **10** | **(1)** | **(17)** | **18** |

(*) Includes the effective portion included in Raw materials and services used (Note 3 to the Income Statement) for purchases of natural gas.
(**) Includes the ineffective portion.
(***) Amounts included in Sales revenues (Note 1 to the Income Statement) under margin on trading activities.
(****) Amounts included in Other revenues and income (Note 2 to the Income Statement) under margin on trading activities.
(&) Includes the fair value adjustments of trading inventories, the carrying amount of which was virtually nil at December 31, 2010.

The table below provides a breakdown of the amounts recognized in the balance sheet following the measurement at fair value of the derivatives and physical contracts outstanding on the date of the financial statements:

| (in millions of euros) | 12.31.2010 | | 12.31.2009 | |
|---|---|---|---|---|
| | Receivables | Payables | Receivables | Payables |
| Foreign exchange transactions | 31 | (22) | 12 | (30) |
| Interest rate transactions | 26 | (37) | 18 | (27) |
| Commodity transactions | 304 | (147) | 210 | (120) |
| **Fair value recognized as current assets or current liability** | **361** | **(206)** | **240** | **(177)** |
| Broken down as follows: | | | | |
| - recognized as "Trade receivables and payables" | 117 | (96) | 105 | (90) |
| - recognized as "Other receivables and payables" | 218 | (73) | 117 | (60) |
| - recognized as "Current financial assets" and "Short-term financial debt" | 26 | (37) | 18 | (27) |

With regard to the items listed above, please note that the receivables and payables shown are offset by a positive Cash Flow Hedge reserve amounting to 121 million euros, before the corresponding deferred-tax assets and liabilities.

## Classes of Financial Instruments

The table provided below, which lists the types of financial instruments recognized in the financial statements showing the valuation criteria applied and, in the case of financial instruments measured at fair value, whether gains or losses were recognized in earnings or in equity and their classification on the fair value hierarchy, completes the disclosures required by IFRS 7. The last column in the table shows, if applicable, the fair value of financial instruments at December 31, 2010.

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

| Financial instruments type | Criteria applied to value financial instruments in the financial statements | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of euros) | Financial instruments valued at fair value | | | | | | | Financial instruments valued at amortized cost (B) (d) | Equity investments valued at cost (C) (e) | Carrying value at 12.31.2010 (A+B+C) | Fair Value at 12.31.2010 |
| | with change in fair value recognized in: | | | Total Fair Value (A) | Fair Value Hierarchy (notes a, b, c) | | | | | | |
| | earnings (a) | equity (b) | (c) | | 1 | 2 | 3 (m) | | | | |
| **ASSETS** | | | | | | | | | | | |
| Available-for-sale equity investments, including: | | | | | | | | | | | |
| - unlisted securities | - | - | - | **-** | - | - | - | **-** | **285** | 285 | n.a. |
| - listed securities | - | - | 8 | **8** | 8 | - | - | **-** | **-** | 8 | 8 |
| | | | | | | | | | | 293 | |
| Other financial assets (g) (l) | - | - | - | **-** | - | - | - | **91** | **-** | 91 | 91 |
| Other assets (l) | - | - | - | **-** | - | - | - | **112** | **-** | 112 | 112 |
| Trade receivables (i) (l) | 117 | - | - | **117** | - | 112 | 5 | **2,258** | **-** | 2,375 | 2,375 |
| Other receivables (f) (l) | 56 | 162 | - | **218** | 7 | 211 | - | **437** | **-** | 655 | 655 |
| Current financial assets (f) (h) (l) | 34 | - | - | **34** | 8 | 26 | - | **35** | **-** | 69 | 69 |
| Cash and cash equivalents (l) | - | - | - | **-** | - | - | - | **472** | **-** | 472 | 472 |
| **LIABILITIES** | | | | | | | | | | | |
| Bonds (current and non-current) | - | - | - | **-** | - | - | - | **2,319** | **-** | 2,319 | 2,290 |
| Financial debt (current and non-current) (f) (l) | 26 | 11 | - | **37** | - | 37 | - | **1,978** | **-** | 2,015 | 1,992 |
| Trade payables (i) (l) | 96 | - | - | **96** | - | 92 | 4 | **2,057** | **-** | 2,153 | 2,153 |
| Other liabilities (f) (l) | 43 | 30 | - | **73** | 5 | 68 | - | **307** | **-** | 380 | 380 |

(a) Assets and liabilities measured at fair value, with changes in fair value recognized in earnings.
(b) Cash flow hedges.
(c) Available-for-sale financial assets measured at fair value, with gains/losses recognized in equity.
(d) Loans, receivables and financial liabilities valued at amortized cost.
(e) Available-for-sale financial assets consisting of investments in unlisted securities the fair value of which cannot be measured reliably are valued at cost, reduced by any impairment losses.
(f) Includes receivables and payables resulting from the measurement of derivatives at fair value.
(g) Includes 86 million euros in loans receivable classified as long term following the adoption of IFRIC 4.
(h) Includes equity investments held for trading.
(i) Includes receivables and payables from the measurement at fair value of physical contracts in Trading Portfolios.
(l) The fair value of the components of these items that are not derivatives or loans was not computed because it is substantially the same as their carrying value.
(m) The fair value on Level 3 is recorded on trading physical margin.

