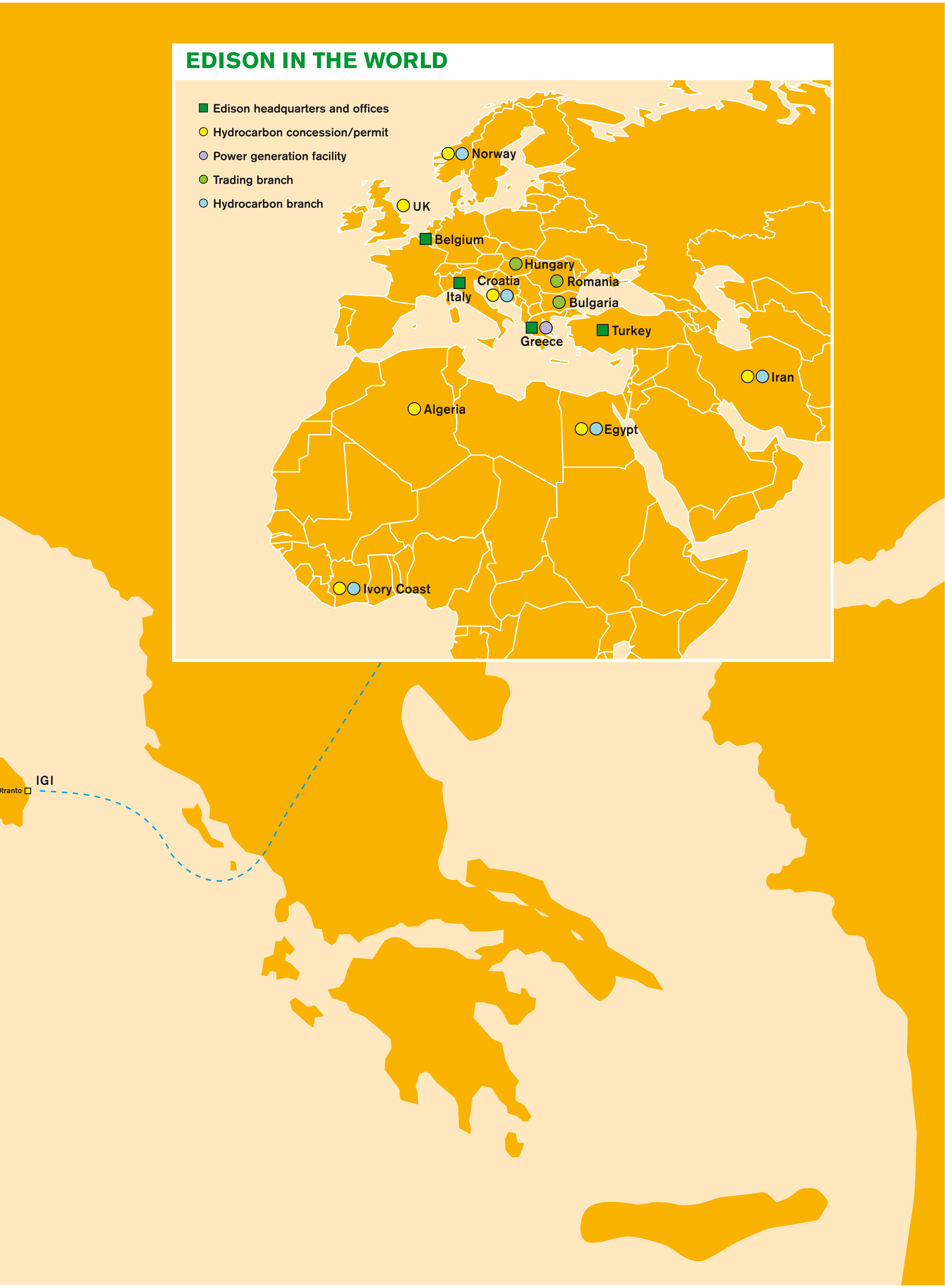
2010 ANNUAL REPORT

REPORT ON OPERATIONS

EDISON

EDISON IN ITALY

EDISON IN THE WORLD



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EDISON

A LETTER TO SHAREHOLDERS

Dear Shareholders:

In 2010, the world's economies began to turn around, but the pace of the recovery was uneven in different areas.

Europe seems to be struggling more than other geographic regions in returning to a growth path and, within it, there are countries, Germany, for example, that appear to have overcome the crisis, while others, including Italy, are finding it difficult to reestablish a sustained growth trend and some countries, such as Greece and Ireland, are faced with a period of deep financial crisis. In addition, recent events in North Africa are casting additional doubts on the durability of the global recovery.

In the energy field, after the slump in consumption that occurred in 2009, the upturn in demand is not strong enough to foreshadow a quick return to pre-crisis levels.

In the Italian electric power industry, the negative impact of low demand levels was compounded by the market entry of new production capacity built based on investment decisions made when the reference scenario was substantially different from the one we have today. The combined effect of lower demand and increased supply put significant pressure on generating margins, which contracted further, falling below the already depressed levels of 2009.

The scenario in the natural gas market is even more complex. In Europe, over the past five years, import capacity (new gas pipelines and new LNG terminals) increased by more than 25%. An increase of comparable magnitude occurred in Italy as well. However, due to the economic crisis, European demand for natural gas was down sharply, showing only partial signs of a turnaround in the past year. In addition, rising production of non-conventional gas in the United States has made that country self-sufficient with regard to internal consumption, with the result of flooding the market with huge quantities of liquefied natural gas that, lacking buyers in North America, were shifted mainly to Europe. The combined impact of these three developments (increased import capacity, lower demand and shift of LNG supply from the United States to Europe) put extreme pressure on spot natural gas prices, which diverged dramatically from the prices charged under conventional long-term contracts, which continue to be indexed to oil prices and are enforced by virtue of take-or-pay clauses. The reduction in the spot market price of natural gas had a strong cascading effect on price trends in the end-customer market, eventually causing margins on gas procured under long-term contract to turn negative. This situation, which affected all companies in the energy industry, including Edison, made it necessary to renegotiate the terms of gas contracts with suppliers and, in some cases, file for arbitration.

Edison responded to this situation of drastic changes in the energy scenarios and fierce competition with a series of activities designed to counteract short-term economic effects and reestablish the conditions for a return to adequate levels of profitability over the medium term. In the electric power area, the effect of a decrease in the profitability of generating activities was offset by sharply increasing sales volumes, optimizing of the use of the portfolio of production facilities and expanding trading activities. Overall, the activities of the electric power operations in the deregulated market increased their operating margin, achieving what should be viewed as a highly significant success, given the context within which the Company operated.

On the other hand, the contribution provided by power plants that operate under CIP6 regulations decreased due to the expiration of some contracts. At the same time, Edison decided in 2010 to terminate ahead of schedule the CIP6 contracts for the Jesi, Milazzo, Portoviro and Porcari power plants, generating a nonrecurring benefit of more than 170 million euros that fully offset the abovementioned decrease.

In the hydrocarbon area, the benefit of steadily growing results reported the exploration and production activities, both in Italy and internationally, was offset by the effect of vanishing profit margins on the importation and sales of natural gas. Edison views this negative situation as temporary, in that it is caused by the macroeconomic developments described above and does not reflect the expect positive outcome of the current renegotiations of long-term gas contracts. As you may know, these contracts, in exchange for the take-or-pay obligations undertaken by the importer, provide the importer with the right to an adequate margin. The purpose of the negotiations currently under way is to reestablish ad6equate margins and, when completed, should lead to the return of normal levels of profitability and make up for the margins lost in 2010.

The reduction in Edison's overall operating margins is entirely due to the situation described above, as the Group's other businesses maintained or improved their profitability.

Dear Shareholders:
The awareness of the severity of the crisis and the uncertain outlook of our markets for the near future, caused the Board of Directors to apply conservative valuations to the measurement of some assets. In total, the Company recognized writedowns and provisions amounting to more than 400 million euros concerning the assets that are most exposed to market uncertainties. As a result of the decrease in profitability and the provisions and writedowns mentioned above, the Company's net result for the year amounts to 21 million euros compared with a net profit of 240 million euros in 2009. This result does not allow the distribution of an annual dividend either to the common shares or the savings shares.

The priority for 2011 will be to continue the negotiations aimed at reestablishing adequate margins under long-term gas contracts. We will pursue this objective with determination, comforted by our belief in our rights, but without rushing to secure short-term fixes that could prove to be detrimental over the medium term. The use of arbitration proceedings, which could extend for periods beyond 2011, could have a negative impact on the result for the current year. However, we believe that it is our duty to protect the Company's long-term profitability potential, even at the cost of some temporary sacrifices.

Obviously, in this environment, all efforts will focus on strict management control and the constant pursuit of greater efficiency. In this respect, we find comfort in the outstanding results produced by the Operating Excellence programs launched in previous years, which will revamped and expanded. In addition, Edison will continue to seek growth in all of those areas that were less affected by the current economic crisis: investments in gas storage facilities, renewable sources, energy conservation and efficiency will provide to an increasing extent a replacement for the support formerly provided by traditional market activities and for the missing contribution of contracts for regulated activities.

During crisis periods, such as the one we are currently experiencing, industry players think in terms of repositioning and future outlook. Italy, differently from other European countries, has an anomalous situation with a large number of producers, some of whom are quite small. If the Italian market will provide consolidation opportunities, Edison will be ready to consider them, if they serve the purpose of strengthening its position as the second largest operator both in the electric power market and the natural gas market. Your Company can count on top-notch people, competencies and technical facilities and is certain that it will emerge stronger from this difficult period.

Giuliano Zuccoli
Chairman

Umberto Quadrino
Chief Executive Officer

EDISON TODAY

EDISON IS ONE OF ITALY'S TOP ENERGY OPERATORS. IT PRODUCES, IMPORTS AND SELLS ELECTRIC POWER AND HYDROCARBON PRODUCTS (NATURAL GAS AND OIL).