# INTERCOMPANY AND RELATED-PARTY TRANSACTIONS

Consistent with the applicable policies adopted by the Group, transactions with related and significant parties affecting the income statement, balance sheet and cash flow that were outstanding at December 31, 2010 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.
Further to the publication by the CONSOB, on September 24, 2010, of a Communication setting forth provisions governing related-party transactions in accordance with CONSOB Resolution No. 17221 of March 12, 2010, as amended, the Board of Directors of Edison Spa approved a Procedure Governing Related-Party Transactions, which went into effect on January 1, 2011.

| (in millions of euros) | Related Parties | | | | | Significant Parties | | | | | | Total for related and significant parties | Total for financial statem. line item | % Impact |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | With unconsolidated Group companies | With the controlling company | EdF Group | A2A Group | Sub total | IREN Group | SEL Group | Dolomiti Energia Group | Banca Popolare di Milano | Mediobanca | Sub total | | | |
| **Balance sheet transactions** | | | | | | | | | | | | | | |
| Investments in associates | 48 | - | - | - | **48** | - | - | - | - | - | - | **48** | **48** | **100%** |
| Trade receivables | 3 | - | 71 | 26 | **100** | 10 | - | 2 | - | - | **12** | **112** | **2,375** | **4.7%** |
| Other receivables | 8 | 58 | 12 | 5 | **83** | - | - | - | - | - | - | **83** | **655** | **12.7%** |
| Trade payables | 4 | - | 39 | 37 | **80** | 3 | 7 | - | - | - | **10** | **90** | **2,153** | **4.2%** |
| Other payables | - | 17 | - | 2 | **19** | - | - | - | - | - | - | **19** | **380** | **5.0%** |
| Other financial assets | 6 | - | - | - | **6** | - | - | - | - | - | - | **6** | **69** | **8.7%** |
| Short-term financial debt | 15 | - | - | - | **15** | - | 30 | - | 16 | 65 | **111** | **126** | **1,073** | **11.7%** |
| Long-term financial debt and other financial liabilities | - | - | - | - | - | - | - | - | - | 84 | **84** | **84** | **942** | **8.9%** |
| **Income statement transactions** | | | | | | | | | | | | | | |
| Sales revenues | 41 | - | 257 | 70 | **368** | 6 | 16 | 7 | - | - | **29** | **397** | **10,446** | **3.8%** |
| Other revenues and income | - | - | 13 | 38 | **51** | 19 | - | - | - | - | **19** | **70** | **638** | **11.0%** |
| Raw material and services used | 9 | - | 66 | 102 | **177** | 5 | 41 | - | - | - | **46** | **223** | **9,462** | **2.4%** |
| Financial expense | - | - | - | - | - | - | - | - | - | 3 | **3** | **3** | **248** | **1.2%** |
| Income from equity investments | 1 | - | - | - | **1** | - | - | - | - | - | - | **1** | **3** | **33,3%** |
| **Commitments and contingent risks** | | | | | | | | | | | | | | |
| Guarantees provided | - | - | - | - | - | - | - | - | 38 | - | **38** | **38** | **1,379** | **2.8%** |
| Collateral provided | - | - | - | - | - | - | - | - | - | 42 | **42** | **42** | **1,390** | **3.0%** |
| Other commitments and risks | - | - | 29 | - | **29** | - | - | - | - | - | - | **29** | **580** | **5.0%** |

## A) Intercompany Transactions

Transactions between Edison Spa and its subsidiaries and affiliated companies and its controlling company consist primarily of:

- commercial transactions involving the buying and selling of electric power, natural gas, green certificates and $CO_2$ certificates;
- transactions involving the provision of services (technical, organizational and general) by headquarters staff;
- financial transactions involving lending and current account facilities established within the framework of the Group's centralized cash management system;
- transactions required to file a consolidated VAT return for the Group (so-called VAT Pool);
- transactions with its controlling company required to file the consolidated IRES return.

All of the transactions listed above are governed by contracts with conditions that are consistent with market terms (i.e., terms that would have been agreed upon by two independent parties), with the

exception of those related to the VAT Pool and the consolidated corporate income tax (IRES) return, which were executed pursuant to law.

**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 December 31, 2010 showed an overpayment of about 6 million euros.

**Consolidated IRES Return**

Following the renewal by Transalpina di Energia Srl, the Group's controlling company, of the option to file a consolidated income tax return for three years from 2009 to 2011, Edison Spa and its principal subsidiaries expect to determine their corporate income tax (IRES) liability in coordination with Transalpina di Energia Srl, the Group's controlling company, within the framework of the existing arrangements for a consolidated IRES return. The relationships between the filers of the consolidated tax return are governed by special agreements. Group companies that engage in the exploration for and production of hydrocarbons and in the production and distribution of electric power are subject to the 6.5% corporate income tax (IRES) surcharge. This surcharge must be paid independently by each company, even if the company in question is included in the consolidated IRES return.

## B) Transactions with Other Related Parties

An analysis of the main transactions with other related parties is provided below.