The Ripabottoni wind farm in Molise.

ELECTRIC POWER

Italian Market in 2010

Total Italian gross demand	326.2	TWh
Edison's gross sales in Italy (*)	**71.9**	**TWh**
incl.: - Deregulated market (*)	57.5	TWh
- CIP 6/92	10.7	TWh
- Captive	3.6	TWh
End customers activated at 12/31/2010	586	'000

Facilities and Production Capacity in 2010

Edison's installed capacity + Edipower (50%) (**)	**12.5**	**'000 MW**
Net production of electric power - Total Italy	286.5	TWh
Net production of electric power Edison (including 50% of Edipower)	**41.8**	**TWh**
Share of total italian production	14.6	%

(*) Including Power Exchange sales and sales to wholesalers and excluding exports.
(**) Including the share of Edipower's installed capacity available to Edison under the current tolling contract.

Sources: Pre-closing data by AU and Terna and Edison estimated data.

HYDROCARBONS

Italian Market in 2010

Total Italian demand	82.8	Bill. m³
Edison's sales in Italy	**15.8**	**Bill. m³**
Edison's sales/Total Italian demand	19.1	%
End customers activated at 12/31/2010	426	'000

Facilities and Production Capacity in 2010

Natural gas production - Total Italy	8.2	Bill. m³
Natural gas production - Edison (Italy)	**0.5**	**Bill. m³**
Share of total production	6.2	%
Number of concessions and permits in Italy	60	n.
Number of storage-center concessions in Italy (*)	3	n.
Natural gas production - Edison (outside Italy)	**1.5**	**Bill. m³**
Number of concessions and permits outside Italy	20	n.
Hydrocarbon reserves	52.8	Bill. m³ eq.
Gas transmission network (low - and medium- pressure pipelines)	3.68	'000/Km
Gas transmission network (high- pressure pipelines)	0.08	'000/Km

(*) Two operational storage centers and one under development.

Sources: Pre-closing data by the Ministry of Development and Edison estimated data.

EDISON KEY FIGURES

12.5
GW Installed Generating Capacity*

72
Hydroelectic Power Plants

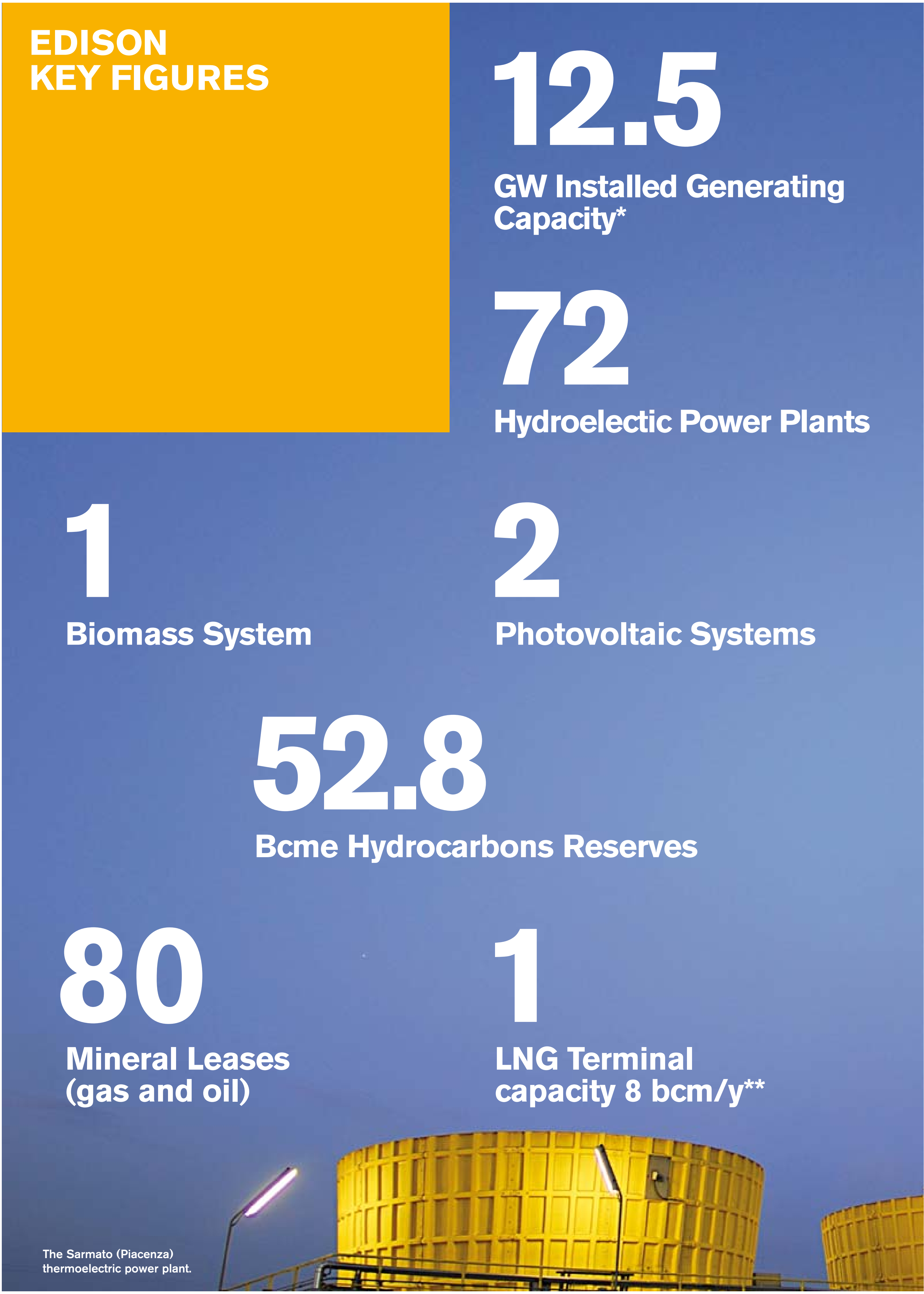
1
Biomass System

2
Photovoltaic Systems

52.8
Bcme Hydrocarbons Reserves

80
Mineral Leases (gas and oil)

1
LNG Terminal capacity 8 bcm/y**



The Sarmato (Piacenza) thermoelectric power plant.

41.8
TWh Net Production of Electric Power

30
Thermoelectric Power Plants

31
Wind Farms

15.8
Bcm/y Hydrocarbons Sales in Italy

3
Gas Storage Centers

1
HV merchant line 150 MW*

* Including 50% of Edipower
** Edison Uses 6.4 bcm/y
*** Edison Share 48.45%

SIMPLIFIED STRUCTURE OF THE GROUP AT DECEMBER 31, 2010

ORGANIZATION AND ACTIVITIES OF THE BUSINESS UNITS AND MAIN CONSOLIDATED COMPANIES

Electric Power Operations

Management of facilities to generate thermoelectric and hydroelectric energy

- Edipower Spa [(2)]
- Hydros Srl
- Dolomiti Edison Energy Srl

Power International

Development and management of international thermoelectric power plants and electric power interconnector system

- Elpedison BV
- Elite Spa

Renewable sources

Development and management of facilities to generate energy from wind power and other renewable sources

- Edison Energie Speciali Spa

Energy Management

Dispatching and sales on the Power Exchange and to wholesalers

- Edison Trading Spa

- Electric Power Business Unit
- Hydrocarbons Business Unit
- Main consolidated companies

(1) Edison Spa, working through its Business Units and Corporate Activities, is directly engaged in the production of electric power from hydroelectric and thermoelectric power plants, and produces, imports and distributes hydrocarbon products.

(2) Edipower Spa is consolidated at 50% by the proportional method.

(*) Companies subject to functional unbunding requirements.

The Rospo platform in the Adriatic Sea.

Hydrocarbons Operations

Hydrocarbon exploration and production and natural gas storage, trasmission and distribution in Italy and abroad

- Edison International Spa
- Abu Qir Petroleum Co
- Edison Stoccaggio Spa (*)
- Edison D.G. Spa (*)

Natural Gas International

Development of international natuaral gas interconnector system

- Igi-Poseidon Sa
- Galsi Spa

Gas Supply & Logistics

Procurement management, logistics and sales to wholesalers and thermoelectric power plants