### 1) Commercial Transactions

***EdF Group***

Transactions executed with the EDF Group included the following:

- Revenues from the sale of electric power totaling about 3 million euros and electric power purchases and transmission costs for 5 million euros with ENBW.
- With Fenice Spa, sales revenues of about 49 million euros, mainly from sales of natural gas, recovery of maintenance costs for about 13 million euros and services used and miscellaneous costs for about 3 million euros.
- With EDF Trading Ltd, sales revenues from electric power of 96 million euros and from natural gas for 2 million euros and costs of 56 million euros stemming from sales and purchases of commodities.
- With EDF Trading Ltd revenues of 367 million euros and costs of 247 million euros and with ENBW revenues of 47 million euros and costs of 60 million euros from transactions executed during the year as part of the trading activity; these amounts are included in sales revenues on a net basis.
- Transmission costs and other costs for 2 million euros with other Group companies.
- The preceding table shows the impact on the balance sheet of the various transactions reviewed above; in addition, dividend payments totaled 43 million euros in 2010.
- With EDF Trading Ltd, commitments of up to 29 million euros within the EDF Carbon Fund to purchase CER/ERU.

***A2A Group***

The transactions carried out with the A2A Group resulted in the following:

- Sales revenues of 84 million euros from contracts to supply electric power and steam to A2A Trading Srl and A2A Spa.
- Other revenues and income of 38 million euros from A2A Trading Srl for managing fuel procurement for some production sites, pursuant to the Tolling Agreement.
- Materials and services used totaling 102 million euros, broken down as follows: 27 million euros for purchases of electric power, 15 million euros for dispatching services by A2A Trading Srl, 16 million euros for purchases of natural gas by Plurigas Srl and 44 million euros for electric power and natural gas transmission services by A2A Spa.
- With A2A Trading Srl, revenues of 30 million euros and costs of 44 million euros from transactions

executed during the year as part of the trading activity; these amounts are included in sales revenues on a net basis.
- The table provided above shows the impact on the balance sheet of the various transactions reviewed above.

***IREN Group***

The transactions carried out with the IREN Group, created by the merger of Enìa and Iride, resulted in the following:
- Sales revenues of 6 million euros from contracts to supply electric power to Iren Mercato and Enìa Energia.
- Other revenues and income of 19 million euros from IREN Mercato for managing fuel procurement for some production sites, pursuant to the Tolling Agreement.
- Raw material and services used of 5 million euros mainly from the purchase of green certificates.
- The table provided above shows the impact on the balance sheet of the various transactions reviewed above.

***SEL Group***

Transactions with the SEL Group resulted in revenues of about 16 million euros from the sale of electric power and costs of about 41 million euros for purchases of electric power.
The table provided above shows the impact on the balance sheet of the various transactions reviewed above, in addition, dividend payments totaled 4 million euros in 2010.

***Dolomiti Energia Group***

Transactions executed pursuant to contracts for the supply of electric power resulted in revenues of 7 million euros.
The preceding table shows the impact on the balance sheet of the transactions reviewed above; in addition, dividend payments totaled 3 million euros in 2010.

## 2) Financial Transactions

The main financial transactions executed by the Group in which some other significant parties played a remarkable role are reviewed below:
- Banca Popolare di Milano was one of the lenders in a syndicated financing facility, originally totaling 2 billion euros, provided to Edipower in January 2007. At December 31, 2010, the portion of the facility underwritten by Banca Popolare di Milano was 36 million euros (18 million euros attributable to Edison) that had been drawn for 32 million euros (16 million euros attributable to Edison). Banca Popolare di Milano also provided Edison Spa with a 70-million-euro revocable line of credit. At December 31, 2010, this credit line was being used only in sureties for about 37.6 million euros, this amount is booked in guarantees provided.
- In 2004, Mediobanca provided Edison Spa with 120 million euros in financing against EIB funds. A portion of this loan has been repaid in accordance with the amortization schedule and a balance of about 93 million euros was outstanding at December 31, 2010. Mediobanca was also one of the banks that provided Edipower with the abovementioned syndicated loan originally amounting to 2 billion euros. At December 31, 2010, Mediobanca's share of the loan was 122 million euros (61 million euros attributable to Edison), drawn, by Edipower, for 105 million euros (52.5 million euros attributable to Edison). Furthermore, Gever, an Edison Group company, holds lines of credit in a financing pool totaling about 4.7 million euros, of which about 4 million euros have been drawn down. Lastly, Mediobanca is a party to interest risk hedging transactions executed by Group companies.

A 30-million-euro financing facility provided by SEL Spa to Hydros Srl was outstanding at December 31, 2010. In addition, Edison Spa provided about 6 million euros in short-term financing to EL.IT.E. Spa, an affiliated Group company.

# OTHER INFORMATION

## Significant Nonrecurring Events and Transactions

Significant nonrecurring transactions executed in 2010 that require disclosure pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006 are listed below:

- The Group filed for early termination of CIP 6/92 contracts for the Jesi, Milazzo, Porto Viro and Porcari thermoelectric power plants. As a result, it recognized a gain of 173 million euros on EBITDA and of 52 million euros on profit, including the writedowns of some assets and the tax effects. The receivable resulting from this transaction was assigned without recourse and collected in 2010, with a cash flow impact of 172 million euros.
- Edison Spa signed on December a term sheet for the disposal of the business operations comprised of two thermoelectric power plants located in Taranto, for a price of 165 million euros. In 2010, Edison recognized a writedown of assets for 40 million euros in connection with this transaction, that will be define within January 15, 2012, and the reclassification of the assets and liabilities of the business operations in the "Assets and liabilities held for sale".
- Edison Spa favorably settled the arbitration proceedings regarding a dispute with Falck that arose in connection with the sales of Tecnimont. As a result of this settlement, Edison Spa reported a net gain of about 25 million euros in its income statement and a positive cash flow of 7 million euros.

## Transactions Resulting from Atypical and/or Unusual Activities

As required by CONSOB Communication No. DEM/6064293 of July 28, 2006, the Edison Group declares that it did not execute atypical and/or unusual transactions, as defined in the abovementioned Communication, in 2010.

# SIGNIFICANT EVENTS OCCURRING AFTER DECEMBER 31, 2010

## Edison: arbitration proceedings for long-term gas supply contracts

On March 14, 2011 the Board of Directors reviewed an update of the Company's operating performance and financial position for the current year, focusing on developments in the Price Review processes for long-term natural gas contracts. Insofar as the contracts with ENI are concerned, an agreement was reached recently for the gas from Norway, the terms of which were communicated to the market on February 11, 2011 and the Board of Directors was informed that arbitrations proceedings are currently under way for the gas from Libya. The Board of Directors agreed to file for arbitration proceedings with regard to RasGAS and the long-term contract for gas from Qatar.
The purpose of the arbitration proceedings is to enforce Edison's right to earn reasonable margins that are commensurate with long-term commitments, while avoiding the need to pursue short-term fixes that could prove to have detrimental effects over the medium term. Considering the foreseeable length of the arbitration proceedings, which for some contracts will plausibly go through all 2011, and considering also the possibility that out-of-court settlements can be reached for other contracts, the Company informs the market that its 2011 EBITDA could be exposed to a negative impact that, based on currently available estimates, could be of 200 million euros. Current estimate is that 2011 EBITDA will be about 900 million euros. The company's goal is to obtain in the next financial years a reasonable long term gas contracts profitability and also one-off effects for previous financial years, thus consequently recovering the negative impact mentioned above.

## Edison: renegotiations of contract for the supply of natural gas from Norway

Edison, on February 2011, successfully completed the renegotiation with ENI for concerning the price for the long-term contract for the supply of natural gas from Norway expiring at the end of the year. The agreement negotiated generates significant cost savings compared with the contract previously in effect.

## Edison as Operator in the Barents Sea, Norway

Edison, through its Edison International Spa subsidiary, was awarded three new hydrocarbon exploration licenses in the Norwegian Continental Shelf which had been put out for bids by the Norwegian Oil and Energy Ministry. The licenses include:

- in the Barents Sea and in the Norway Sea, with Edison as operator through a 60% stake in a joint venture with North Energy ASA (40%);
- in the southern North Sea, with Edison having a 10% stake in a joint venture with Talisman Energy (40%, operator), Det Norske ASA (20%), Skagen (10%) and Petoro AS (20%).

The agreements call for an exploration period of three years and the drilling of one well in the southern North Sea.

Milan, March 21, 2011

The Board of Directors
By Giuliano Zuccoli
*Chairman*

# SCOPE OF CONSOLIDATION AT DECEMBER 31, 2010

The Rospo offshore platform
in the Adriatic Sea.