Marketing & Distribution

Sales of electric power and natural gas to end users

- Edison Energia Spa

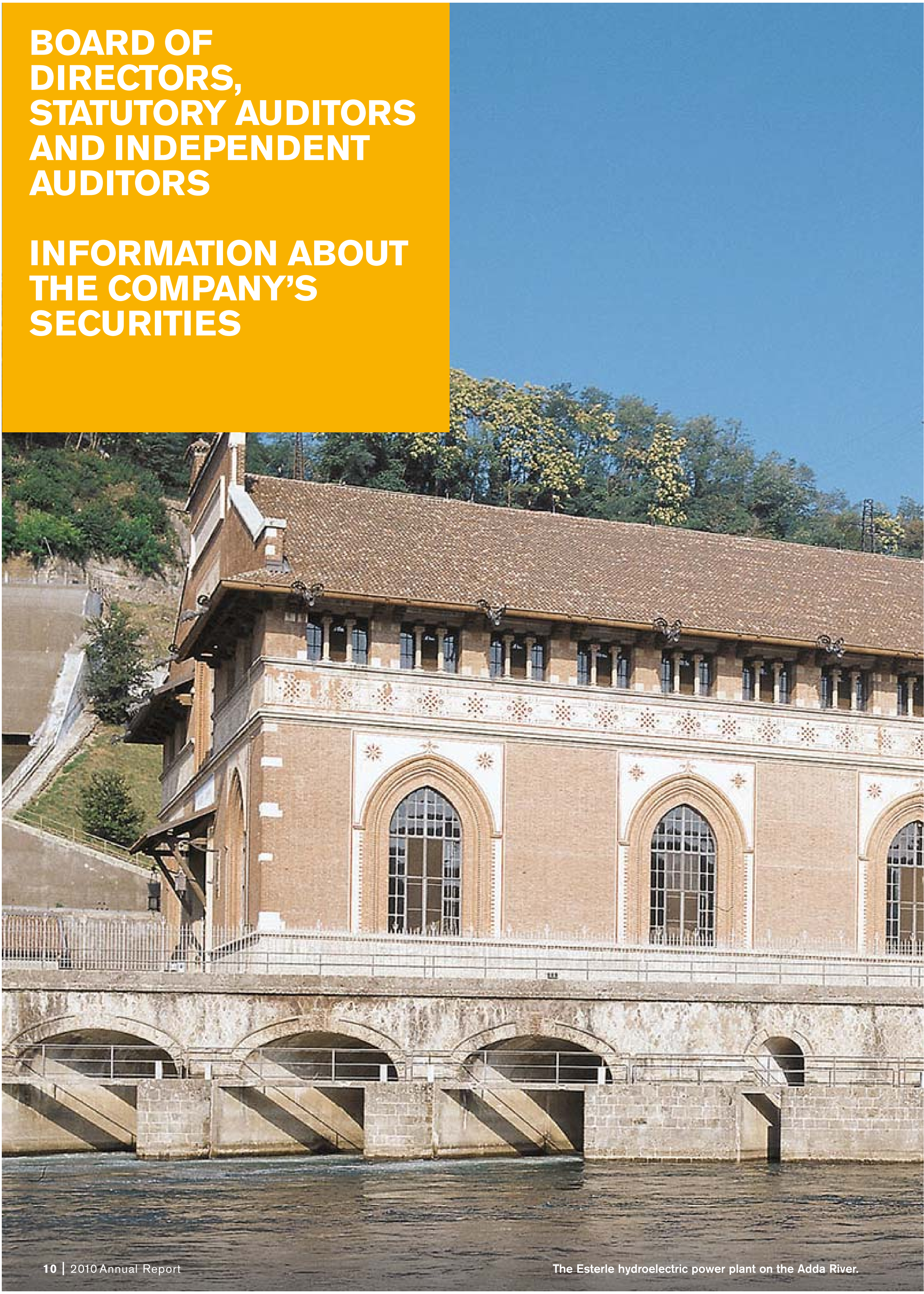
EDISON Spa (1)

Energy Efficiency and Sustainable Development

Solutions for sustainable energy use

BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

INFORMATION ABOUT THE COMPANY'S SECURITIES



The Esterle hydroelectric power plant on the Adda River.

BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

Board of Directors[1]

Chairman		Giuliano Zuccoli [2]
Chief Executive Officer		Umberto Quadrino [2]
Directors	independent Director	Mario Cocchi [3][4]
	independent Director	Gregorio Gitti [3][4][5]
	independent Director	Gian Maria Gros-Pietro [3][4][5][6]
		Bruno Lescoeur [2][7]
		Jean-Louis Mathias [3][8]
		Marco Merler [6]
		Thomas Piquemal [6][9]
		Henri Proglio [10]
		Renato Ravanelli [2]
		Paolo Rossetti
		Andrea Viero [6][11]

Board of Statutory Auditors[1]

Chairman	Alfredo Fossati
Statutory Auditors	Angelo Palma
	Leonello Schinasi

Independent Auditors[12]

PricewaterhouseCoopers Spa

(1) Elected by the Shareholders' Meeting of April 2, 2008 for a three-year period ending with the approval of the 2010 annual financial statements.
(2) Member of the Strategy Committee.
(3) Member of the Compensation Committee.
(4) Member of the Committee of Independent Directors.
(5) Member of the Oversight Board.
(6) Member of the Audit Committee.
(7) Coopted on January 14, 2011 to replace Marc Boudier, who resigned. His term of office ends with the next Shareholders' Meeting.
(8) Coopted on January 14, 2011 to replace Gerard Wolf, who resigned. His term of office ends with the next Shareholders' Meeting.
(9) Coopted on June 29, 2010 to replace Didier Calvez, who resigned. His term of office ends with the next Shareholders' Meeting. Didier Calvez was coopted on April 30, 2009 to replace Daniel Camus, who resigned, and was elected by the Shareholders' Meeting of March 23, 2010.
(10) Coopted on February 8, 2010 to replace Pierre Gadonneix, who resigned, and elected by the Shareholders' Meeting of March 23, 2010.
(11) Coopted on November 12, 2008 to replace Ivan Strozzi, who resigned, and elected by the Shareholders' Meeting of March 31, 2009.
(12) Audit assignment awarded by the Shareholders' Meeting of April 19, 2005 for the 2005-2007 period and extended for three years, from 2008 to 2010, by the Shareholders' Meeting of April 5, 2007.

INFORMATION ABOUT THE COMPANY'S SECURITIES

Number of shares at December 31, 2010

Common shares	5,181,108,251
Saving shares	110,592,420

Shareholders with Significant Holdings at December 31, 2010

	% of voting rights	% interest held
Transalpina di Energia Srl	61.281%	60.001%
EDF Eléctricité de France Sa [1]	19.359%	18.954%
Carlo Tassara Spa [2]	10.025%	9.816%

(1) Interest held indirectly.
(2) Interest held directly.

REPORT ON OPERATIONS

An LNG tanker docked at the Adriatic regasification terminal

KEY EVENTS IN 2010

GROWING OUR BUSINESS

ITGI Gas Pipeline: The Agreement to Build the Greece-Bulgaria Pipeline Bypass (IGB) Is Finalized and an Agreement Allowing Transit Through Turkey Is Signed

On March 4, 2010, at a meeting in Thessaloniki, BEH (Bulgarian Energy Holding) and IGI Poseidon Sa (a 50-50 joint venture of DEPA, Greece's national gas company, and Edison) finalized an agreement to establish an asset company (BEH 50% and IGI Poseidon Sa 50%) that will build the new IGB (Interconnector Greece-Bulgaria) natural gas pipeline.
The IGB pipeline will have a length of about 160 km, running between Komotini (Greece) and Stara Zagora (Bulgaria). With an annual capacity of 3 to 5 billion cubic meters of natural gas, it will provide Bulgaria with access to new supply sources by way of Greece. Planned investments total 140 million euros and the project is expected to have access to about 45 million euros in funding under the EU's European Economic Recovery Plan.
Engineering activities in preparation for construction will begin once the agreement is officially approved by the respective companies, with the pipeline expected to go on stream in 2013.

Subsequently, meeting in Sofia (Bulgaria) on November 30, 2010, Edison, DEPA, IGI Poseidon Sa and Bulgarian Energy Holding EAD signed documents establishing a company called Natural Gas Interconnector Greece Bulgaria EAD (IGB EAD), which will be responsible for developing, building and operating a new IGB natural gas pipeline linking Greece with Bulgaria.

Lastly, on June 17, 2010, at a meeting in Ankara, Edison, DEPA and Botas (Turkey's national gas company) signed a Memorandum of Understanding allowing transit through Turkey for natural gas delivered by the ITGI (Turkey-Greece-Italy Interconnector). This project is the first component being built in Europe of the so-called "Southern Corridor," an infrastructure recognized by the European Union as a "Project of European Interest" and included in the European Economic Recovery Plan with proposed funding of 100 million euros. The agreement sets forth the general terms and conditions governing the transit of the ITGI through Turkey and the use of the available capacity in the Turkish network operated by Botas, up to the border with Greece, for the gas volumes required by the ITGI gas pipeline.

This agreement strengthens the partnership between Edison, DEPA and Botas, by creating the possibility for Botas to acquire an interest in IGI Poseidon Sa. This company, which is currently owned in equal shares by Edison and DEPA, is responsible for the construction of an underwater gas pipeline between Greece and Italy (the Poseidon gas pipeline).
The companies involved will also jointly evaluate the possibility of a collaborative arrangement for implementing the expansion of the Turkish network that will be required to allow the transit of ITGI gas.

Vega Field: Italy's Largest Offshore Oil Platform Is Back in Business

On June 25, 2010, in Siracusa, Sicily, production from the Vega oil field (60% Edison, as operator, and 40% Eni) resumed upon completion of the installation of a new oil storage system. This FSO (Floating Storage and Offloading) system is connected, through three underwater lines, with the oil platform, where the production facilities are located. The mooring system of the FSO Leonis (consisting of a buoy-yoke-tanker beam) was entirely designed by Edison and provides the highest level of security even under extreme weather and sea conditions.
The Vega field is located in the Strait of Sicily, about 12 miles off the Pozzallo (Siracusa) coast. The field began producing in 1987 and is currently flowing oil from 20 wells. From 1987 to present, the field has produced 55.5 million barrels of oil. It has been estimated that the Vega field is capable of producing an additional 12 million barrels of oil.

The pictures shows the Vega oil field, located about 12 miles offshore the Pozzallo coast (Syracuse), with the FSO Leonis in the background.

Edison Expands in Renewables Acquiring a 26-MW Wind Farm in Melissa (KR)

On July 20, 2010, Edison, acting through its Edison Energie Speciali Spa subsidiary, closed the purchase from Gamesa Energia Sa of 100% of Parco Eolico San Francesco Srl, which owns a fully operational 26-MW wind farm in the municipality of Melissa (KR).
The San Francesco facility in Melissa (KR) is capable of generating about 46 Gigawatt Hours of power a year.
Edison currently operates facilities with more than 2,100 MW of production capacity from renewable sources.

Edison: New Gas Discovery in the Sea of Norway

In September 2010, a new gas field was discovered in the Sea of Norway. The new well falls within production license 435 (Zidane).
The well's licensee consortium includes Edison (20%), RWE (40% and operator), Maersk Oil Norway (20%) and Norwegian Energy Company (20%).
Estimates of the recoverable gas range between 5 and 18 billion standard cubic meters.