# SCOPE OF CONSOLIDATION AT DECEMBER 31, 2010

## List of equity investments (pursuant to Article 126 of Consob Resolution No. 11971 of May 14, 1999)

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2010 | Consolidated Group interest (a) 12.31.2009 | Interest held in share capital % (b) | Interest held in share capital by | Voting securities held % (c) | Exercisable voting rights % (d) | Type of investment relationship (e) | 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 | 12.31.2010 | 12.31.2009 | % (b) | by | % (c) | % (d) | (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Group Parent Company** | | | | | | | | | | | |
| Edison Spa | Milan | EUR | 5,291,700,671 | | | | | | | | |
| **Electric Power Operations** | | | | | | | | | | | |
| 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) |
| Dolomiti Edison Energy Srl | Trento (IT) | EUR | 5,000,000 | 49.00 | 49.00 | 49.00 | Edison Spa | - | - | S | - |
| Ecofuture Srl (single shareholder) | Milan (IT) | EUR | 10.200 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | (i) |
| Edison Energia Spa (single shareholder) - Attività Energia Elettrica | Milan (IT) | EUR | 22,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | (i) |
| Edison Energie Speciali Calabria Spa (single shareholder) | Milan (IT) | EUR | 120,000 | 100.00 | - | 100.00 | Edison Spa | - | - | S | (i) |
| Edison Energie Speciali Sicilia Srl (single shareholder) | Palermo (IT) | EUR | 20,000 | 100.00 | 100.00 | 100.00 | Edison Energie Speciali Spa (single shareholder) | - | - | S | (i) |
| Edison Energie Speciali Spa (single shareholder) | Milan (IT) | EUR | 4,200,000 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | (i) |
| Edison Engineering Sa | Athens (GR) | EUR | 260,001 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | - |
| Edison Power Energy Srl (single shareholder) Ex Hydro Power Energy Srl - HPE Srl (single shareholder) | Milan (IT) | EUR | 50,000 | 100.00 | 100.00 | 100.00 | 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) |
| Eneco Energia Spa (single shareholder) | Bolzano (IT) | EUR | 222,000 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | (i) |
| Gever Spa | Milan (IT) | EUR | 10,500,000 | 51.00 | 51.00 | 51.00 | Edison Spa | - | - | S | - |
| Hydros Srl - Hydros Gmbh | Bolzano (IT) | EUR | 30,018,000 | 40.00 | 40.00 | 40.00 | Edison Spa | - | - | S | - |
| Jesi Energia Spa | Milan (IT) | EUR | 5.350,000 | 70.00 | 70.00 | 70.00 | Edison Spa | - | - | S | (i) |
| Parco Eolico San Francesco Srl (single shareholder) | Milan (IT) | EUR | 100,000 | 100.00 | - | 100.00 | Edison Energie Speciali Spa (single shareholder) | - | - | S | (i) |
| Presenzano Energia Srl | Milan (IT) | EUR | 120,000 | 90.00 | 100.00 | 90.00 | Edison Spa | | | S | (i) |
| Sarmato Energia Spa | Milan (IT) | EUR | 14,420,000 | 55.00 | 55.00 | 55.00 | Edison Spa | - | - | S | - |
| Sistemi di Energia Spa | Milan (IT) | EUR | 10,083,205 | 86.12 | 86.12 | 86.12 | Edison Spa | - | - | S | (i) |
| Sondel Dakar Bv | Breda (NL) | EUR | 18,200 | 100.00 | 100.00 | 100.00 | Edison International Holding Nv | - | - | S | - |
| 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) |
| **Hydrocarbons Operations** | | | | | | | | | | | |
| Amg Gas Srl | Palermo (IT) | EUR | 100,000 | 80.00 | 80.00 | 80.00 | Edison Spa | - | - | S | (i) |
| Edison D.G. Spa (single shareholder) | Selvazzano Dentro (PD) (IT) | EUR | 460,000 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | (i) |
| Edison Energia Spa (single shareholder) - Attività Idrocarburi | Milan (IT) | EUR | 22,000,000 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | (i) |
| Edison Idrocarburi Sicilia Srl (single shareholder) | Ragusa (IT) | EUR | 10,000 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | (i), |
| Edison International Spa | Milan (IT) | EUR | 75,000,000 | 100.00 | 100.00 | 92.86 | Edison Spa | - | - | S | (i) |
| | | | | | | 7.14 | Selm Holding International Sa (in liquidation) | - | - | | |
| Edison Stoccaggio Spa (single shareholder) | Milan (IT) | EUR | 81,497,301 | 100.00 | 100.00 | 100.00 | Edison Spa | - | - | S | (i) |
| Euroil Exploration Ltd | London (GB) | GBP | 9,250,000 | 100.00 | 100,00 | 0.00 | Edison Spa | - | - | S | - |
| | | | | | | 100.00 | Selm Holding International Sa (in liquidation) | - | - | | |

# List of Equity Investments (continued)

(pursuant to Article 126 of Consob Resolution No. 11971 of May 14, 1999)

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2010 | Consolidated Group interest (a) 12.31.2009 | Interest held in share capital % (b) | by | Voting securities held % (c) | Exercisable voting rights % (d) | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Corporate Activities and other operations** | | | | | | | | | | | |
| Atema Limited | Dublino 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 Abu Qir Bv | Amsterdam (NL) | EUR | 18,000 | 100,00 | 100,00 | 100,00 | Edison International Holding Nv | - | - | S | - |
| Edison International Exploration & Production Bv | Amsterdam (NL) | EUR | 18,000 | 100,00 | 100,00 | 100,00 | Edison International Holding Nv | - | - | S | - |
| Edison International Finance Abu Qir Bv | Amsterdam (NL) | EUR | 18,000 | 100,00 | 100,00 | 100,00 | Edison International Holding Nv | - | - | S | - |
| Edison International Holding Nv | Amsterdam (NL) | EUR | 50,000,000 | 100,00 | 100,00 | 100,00 | Edison Spa | - | - | S | - |
| Montedison Srl (single shareholder) | Milan (IT) | EUR | 2,583,000 | 100,00 | 100,00 | 100,00 | Edison Spa | - | - | S | (i) |
| Nuova Alba Srl (single shareholder) | Milan (IT) | EUR | 2,016,457 | 100,00 | 100,00 | 100,00 | Edison Spa | - | - | S | (i) |
| Selm Holding International Sa (in liquidation) | Luxembourg (LU) | EUR | 24,000,000 | 100,00 | 100,00 | 100,00 | Edison Spa | - | - | S | - |