Edison Reaches the One-million-customer Mark. Expects to Double that Number in Two Years

In November 2010, just two years after it first entered the residential market, Edison achieved the milestone of one million customers served and plans to double that number within two years and grow to three million customers by 2014.
Edison supplies 40% of its customers with electric power and another 40% with natural gas. The remaining 20% chose Edison as a supplier both of electric power and natural gas.

Edison Joins the Main Gas Exchanges of Continental Europe

At the end of December, Edison completed the process of registering with the main gas exchanges of Continental Europe, qualifying as an operator on the Endex TTF (Holland), the EEX Gas (Germany) and the newly established GME (Italy).
Edison intends to broaden the network of Gas Exchanges where it can operate and will soon begin the process of registering with the CEGH Gas Exchange in Austria.

STRENGTHENING OUR FINANCIAL POSITION

Edison Successfully Completes the Placement of a 500-million-euro Bond Issue

On March 10, 2010, with demand in excess of 4 billion euros, Edison Spa completed the placement of a five-year bond issue, listed on the Luxembourg Exchange, for a total amount of 500 million euros, sold exclusively to qualified investors.
The bonds, which were offered at a 99.70 issue price with a minimum denomination of 50,000 euros, mature on March 17, 2015 and carry a gross annual coupon of 3.25%.

The Board of Directors of Edison Spa Approves an Extension of the EMTN Program and New Bond Issues for up to 1 Billion Euros

On September 24, 2010, the Board of Directors of Edison Spa agreed to increase from 2 to 3 billion euros the maximum amounts of bonds that may be issued under the Euro Medium-term Note Program. As originally announced to the market, this program was approved by the Board at a meeting held on June 25, 2009 and was registered with the Luxembourg Securities Exchange on July 14, 2009.
The program sets forth the general conditions for Eurobond issues floated by Edison Spa. Bonds totaling 1,200 million euros have already been issued under this program. These bonds have been placed with qualified investors and are traded on the Luxembourg Securities Exchange.

The Board of Directors also agreed to issue up to 1 billion euros in new bonds, in one or more tranches, as part of the abovementioned program.

Edison Successfully Completes the Placement of a 600-million-euro Bond Issue

On November 3, 2010, with demand totaling about 1.3 billion euros, Edison Spa completed the placement of a seven-year bond issue, listed on the Luxembourg Exchange, for a total amount of 600 million euros, sold exclusively to qualified investors.
The bonds, which were offered at a 99.555 euro issue price with a minimum denomination of 50,000 euros, mature on November 10, 2017 and carry a gross annual coupon of 3.875%. The effective gross yield to maturity is 3.949%, which corresponds to a yield 155 basis points higher than the reference rate (seven-year mid-swap). The bonds are governed by British law.

OTHER KEY EVENTS

Moody's and Standard & Poor's Update Edison's Rating

On October 14, 2010, following its annual review, Moody's Investor Service updated Edison's long-term credit rating, revising it from Baa2, Negative Outlook, to Baa3, Stable Outlook.
Subsequently, on November 2, 2010, Standard & Poor's also updated Edison's long-term credit rating, revising it from BBB+, Negative Outlook, to BBB, Stable Outlook.
These revisions reflect the impact on Edison's financial position of the persistent weakness projected for the Italian electric power and natural gas markets.
The Stable Outlook reflects the fact that Edison fits comfortably within parameters that are consistent with the new rating.

SIGNIFICANT EVENTS OCCURRING SINCE DECEMBER 31, 2010

Information about events occurring after the end of the financial year subject of this Report is provided in the section of the Consolidated Financial Statements entitled "Significant Events Occurring Since December 31, 2010."

FINANCIAL HIGHLIGHTS. FOCUS ON RESULTS

KEY GROUP DATA
(in millions of euros)

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

Edison Group

(in millions of euros)	2010	2009	% change
Sales revenues	10,446	8,867	17.8%
EBITDA	1,369	1,471	(6.9%)
as a % of sales revenues	*13.1%*	*16.6%*	
EBIT	273	699	(60.9%)
as a % of sales revenues	*2.6%*	7.9%	
Profit before taxes	172	529	(67.5%)
Group interest in net profit	21	240	(91.3%)
Capital expenditures	505	1,679	(69.9%)
Investments in exploration	52	66	(21.2%)
Net invested capital (A+B)	11,845	12,112	(2.2%)
Net financial debt (A) [1]	3,708	3,858	(3.9%)
Total shareholders' equity (B)	8,137	8,254	(1.4%)
Shareholders' equity attributable to Parent Company shareholders	7,939	8,077	(1.7%)
ROI [2]	2.35%	6.22%	
ROE [3]	0.26%	3.00%	
Debt/Equity ratio (A/B)	0.46	0.47	
Gearing (A/A+B)	31%	32%	
Number of employees [4]	3,939	3,923	0.4%
- including these employees of discontinued operations	119	-	n.m.

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

Edison Spa

(in millions of euros)	2010	2009	% change
Sales revenues	5,591	5,007	11.7%
EBITDA	368	647	(43.1%)
as a % of sales revenues	*6.6%*	*12.9%*	
EBIT	(36)	278	(112.9%)
as a % of sales revenues	*(0.6%)*	*5.6%*	
Net profit	(86)	423	(120.3%)
Capital expenditures	201	217	(7.4%)
Net invested capital	8,534	8,317	2.6%
Net financial debt	1,670	1,188	40.6%
Shareholders' equity	6,864	7,129	(3.7%)
Debt/equity ratio	0.24	0.17	46.0%
Number of employees	1,740	1,735	0.3%

The San Francesco wind farm in Melissa (Crotone).

Sales Revenues and EBITDA by Business Segment

(in millions of euros)	2010	2009	% change
Electric Power Operations [1]			
Sales revenues	7,289	6,463	12.8%
EBITDA	1,055	1,227	(14.0%)
Adjusted EBITDA (*)	1,130	1,086	4.1%
as a % of sales revenues	*14.5%*	*19.0%*	
Hydrocarbons Operations [2]			
Sales revenues	5,040	4,158	21.2%
EBITDA	413	347	19.0%
Adjusted EBITDA (*)	338	488	(30.7%)
as a % of sales revenues	*8.2%*	*8.3%*	
Corporate Activities [3]			
Sales revenues	51	53	(3.8%)
EBITDA	(99)	(103)	3.9%
as a % of sales revenues	*n.m.*	*n.m.*	
Eliminations			
Sales revenues	(1,934)	(1,807)	7.0%
EBITDA			
Edison Group			
Sales revenues	**10,446**	**8,867**	**17.8%**
EBITDA	**1,369**	**1,471**	**(6.9%)**
as a % of sales revenues	***13.1%***	***16.6%***	

(1) Activities carried out by the following Business Units: Electric Power Operations, Power International, Renewable Sources, Energy Efficiency and Sustainable Development, Energy Management and Marketing & Distribution.

(2) Activities carried out by the following Business Units: Hydrocarbons Operations, Gas International, Gas Supply & Logistics and Marketing & Distribution.

(3) Includes those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature and certain holding companies and real estate companies.

(*) **Adjusted EBITDA** reflect the effect of the reclassification of the results of Brent crude and foreign exchange hedges executed in connection with contracts to import natural gas. Within the framework of 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 or losses generated by these transactions, which for the reasons explained above are recognized by the Hydrocarbons Operations, were reclassified under the Electric Power Operations for the portion of gains or losses attributable to them.

PERFORMANCE AND RESULTS OF THE GROUP IN 2010 AND BUSINESS OUTLOOK FOR 2011

Operating Performance

The Group reported sales revenues of 10,446 million euros in 2010, for an increase of 17.8% compared with the previous year. A breakdown by business segment shows gains of 12.8% for the Electric Power Operations and 21.2% for the Hydrocarbon Operations, driven mainly by a rise in sales volumes.

EBITDA totaled 1,369 million euros in 2010. The decrease of 102 million euros (-6.9%), compared with 1,471 million euros in 2009, is the net result of a reduction in the adjusted EBITDA[1] of the Hydrocarbons Operations (-150 million euros) and an increase in adjusted EBITDA[1] of the Electric Power Operations (+44 million euros).

The impact of a negative performance by the natural gas trading activities, offset only in part by positive results in the E&P area, accounts for the shortfall in adjusted EBITDA[1] reported by the Hydrocarbons Operations.

The gain in the adjusted EBITDA [1] of the Electric Power operations is largely due to the recognition of the consideration received for the early termination of CIP 6/92 contract for some of the Group's thermoelectric power plants, which more than offset the effect of a drop in profitability caused by the scheduled expiration of CIP 6/92 contracts and incentives for other power plants in 2010 and the absence of nonrecurring income recognized in 2009.

(1) See note (*).

A more detailed description of the developments that characterized 2010 is provided in the section of this Report that reviews the performance of the Group's businesses.

EBIT amounted to 273 million euros in 2010, or 60.9% less than the 699 million euros earned the previous year. This decrease is due to the reduction in EBITDA, caused by the factors explained above, and to an increase of about 324 million euros in depreciation, amortization and writedowns. This higher charge reflects primarily an increase in writedowns recognized in 2010 in connection with the abovementioned early termination of CIP 6/92 contracts and the results of the impairment test, specifically with regard to some thermoelectric power plants and the Abu Qir concession in Egypt. It is also due to writedowns totaling 130 million euros for probable profitability risks concerning the Group's Egyptian hydrocarbon concessions, due to the political, economic and financial tensions that developed recently in that country.

Profit before taxes, which is after net financial expense of 144 million euros and other net financial income of 44 million euros, stemming mainly from the reversal of provisions for risks and charges recognized in previous years, amounted to 172 million euros, or 67.5% less than the amount reported in 2009 (529 million euros).

The Group's interest in net profit, which totaled 21 million euros, down 91.3% compared with the 240 million euros earned in 2009.
This negative comparison is due to the combined impact of a lower tax burden incurred in 2010 (due to the tax incentives provided by the *Tremonti-ter* Decree and the prior-period benefit resulting from the clarification by the Revenue Administration that the 1% corporate income tax (IRES) surcharge was applicable starting in 2010 and not in 2009) and a loss from discontinued operations amounting to 40 million euros (due to writedowns of non-current assets recognized upon the signing of a term sheet for the sale of a disposal group consisting of two thermoelectric power plants in Taranto).

At December 31, 2010, net financial debt amounted to 3,708 million euros, down compared with the 3,858 million euros owed at December 31, 2009. More detailed information about the individual components of this item is provided in the "Net Financial Debt" section of the Consolidated Financial Statements.
The table below provides a breakdown of the changes that occurred in net financial debt:

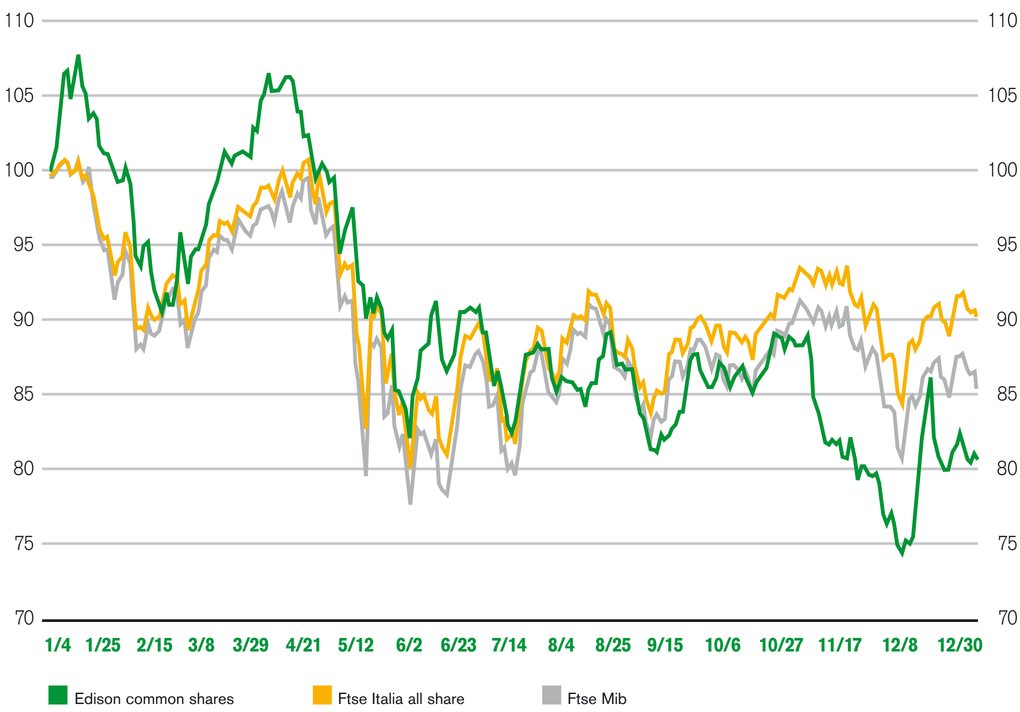
(in millions of euros)	2010	2009
A. Net financial (debt) at beginning of the year	**(3,858)**	**(2,920)**
EBITDA	1,369	1,471
Change in operating working capital	148	274
Income taxes paid (-)	(304)	(401)
Change in other assets (liabilities)	(81)	28
B. Cash Flow from operating activities	**1,132**	**1,372**
Investments in property, plant and equipment and intangibles (-)	(557)	(1,745)
Investments in non-current financial assets (-)	(7)	(56)
Acquisition price of business combinations (-)	(42)	(80)
Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	8	58
Capital distributions from equity investments	8	-
Dividends received	1	1
C. Free Cash Flow	**543**	**(450)**
Financial income (expense), net	(144)	(156)
Contributions of share capital and reserves	10	-
Dividends paid (-)	(259)	(278)
D. Cash Flow after financing activities	**(150)**	**(884)**
Change in the scope of consolidation	-	(54)
E. Net Cash Flow for the year	**(150)**	**(938)**
F. Net financial (debt) at end of the year	**(3,708)**	**(3,858)**

Outlook for 2011

As mentioned earlier in this Report, the Company opted for early termination of the CIP 6/92 contracts for the Jesi, Milazzo, Porto Viro and Porcari power plants. This extraordinary transaction generated a nonrecurring benefit of about 173 million euros in 2010. However, starting in 2011, it will have the effect of reducing reported results, as the contribution provided by these contracts will no longer be available.
Moreover, the results reported in 2010 brought into relief the challenges faced by the activities engaged in buying and selling natural gas, which, as explained repeatedly in this Report, saw their unit sales margins substantially disappear and actually turn negative in the last quarter of the year. This difficult situation has not changed and is expected to continue throughout 2011. Consequently, in order to restore its profitability, Edison has begun contract renegotiations with its suppliers or filed for arbitration and is continuing this process with the aim of enforcing the right to obtain margins that are fair in light of the take-of-pay commitments it has undertaken.
Edison intends to assert its rights without the immediate need to secure short-term fixes that could prove to be detrimental over the medium term. Therefore, considering the expected length of the arbitration proceedings, which, in some cases, could plausibly extend beyond the end of 2011, and the possibility that out-of-court settlements could be reached for other contracts, EBITDA for 2011 could be exposed to a negative impact, currently estimated at about 200 million euros, which would reduce projected EBITDA to about 900 million euros.
The Company's objective will continue to be to secure in the next few years both reasonable margins on its gas contracts and lump-sum compensation payments for the previous years, thereby making up the negative impact mentioned above.

EDISON AND THE FINANCIAL MARKETS

Chart of the stock market prices of the Edison shares in 2010



Stock Market Price and Other Per Share Data

	December 31, 2010	December 31, 2009
Edison Spa		
Stock market price (unit price in euros) [(1)]:		
- common shares	0.8660	1.0463
- savings shares	1.2365	1.2939
Number of shares (at end of the year):		
- common shares	5,181,108,251	5,181,108,251
- savings shares	110,592,420	110,592,420
Total shares	**5,291,700,671**	**5,291,700,671**
Edison Group		
Earnings per share:		
basic earnings per common share [(2)]	0.0034	0.0448
basic earnings per savings share [(2)]	0.0334	0.0748
diluted earnings per common share [(2)]	0.0034	0.0448
diluted earnings per savings share [(2)]	0.0334	0.0748
Shareholders' equity per share attributable to the controlling company's shareholders (in euros)	1.500	1.526
Price/Earnings ratio (P/E) [(3)]	254.38	23.77

(1) Simple arithmetic average of the prices for the last calendar month of the year.
(2) Computed in accordance with IAS 33.
(3) Ratio of price per common share at the end of the year to basic earnings (loss) per share.

Other Financial Indicators

Rating

	Current	December 31, 2009
Standard & Poor's		
Medium/long-term rating	BBB	BBB+
Medium/long-term outlook	Stable	Negative
Short-term rating	A-2	A-2
Moody's		
Rating	Baa3	Baa2
Medium/long-term outlook	Stable	Negative

AN EVOLVING SCENARIO. MARKETS AND REGULATIONS

ECONOMIC FRAMEWORK

After the slump that characterized the global economy in 2009, a recovery began to take hold in 2010, albeit at a slower pace than originally anticipated in the early part of the year and with different growth rates in different geo-economic areas of the planet.
Specifically, after a running start in the first six months of the year, the growth of the global economy seemed to decelerate during the summer months. The second half of 2010 was thus characterized by less dynamic economic activity, a condition that is likely to continue in 2011, causing the pace of recovery to slow slightly both in the advanced and in the emerging countries, as the inventory rebuilding process runs its course, the effects of the main fiscal stimulus programs begin to wane and international trade continues to suffer from a loss of momentum that started in the summer of 2010. Moreover, uncertainty about future developments remains high owing to high levels of unemployment and the still fragile financial position of households in many advanced economies.

Among the developed countries, signs that, in 2010, the economy was on a firmer footing and was beginning to recover came mainly from the United States and Germany. Estimated closing data for 2010 should show that GDP grew at a 2.8% rate in the United States, supported in the second half of the year mainly by domestic demand and non-residential investments; however, problems in the real estate market are continuing and the recovery of the job market is still anemic. As expected, Germany continues to be Europe's locomotive, with 2010 estimated closing data expected to show a GDP growth rate of 3.6%, driven mainly by strong exports, as well as by a recovery in domestic demand and by investments in the mechanical engineering sector, which is a key component of the German economy.
The Japanese economy also appeared to pick up speed in 2010, with GDP growing at a 3.5% rate; however, projections for 2011 call for a sharp slowdown, with GDP growing slightly more than 1%.