## A.2) Companies consolidated by the proportional method

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2010 | Consolidated Group interest (a) 12.31.2009 | Interest held in share capital % (b) | by | Voting securities held % (c) | Exercisable voting rights % (d) | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Electric Power Operations** | | | | | | | | | | | |
| Edipower Spa | Milan (IT) | EUR | 1,441,300,000 | 50.00 | 50.00 | 50.00 | Edison Spa | - | - | JV | - |
| Elpedison Power Sa | Marousi Athens (GR) | EUR | 98,198,000 | 37.89 | 37.50 | 75.78 | Elpedison Bv | - | - | JV | - |
| Elpedison Trading Sa | Marousi Athens (GR) | EUR | 500,000 | 50.00 | 50.00 | 100.00 | Elpedison Bv | - | - | JV | - |
| Ibiritermo Sa | Ibirité - Estado de Minas Gerais (BR) | BRL | 7,651,814 | 50.00 | 50.00 | 50.00 | Edison Spa | - | - | JV | - |
| Kinopraxia Thisvi | N. Kiffissia (GR) | EUR | 20,000 | 65.00 | 65,00 | 65.00 | Edison Engineering Sa | - | - | JV | (iii) |
| Parco Eolico Castelnuovo Srl | Castelnuovo di Conza (SA) (IT) | EUR | 10,200 | 50.00 | 50.00 | 50.00 | Edison Energie Speciali Spa (single shareholder) | - | - | JV | - |
| Sel Edison Spa | Castelbello (BZ) (IT) | EUR | 84,798,000 | 42.00 | 42.00 | 42.00 | Edison Spa | - | - | JV | - |
| **Hydrocarbons Operations** | | | | | | | | | | | |
| Abu Qir Petroleum Company | Alexandria (ET) | EGP | 20,000 | 50.00 | 50.00 | 50.00 | Edison International Spa | - | - | JV | - |
| Ed-Ina D.o.o. | Zagabria (HR) | HRK | 20,000 | 50.00 | 50.00 | 50.00 | Edison International Spa | - | - | JV | - |
| IGI Poseidon Sa-Nat. Gas Subm. Interc. Gre-Ita-Poseidon | Herakleio Attiki (GR) | EUR | 22,100,000 | 50.00 | 50.00 | 50.00 | Edison International Holding Nv | - | - | JV | - |
| **Corporate Activities and other operations** | | | | | | | | | | | |
| Elpedison Bv | Amsterdam (NL) | EUR | 20,000 | 50.00 | 50.00 | 50.00 | Edison International Holding Nv | - | - | JV | - |

# List of Equity Investments (continued)

(pursuant to Article 126 of Consob Resolution No. 11971 of May 14, 1999)

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

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2009 | Interest held in share capital % (b) | by | Voting securities held % (c) | Exercisable voting rights % (d) | Carrying value (in millions of euros) (f) | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Centrale Elettrica Winnebach Soc. Consortile Arl | Terento (BZ) (IT) | EUR | 100,000 | | 30.00 | Hydros Srl - Hydros Gmbh | - | - | - | AC | - |
| Centrale Prati Società Consortile Arl | Val di Vizze (BZ) (IT) | EUR | 300,000 | | 30.00 | Hydros Srl - Hydros Gmbh | - | - | - | AC | - |
| Consorzio Barchetta | Jesi (AN) (IT) | EUR | 2,000 | | 50.00 | Jesi Energia Spa | - | - | - | AC | - |
| EL.IT.E Spa | Milan (IT) | EUR | 3,888,500 | | 48.45 | Edison Spa | - | - | 2.8 | AC | - |
| Energia Senales Srl - Es Srl | Senales (BZ) (IT) | EUR | 100,000 | | 40.00 | Hydros Srl - Hydros Gmbh | - | - | - | AC | - |
| Eta 3 Spa | Arezzo (IT) | EUR | 2,000,000 | | 33.01 | Edison Spa | - | - | 1.2 | AC | - |
| GTI Dakar Ltd | George Town Gran Caiman (KY) | EUR | 14,686,479 | | 30.00 | Sondel Dakar Bv | - | - | - | AC | - |
| Iniziativa Universitaria 1991 Spa | Varese (IT) | EUR | 16,120,000 | | 32.26 | Montedison Srl (single shareholder) | - | - | 4.4 | AC | - |
| Kraftwerke Hinterrhein Ag | Thusis (CH) | CHF | 100,000,000 | | 20.00 | Edison Spa | - | - | 17.9 | AC | - |
| Soc. Svil. Rea. Gest. Gasdot. Alg-ITA V. Sardeg. Galsi Spa | Milan (IT) | EUR | 37,242,300 | | 20.81 | Edison Spa | - | - | 17.7 | AC | - |
| Utilità Spa | Milan (IT) | EUR | 2,307,692 | | 35.00 | Edison Spa | - | - | 1.5 | AC | - |
| **Total investments in companies valued by the equity method** | | | | | | | | | 45.5 | | |

# List of Equity Investments (continued)

(pursuant to Article 126 of Consob Resolution No. 11971 of May 14, 1999)