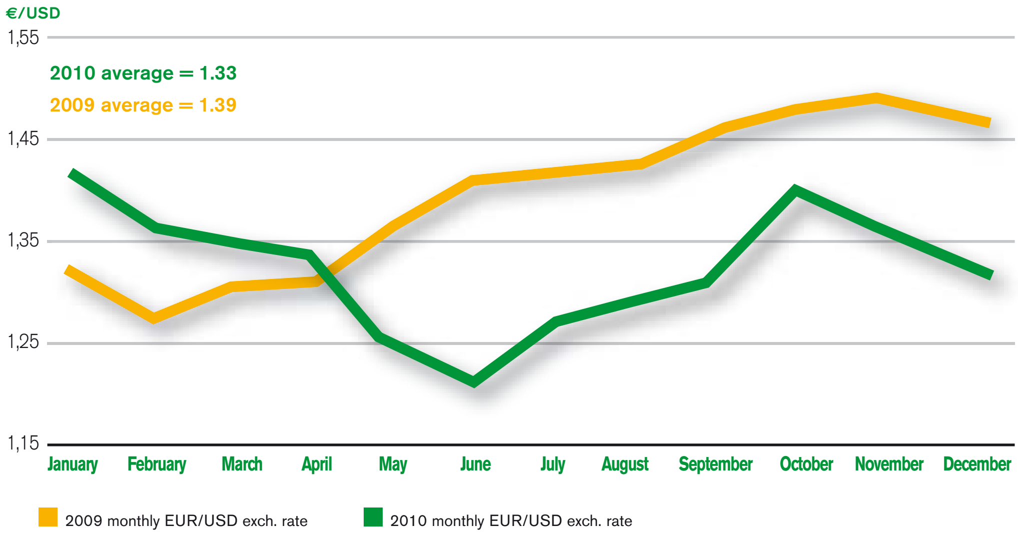
In the euro zone, the situation in 2010 was severely affected by sovereign debt problems (after Greece and Ireland, Portugal and Spain appear to be countries most exposed to a sovereign debt crisis), which surfaced just as the GDP growth rate was accelerating compared with previous quarters thanks to an upturn in domestic demand, as most of the stimulus provided by surging exports, which benefitted from an expansion in global demand during the first half of the year, was offset by an equally strong increase in imports. In the aggregate, estimated closing data for the euro zone are expected to show GDP growth of 1.7%, driven primarily, as mentioned above, by the recovery in Germany. Once again, the Italian economy will show the slowest growth (+1%, based on estimated closing data for 2010) among the main countries in the euro zone because, as a major net exporter of finished goods, continues to feel indirectly, mainly through a deceleration of international trade, the effects of weakness in other economies.

Lastly, turning to the emerging economies, economic growth appeared to slow in two of the main emerging countries-China and Brazil-during the second and third quarters of 2010, due, in the case of China, primarily to less robust government spending and, for Brazil, to a decrease in capital expenditures and consumer spending. Nevertheless, these countries continue to enjoy vigorous economic growth, with estimated closing data expected to show GDP growth of about 10% for China and about 7.6% for Brazil. In India, on the other hand, economic growth continued unabated in 2010, with estimated closing GDP data expected to show that the economy expanded at a rate of about 8.5%. The recovery continued in Russia, but at a slower pace (+4%, based on estimated closing data for 2010) and in the other countries of Central and Eastern Europe. However, the growth outlook for these countries is mixed (quite positive for Poland and Turkey) and, overall, less favorable than in other emerging economies.
As for interest rates, the Federal Reserve, in an effort to jumpstart the U.S. economy, in addition to launching a second expansive monetary policy program (the so-called Quantum Easing 2), decided to

A view of the San Quirico (Parma) thermoelectric power plant.

hold, for all of 2010, the cost of money at the all-time low rate of 0.25% that it set in December 2008. The ECB opted for a more conservative course, holding the rate at 1%. Deflation no longer seems to pose a threat in the United States, where the rate of inflation was 1.6% in 2010 (-0.3% in 2009), in line with the rate in the euro zone. In Italy, too, inflation is estimated at a low 1.5% to 1.6% for 2010.

In the foreign currency market, the trend of the euro/U.S. dollar exchange rate was characterized by a steady decrease in the value of the European currency during the first six months of 2010, followed, in the second half of the year, by a constant appreciation of the euro that lasted until the beginning of November when, as the Irish sovereign debt crisis reached its climax, the euro began to lose ground vis-à-vis the U.S. dollar. Overall the average euro/U.S. dollar exchange rate for 2010 was 1.33 USD for one euro, down about 4.8% compared with the annual average for 2009 (1.39 USD for one euro).

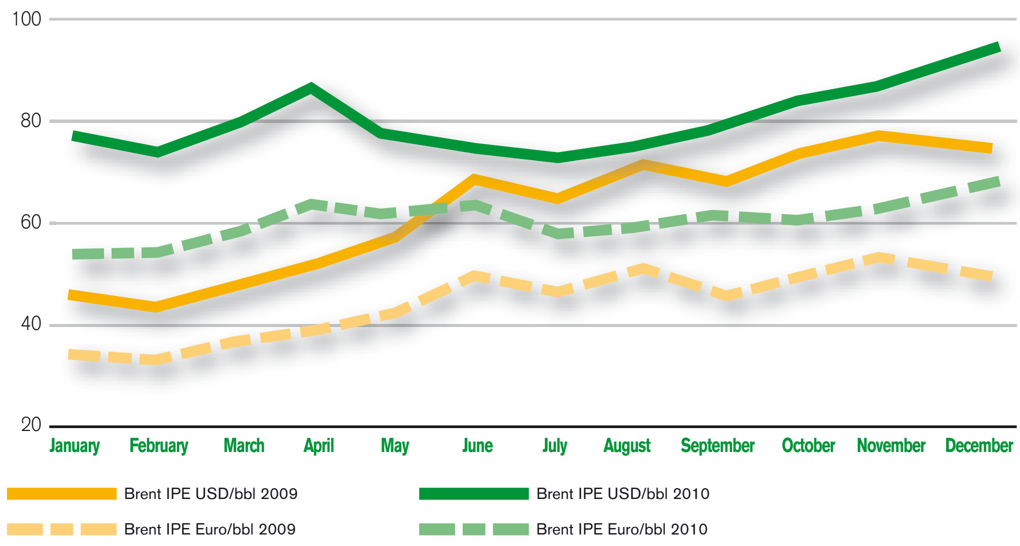


In the oil market, crude oil prices showed only limited fluctuations outside the USD70-USD90 range, providing an indication of greater market stability than in previous periods. Overall, the price of crude oil increased by 28.3% compared with 2009, averaging USD80.30 per barrel.
In the euro zone countries, the effects of this increase were magnified by the loss of value of the European currency versus that of the U.S. currency, causing the cost of crude oil to increase by 34.8% compared with 2009 to an average of 60.50 euros per barrel.

The table and chart provided below show the average annual data and the monthly trends for 2010 and 2009:

	2010	2009	% change
Oil price in USD/bbl (1)	80.3	62.6	28.3%
USD/EUR exchange rate	1.33	1.39	(4.8%)
Oil price in EUR/bbl	60.5	44.9	34.8%

(1) Brent IPE.



THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy and Market Environment

TWh	2010	2009	% change
Net production:	286.5	281.1	1.9%
- Thermoelectric	222.1	216.1	2.8%
- Hydroelectric	49.4	52.8	(6.6%)
- Other renewables (1)	15.0	12.2	23.2%
Net imports	44.0	45.0	(2.3%)
Pumping consumption	(4.3)	(5.8)	(25.7%)
Total demand	**326.2**	**320.3**	**1.8%**

Source: Analysis of 2009 data and pre-closing 2010 Terna and AU data, before line losses.
(1) Includes production from geothermal, wind power and photovoltaic facilities.

In 2010, gross total demand for electric power from the Italian grid totaled 326.2 TWh (1 TWh = 1 billion kWh), or 1.8% more than the previous year. On a seasonally adjusted basis (i.e., eliminating the impact of changes in average temperature and the number of business days), demand was unchanged compared with 2009.
Most of the growth recorded in 2010 occurred in the North Zone and the South Zone, while demand in the Central Zone and the Islands held at about the same level as in 2009.

Net production of electric power increased by 5.4 TWh in 2010 as the combined result of higher demand for electric power (+5.9 TWh), a reduction of 1 TWh in net imports and a decrease of 1.5 TWh in pumping consumption. Net of pumping consumption, domestic production covered 87% of demand in 2010, up slightly from 86% in 2009, with net imports covering the remaining 13% (compared with 14% in 2009).

Net imports of electric power totaled 44 TWh, down 2.3% compared with 2009. This reduction reflects the impact of lower imports (-1.3 TWh), offset in part by a decrease in exports (-0.3 TWh).
More specifically, net imports from the Northwest (borders with France and Switzerland) decreased by 1.6 TWh, while those from the Northeast (borders with Austria and Slovenia) and the South (border with Greece) grew by 0.8 TWh and 0.2 TWh, respectively.

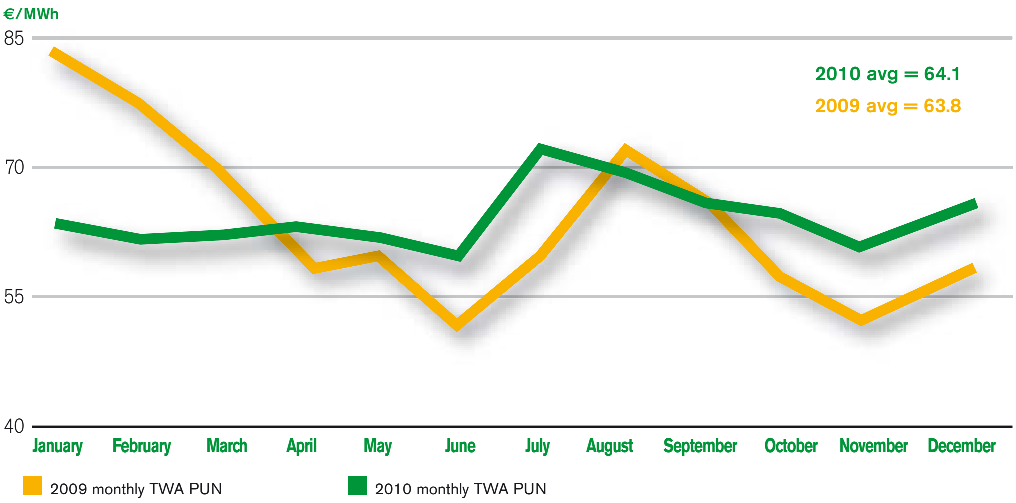
The increase of 6 TWh in thermoelectric production recorded in 2010 (+2.8% compared with 2009) is due to the combined effect of a gain of 5.4 TWh in net domestic production (+1.9%), a decrease of 3.4 TWh in hydroelectric output (-6.6%) and an increase of 2.8 TWh in production from renewable energy sources (+23.2%).