## C) Investments in companies in liquidation or subject to permanent restrictions

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2009 | Interest held in share capital % (b) | by | Voting securities held % (c) | Exercisable voting rights % (d) | Carrying value (in millions of euros) (f) | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Auto Gas Company S.A.E. (in liquidation) | Il Cairo (ET) | EGP | 1,700,000 | | 30.00 | Edison International Spa | - | - | - | AC | - |
| Cempes Scrl (in liquidation) | Rome (IT) | EUR | 15,492 | | 33.33 | Nuova C.I.S.A. Spa (In liq.) (single shareholder) | - | - | - | AC | - |
| Compagnia Elettrica Lombarda Spa (in liquidation) | Milan (IT) | EUR | 408,000 | | 60.00 | Sistemi di Energia Spa | - | - | - | S | - |
| Coniel Spa (in liquidation) | Rome (IT) | EUR | 1,020 | | 35.25 | Edison Spa | - | - | - | AC | - |
| Groupement Gambogi-Cisa (in liquidation) | Dakar (SN) | XAF | 1,000,000 | | 50.00 | Nuova C.I.S.A. Spa (In liq.) (single shareholder) | - | - | - | AC | - |
| Inica Soc. de Iniciativas Mineiras e Industriais Sa | Lisbon (PT) | PTE | 1,000,000 | | 20.00 | Edison Spa | - | - | - | AC | - |
| International Water Holdings Bv (in liquidation) | Amsterdam (NL) | EUR | 40,000 | 50.00 | 50.00 | Edison Spa | - | - | - | JV | - |
| 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 in Euros | 150,000,000 77,468.53 | | 33.33 | Montedison Srl (single shareholder) | - | - | - | AC | - |
| Poggio Mondello Srl (single shareholder) | Palermo (IT) | EUR | 364.000 | | 100.00 | Nuova C.I.S.A. Spa (In liq.) (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) | Roma (IT) | LIT in Euros | 300,000,000 154,937.07 | | 59.33 | Edison Spa | - | - | - | S | - |
| Sorrentina Scarl (in liquidation) | Rome (IT) | EUR | 46,480 | | 25.00 | Nuova C.I.S.A. Spa (In liq.) (single shareholder) | - | - | - | AC | - |
| Total investments in companies in liquidation or subject to permanent restrictions | | | | | | | | | 2.4 | | |

# List of Equity Investments (continued)

(pursuant to Article 126 of Consob Resolution No. 11971 of May 14, 1999)

| Company name | Head office | Currency | Share capital | Consolidated Group interest (a) 12.31.2009 | Interest held in share capital % (b) | by | Voting securities held % (c) | Exercisable voting rights % (d) | Carrying value (in millions of euros) (f) | Type of investment relationship (e) | Notes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **D) Investments in other companies valued at fair value** | | | | | | | | | | | |
| **D.1) Investments held for trading** | | | | | | | | | | | |
| Acegas-Aps Spa | Trieste (IT) | EUR | 283,690,763 | | 1.30 | Edison Spa | - | - | 2.6 | NG | - |
| Acsm-Agam Spa | Monza (IT) | EUR | 76,619,105 | | 1.94 | Edison Spa | - | - | 1.6 | NG | - |
| Amsc-American Superconductor | Devens (US) | USD | 507,017 | | 0.32 | Edison Spa | - | - | 3.4 | 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 | - |
| MB Venture Capital Fund I Participating Comp. E Nv | Amsterdam (NL) | EUR | 50,000 | | 7.00 | Edison Spa | - | - | 0.5 | NG | - |
| Prometeo Spa | Osimo (AN) (IT) | EUR | 2,292,436 | | 17.76 | Edison Spa | - | - | 0.5 | NG | - |
| Rashid Petroleum Company - Rashpetco | Il Cairo (ET) | EGP | 20,000 | | 10.00 | Edison International Spa | - | - | - | NG | - |
| RCS Mediagroup Spa | Milan (IT) | EUR | 762,019,050 | | 1.02 | Edison Spa | 1.06 | 1.06 | 8.0 | NG | - |
| Syremont Spa | Messina (IT) | EUR | 1,250,000 | | 24.00 | Edison Spa | - | - | - | AC | (ii) |
| Terminale GNL Adriatico Srl | Milan (IT) | EUR | 200,000,000 | | 10.00 | Edison Spa | - | - | 278.4 | NG | - |
| Sundry investments | | | | | | | | | 1.2 | | |
| Total investments in other companies valued at fair value | | | | | | | | | 300.6 | | |
| Total equity investments | | | | | | | | | 348.5 | | |

# List of Equity Investments (continued)

(pursuant to Article 126 of Consob Resolution No. 11971 of May 14, 1999)

| Company name | Head office | Currency | Share capital at 12.31.2010 | Consolidated Group interest at 12.31.2010 |
|---|---|---|---|---|
| **Companies added to the scope of consolidation in the year ended 12.31.2010** | | | | |
| Acquired companies | | | | |
| Parco Eolico San Francesco Srl (single shareholder) | Milan (IT) | EUR | 100,000 | 100.00 |
| Companies previously valued by the equity method | | | | |
| Edison Energie Speciali Calabria Spa (single shareholder) | Crotone (IT) | EUR | 120,000 | 100.00 |

| Company name | Head office | Currency | Share capital at 12.31.2009 | Consolidated Group interest in 2010 | Consolidated Group interest at 12.31.2009 |
|---|---|---|---|---|---|
| **Companies removed from the scope of consolidation in the year ended 12.31.2010** | | | | | |
| Companies placed in liquidation | | | | | |
| International Water Holdings Bv | Amsterdam (NL) | EUR | 40,000 | 50.00 | 50.00 |
| Liquidated companies | | | | | |
| Ascot Srl | Bressanone (BZ) (IT) | EUR | 10,330 | 50.00 | 50.00 |

# 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) The percentage of the voting securities held is equivalent to the ratio between the number of voting securities held directly (irrespective of the ownership of the voting rights) and the total number of voting securities (e.g. common and preferred shares) included in the share capital. The percentage is shown only if it is different from the overall interest held.

(d) The percentage of securities with exercisable voting rights is the ratio between the number of votes which can be effectively cast by the investor company attending an Ordinary Shareholders' Meeting and the total number of votes that can be cast at an Ordinary Shareholders' Meeting. The percentage is shown only if it is different from the overall interest held.

(e) S = subsidiary 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) This company is a contractual joint venture.

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

BRL Brazilian real

CHF Swiss franc

EGP Egyptian pound

EUR Euro

GBP British pound

HRK Croatian kuna

PTE Portuguese escudo

USD U.S. dollar

XAF Central African franc

# CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

1. We, the undersigned Umberto Quadrino, in my capacity as "Chief Executive Officer," and Marco Andreasi, in my capacity as "Dirigente Preposto 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 Consolidated Financial Statements at December 31, 2010:

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

2. We further certify that:

   2.1. the Consolidated Financial Statements:

   a. were prepared in accordance with applicable international accounting principles recognized by the European Union pursuant to Regulation (CE) No. 1606/2002 of the European Parliament and Council of July 19, 2002;
   b. are consistent with the data in the accounting records and other corporate documents;
   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 report on operations includes a reliable analysis of the developments and results from operations, as well as of the position of the issuer and all of the companies included in the scope of consolidation, together with a description of the main risks and contingencies to which they are exposed.

Milan, March 21, 2011

Umberto Quadrino

*Chief Executive Officer*

Marco Andreasi

*"Il Dirigente Preposto alla redazione dei documenti contabili societari"*

# REPORT OF THE INDEPENDENT AUDITORS

The Old Dam on the Adda River, with the Paderno bridge in the background.

**Auditors' report in accordance with articles 14 and 16 of Legislative Decree No. 39 of 27 January 2010**

To the shareholders of
Edison SpA

1. We have audited the consolidated financial statements of Edison SpA and its subsidiaries (the "Edison Group") of 31 December 2010, comprising the consolidated balance sheet, income statement and other components of the comprehensive income statement, cash flow statement, statement of changes in shareholders' equity and related notes. The preparation of these consolidated financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 is the responsibility of Edison's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements present as comparatives the amounts of the consolidated financial statements of the prior year . As specified in the notes to the consolidated financial statements, the directors restated certain comparative amounts relating to the prior year's consolidated financial statements that we audited and on which we issued our report on 18 February 2010, to reflect the new interpretation introduced by IFRIC 12. We examined the method applied in the restatement and the related disclosures provided in the notes to the consolidated financial statements for the purpose of expressing our opinion on the consolidated financial statements as of 31 December 2010.

***PricewaterhouseCoopers SpA***
Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob - Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna** Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel.0458002561
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3. In our opinion, the consolidated financial statements of Edison SpA as of 31 December 2010 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the consolidated financial position, results of operations and cashflows of the Edison Group for the year then ended.

4. The preparation of a report on operations and a corporate governance report in compliance with the applicable laws and regulations is the responsibility of the directors of Edison SpA. Our responsibility is to express an opinion on the consistency of the report on operations and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98, presented in the corporate governance report, with the financial statements, as required by article 156, paragraph 4-bis, letter d), of Legislative Decree No. 58/98. To this end, we have performed the procedures required under Auditing Standard No. 001 issued by the Italian accounting profession (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*) and recommended by CONSOB. In our opinion, the report on operations and the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree No. 58/98 presented in the corporate governance report are consistent with the consolidated financial statements of Edison SpA as of 31 December 2010.

Milan, 4 April 2011

PricewaterhouseCoopers SpA

Giulio Grandi
(Partner)

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

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This document is also available on the
Company website: www.edison.it

Editorial coordination
External Relations and Communications Department

Art direction by
In Pagina, Saronno

Photographs by
Archivio Edipower
Archivio Edison
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Eye Studio
Alberto Novelli
Polifemo fotografia
Fabrizio Villa
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Printed by
Grafiche Mariano, Mariano Comense

Milan, April 2011

This publication has been printed on ecological paper with a low environmental impact.

**Edison Spa**
31 Foro Buonaparte
20121 Milan, Italy

Capital stock: 5,291,700,671.00 euros, fully paid in
Milan Company Register and Tax I.D. No 06722600019
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