Production resumed at the Vega oil field, thanks to the commissioning of the Leonis Floating Storage and Offloading (FSO) system. The oil platform is connected to the Leonis through three underwater pipelines.

Specifically with regard to the main renewable energy sources, while, as mentioned above, hydroelectric production decreased by 3.4 TWh (-6.6%) due to a lower availability of water resources, the output of wind farms and photovoltaic facilities was up sharply, rising by 1.9 TWh and 0.9 TWh, respectively, thanks to a substantial increase in installed capacity in 2010. Production from geothermoelectric power plants was about the same as in 2009.

Insofar as the pricing scenario is concerned, the time-weighted average (TWA) for the Single National Price (abbreviated as PUN in Italian) increased to 64.1 euros per MWh at December 31, 2010, up slightly (+0.5%) compared with 63.8 euros per MWh in 2009.
The price differential between the first half of 2009 and the first half of 2010 shown in the chart below is explained by the different trends followed by gas prices indexed at nine months, which in the first six months of 2009 reflected the 2008 spike in oil prices. In 2010, the trend was relatively steady, with prices holding within the range of 60-70 euros per MWh, with the exception of July, when the load increased by more than 5% compared with July 2009.
Even though, as mentioned above, demand for electric power increased, the introduction of new generating capacity helped maintain a situation characterized by an ample backup margin. This situation is helping reduce the price differential between peak hours and off-peak hours, as the peak hour price decreased and the off-peak hour price increased, due in part to higher generating costs.

The chart below provides a comparison of the monthly TWA PUN in 2010 and 2009:



As for zone prices, it is worth mentioning that the differential between the PUN and the price in the Sardinia Zone narrowed significantly, starting in October 2009, as a direct result of an increase in the connection capacity between the island and the mainland made possible by the commissioning of the SAPEI cable.

Demand for Natural Gas in Italy and Market Environment

in billions of m³	2010	2009	% change
Services and residential customers	33.9	31.4	8.2%
Industrial users	17.3	16.3	6.3%
Thermoelectric power plants	30.1	28.7	5.1%
System usage and leaks	1.5	1.3	6.0%
Total demand	**82.8**	**77.7**	**6.6%**

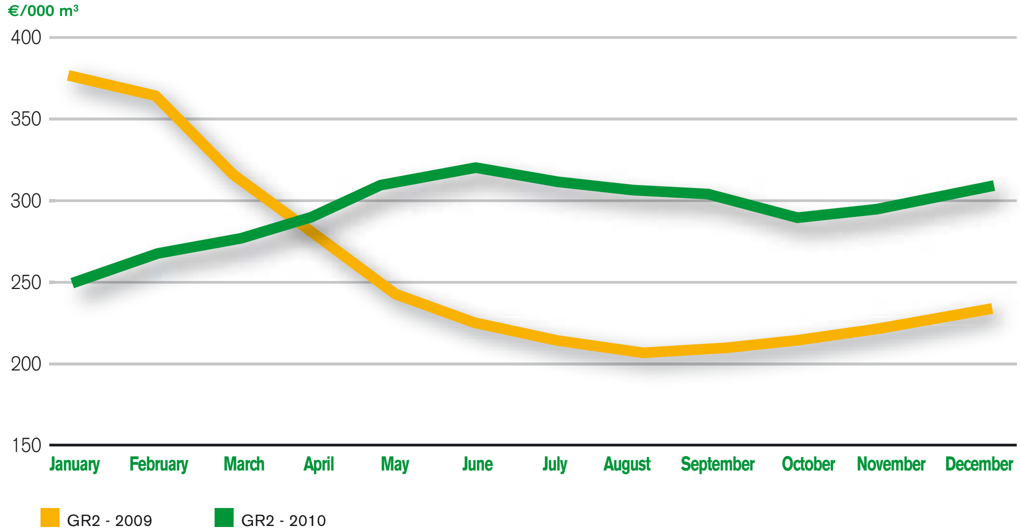
Source: 2009 data and preliminary 2010 data and Edison estimates on Snam Rete Gas and Ministry of Economic Development data.

In 2010, Italian demand for natural gas grew by 6.6% compared with the previous year to a total of about 82.8 billion cubic meters, for an overall gain of about 5.1 billion cubic meters. This improvement, which occurred in all demand segments, reflects the positive impact of a more favorable economic environment, colder weather and a limited availability of water resources, which caused a substantial increase in the production of electric power from fossil fuels.
The rise in consumption by residential customers (up about 2.5 billion cubic meters, or 8.2%, compared with 2009) was due for the most part to colder weather during the winter months; tentative signs of an economic recovery helped boost demand by industrial users, which grew by 1 billion cubic meters, or 6.3%, compared with 2009, but was still below the level achieved in 2008.
In 2010, there was a modest upturn in demand from thermoelectric power plants (up about 1.4 billion cubic meters, or 5.1%, compared with 2009), attributable, on the one hand, to higher demand for electric power and, on the other hand, to the increase in production from gas-fired facilities that resulted from a shortfall in hydroelectric output and a reduction in net imports compared with 2009.

The following developments characterized supply sources in 2010:
- domestic production little changed compared with 2009 (+0.2%, bucking the downward trend of recent years);
- higher imports of natural gas (+6.5 billion cubic meters compared with 2009), in line with the increase in consumption;
- a net increase of about 1.5 billion cubic meters in stored gas, on an annualized basis, reflecting the

impact of additional capacity allocated in 2010 and the concern for potential problems caused by service interruptions of the Transitgas pipeline.

As for the monthly trend of the prices for indexed gas, the chart provided on the next page, which uses the Gas Release 2 formula as a benchmark, shows an increase of 13.5% for the Gas Release 2 formula compared with 2009 attributable to a post-crisis upturn in the price of Brent crude, offset only to a limited extent in the gas formula by the appreciation of the euro versus the U.S. dollar.



The rate component that corresponds to the Wholesale Distribution Charge (abbreviated as CCI in Italian), which is indicative of the prices charged in the residential market, reflects changes in the basket of benchmark fuels with a longer time lag than the Gas Release 2 due to a different indexing mechanism and regulatory provisions introduced by the AEEG. As a result, despite a rising trend during the year, it averaged 270.00 euros per thousand cubic meters in 2010, for a decrease of 4.4% compared with the previous year.

The table below shows the average prices for the Gas Release 2 and the CCI in 2010 and 2009:

	2010	2009	% change
Gas Release 2 - euro/000 mc (1)	295.4	260.2	13.5%
CCI – euro/000 mc (2)	270.0	282.4	(4.4%)

(1) Gas Release 2: Gas sold by ENI to competitors pursuant to a 2007 resolution by the Antitrust Authority. It reflects the trend of natural gas prices under long-term supply contracts. The price is the one quoted on the Virtual Exchange Facility..
(2) Wholesale distribution charge set pursuant to Resolution No. 134/06 and updated pursuant to Resolution ARG/gas No. 192/08. The price is the one quoted at the border.

LEGISLATIVE AND REGULATORY FRAMEWORK

The main legislative and regulatory measures enacted in 2010 that had an impact on the various businesses of the Group are reviewed below.

Electric Power

Production

Early termination of CIP 6/92 contracts: On December 2, 2009, the Ministry of Economic Development issued a decree defining the terms and conditions for early termination, on a voluntary basis, of CIP 6/92 contracts for power plants that use process or residual fuels (Monomial-rate Facilities) and fossil fuels (Binomial-rate Facilities). The Ministry of Economic Development, through two implementation decrees (Ministry Decree of August 2, 2010 and Ministry Decree of October 8, 2010), defined:

- the parameters needed to determine the specific consideration owed to producers for early termination;

- the criteria to determine the payment methods and timing of the abovementioned consideration.

On October 26, 2010, Edison's Board of Directors authorized the filing with the Ministry of Economic Development of a binding application for early termination, on a voluntary basis, of CIP 6/92 contracts for power plants that use fossil fuels (Jesi, Milazzo, Porto Viro and Porcari), opting for payment of the consideration in installments.

On November 30, 2010, the Electrical Services Manager (abbreviated as GSE in Italian) countersigned the agreements for early termination of the CIP 6/92 contracts for the abovementioned Jesi, Milazzo, Porto Viro and Porcari power plants. The termination will be effective as of January 1, 2011.

The Ministry of Economic Development is currently defining a decree setting forth the parameters and methods for early termination of contracts for power plants that use process fuels (Taranto and Piombino, for Edison). The Ministry is expected to issue the decree early in 2011.

Avoided Fuel Cost (AFC): Subsequent to the issuance of Resolution No. 249/06, by which it updated the AFC for 2007, the Electric Power and Natural Gas Authority (AEEG) adopted Resolution No. 154/08, by which it confirmed the overall system of Resolution No. 249/06, defined the AFC for 2008 and the AFC computation method for future years. This resolution was challenged before the Regional Administrative Court, which found in favor of the complainant in Decision No. 3359 handed down on April 16, 2009. The AEEG appealed the Regional Administrative Court's decision, but a final decision has not yet been published. In the meantime, Law No. 99/09 transferred jurisdiction over the AFC updating rules to the Ministry of Economic Development, which, on July 12, 2010, published a Decree determining the AFC adjustment for 2009 in accordance with the updating method of Resolution No. 249/06.

However, the AEEG reserved the right to submit a new proposal for 2009 once the outcome of the dispute pending before the Council of State with regard to Resolution No. 154/08 becomes known. Consequently, at this point, the Ministry's Decree cannot be treated as final.

Lastly, the AEEG submitted to the Ministry of Economic Development a new proposal to update the AFC for 2010 (PAS No. 9/2010) that also takes into account the evolution in conversion efficiency, as required by the abovementioned Law No. 99/09. However, the Ministry has not yet accepted this proposal, claiming that further study is required.

Absent an applicable regulation, the Group determined the AFC allocation based on its best estimate and using, for 2008 and 2009, a "revised Resolution No. 154/08" that takes into account the illegality issues raised in the Regional Administrative Court's decision and, for 2010, the formula proposed by the AEEG and not yet approved by the Ministry (PAS No. 9/2010).

Hydroelectric concessions: There were some significant legislative developments concerning this issue in 2010: first Article 15, Section 6, and following of Law No. 122/2010, followed by Lombardy Regional Law No. 19 of December 23, 2010. Specifically, choosing to enforce the supersession clause, provided for in Article 15, Section 6-*quater,* of Law No. 122/2010 (see the section of this Report entitled "Issues Affecting Multiple Business Segments" for additional information), the Regional Administration of Lombardy issued new regulations governing hydroelectric concessions (set forth in Lombardy Regional Law No. 19 of December 23, 2010, which was published on December 27, 2010 in the First Supplement to Issue No. 52 of the *Official Gazette of the Region of Lombardy* and went into effect on December 28, 2010). Pursuant to this law:

- Exclusively for concessions expiring on or before December 31, 2015, the Regional Governing Council can grant to the holder of an expiring concession a temporary extension of the right to operate large-scale water diversion facilities for a period of up to five years;
- During the temporary extension, the holder of the expiring concession will be required to pay to the Regional Administration a new fee, in addition to the fees and surcharges and the free supply of electric power already required;
- Upon expiration of the concessions, the Regional Administration will acquire the structures and equipment required to use publicly owned water resources in large-scale diversion systems for hydroelectric purposes, conveying their ownership to special purpose asset companies, the non-salable capital of which shall be entirely owned by public entities, with ownership interests allocated free of charge to the interested municipalities or aggregations of municipalities, by area;
- The asset company will make available to a trustee (no longer a concessionaire), selected through

publicly disclosed procedures, the infrastructures and equipment of the water diversion facility and the trustee shall operate the infrastructures and equipment of the water diversion facility in accordance with the applicable conditions and in exchange for a consideration, payable to the asset company, determined by the Regional Governing Council;
- In order to ensure that compensation is based on territorial criteria, concessions located in areas falling totally or in part within Alpine provinces (all provinces of Lombardy except Milan and Pavia) will be entrusted directly to a mixed public-private company with an ownership interest held by the relevant province, provided that the private-sector partner is selected through publicly disclosed procedures.

Moreover, the Ministry of Economic Development has not yet published a decree (originally scheduled for the end of January) setting forth the minimum organizational and financial requirements and the parameters and conditions for the competitive bidding procedures required by Article 12, Section 1, of Legislative Decree No. 79 of March 16, 1999 for the renewal of hydroelectric concessions (pursuant to Article 15, Section 6-*ter,* Letter c) of Law No. 122/2010).

Environment

Reimbursement of green certificate costs for CIP 6/92 power plants: On March 29, 2010, the AEEG published Resolution ARG/elt No. 35/10 concerning reimbursement of the green certificate costs incurred by CIP 6/92 power plants to comply with the corresponding obligation in 2008. Consistent with the indications provided in Consultation Document No. 40/09 of December 22, 2009, this resolution set the reimbursement amount at 60.10 €/MWh per unit.

Incentives for the Production of Electric Power from Renewable Energy Sources: The Italian government prepared and approved the decree that implements Directive No. 2009/28/EC concerning incentives for the production of electric power from renewable energy sources, which was signed by Italy's President on March 5, 2011. This legislative decree calls for the following:
- The award of an incentive that will remain constant over time (feed-in tariff), starting on January 1, 2013, for new facilities commissioned after December 31, 2012 with an installed capacity equal at least to a not-yet determined "P" level (in any case, not less than 5 MW).
- The award through a low bid auction (managed by the GSE) of an incentive (feed-in tariff) for new facilities commissioned after December 31, 2012 with an installed capacity greater than "P" MW. The auction amounts will be limited based on installed capacity and source/technology.
- The award of an incentive also for repowering projects, partial or total renovations, coplete rebuilding projects and hybrid power plants.
- Existing facilities (commissioned before December 31, 2012) will continue to benefit from CVs and the fixed tariff system until 2015. According to the decree, CVs may be converted into feed-ins for the remaining duration of the right to receive the incentive in accordance with methods that ensure a return on the investments made.
- A transitional period during which the green certificates (GCs) and the mandatory allocation for thermoelectric operators will remain in effect. As scheduled, the mandatory allocation will rise steadily until 2012 (7.55%) and then gradually decrease to zero in 2015. The GSE will take back surplus green certificates at a price equal to 78% of the reference price (listed in Law No. 244/07), consistent with the provisions recently introduced by Article 45 of Law No. 122/10.

Detailed regulations will be defined by means of subsequent implementation decrees within six months from the effective date of the abovementioned decree.

Wholesale Market

Units that are essential for the electrical system's safety (must run facilities): A significant number of new developments occurred in this area in 2010. With regard to pending disputes concerning Resolution ARG/elt No. 97/08, in May, the Council of State defined the criteria for the reimbursement owed to Enel for the inclusion of its facilities in Sicily and Sardinia among "must run" facilities for the period during which the abovementioned resolution was in effect.
As for the rules currently governing must run facilities, the AEEG issued Resolution ARG/elt No. 161/10 defining the criteria for reimbursement of the costs incurred for must run facilities with regular status.

This resolution was followed by additional resolutions, issued in the fourth quarter of 2010, defining the computation parameters for the variable cost reimbursable for must run facilities in 2011, which include the San Filippo del Mela power plant (Edipower).
Lastly, at the end of April, the Regional Administrative Court of Lombardy referred the complaint filed by Enel Produzione, Edison Trading and Edipower against Resolution No. 52/09 to the European Court of Justice for a decision. The Court of Justice did not proceed with the publication in the *Official Journal of the European Union* until December 2010.

Reform of the electric power market: The reform of the Dispatching Services Market was completed in 2010, including the integration with the intraday markets (Resolution ARG/elt No. 211/10, which approved the Grid Code developed by Terna) and the launch of a market coupling project with Slovenia (Resolutions ARG/elt No. 143/10 and ARG/elt No. 243/10). Both projects will go into effect starting in January 2011. In addition, the AEEG published two consultation documents (DCO 9/10 and DCO 38/10) concerning the introduction of a capacity market as a replacement for the provisional mechanism currently used to remunerate production capacity (capacity payment), as defined in Resolution No. 48/04. Lastly, Resolution ARG/elt No. 166/10 revised the implementation method for provisional capacity payments.

Retail Market

Communication standards between distributors and sellers of electric power for commercial services: Determination No. 9/10 approving the XML structures that should be used to exchange information about communication standards between distributors and sellers of electric power for the commercial services subject of the Comprehensive Electric Quality Code (Testo Integrato della Qualità Elettrica - TIQE in Italian) was published in 2010 as an annex to Resolution No. 333/07. The abovementioned determination is part of the regulatory framework of Resolution ARG/com No. 13/10 and follows earlier determinations (Determinations No. 2/10 and No. 3/10) , which provided operating instructions regarding communication standards.
As for the Integrated Information System (IIS), following the release of DCO 14/10, which recommends both for the electric power market and the natural gas market the adoption of an IIS to manage transactions between operators, prioritizing the switching process, the AEEG published Resolution ARG/com No. 128/10 by which it delegated to the Single Buyer the responsibility for defining, by November 15, 2010, the technical specifications and the rules of the call for tenders for awarding the project's execution, including the spending limits for the implementation a new IIS. Late in December 2010, the Single Buyer launched a European call for tenders to select the supplier who will develop and operate for five years this digital infrastructure.
The AEEG issued Resolution ARG/com No. 201/10 defining the guidelines for the development of the IIS. This resolution approved the general operating criteria of the IIS, which are listed in Appendix A, annexed to the resolution.
Lastly, by Resolution ARG/com No. 224/10, the AEEG set at 0.0137 euros/delivery point/month the fee per unit that, starting on April 1, 2011, users of dispatching services and operators providing "greater protection" service will be required to pay Terna each month, based on the number of delivery points included in their dispatching contract. This fee covers the costs that the Single Buyer will incur, in its capacity as the operator of the IIS, to implement and operate the IIS. The IIS is not expected to be operational before 1-2 years.

Delinquencies - Indemnification system: By Resolution ARG/elt No. 191/09, the AEEG defined the criteria for the establishment of an indemnification system that provides the exiting trader with an indemnity equal to one month of supply for the loss of a delinquent customer. This system applies only to customers with "greater protection" status: the indemnity is charged to the delinquent end customer by means of a C^{MOR} rate charge. In addition, the AEEG, in Appendix B to Resolution No. 191/09, delegated to the Single Buyer responsibility for developing a draft of regulations for the implementation of the indemnification system. The draft regulations prepared by the Single Buyer were the subject of a consultation process and was approved with Resolution ARG/elt 219/10, which also amended some of the provisions of Appendix B (indemnification system for the exiting seller payable by the delinquent end customer) annexed to Resolution No. 191/09 to take into account the remarks of operators in response to DCO 36/10. The indemnification system will be extended to all low voltage end customers and the amount of the indemnity shall correspond to two months of supply provided to the customer and shall include the amount of any unpaid C^{MOR} owed to previous sellers. Lastly, the new seller will have the option of cancelling the switching of sellers if the customer in question is the subject of an indemnification claim by the exiting seller. This system completes the rules governing disconnection for delinquency (Resolution ARG/elt No. 4/08), which provides the option of cancelling the switching of sellers by the new seller if a delivery point has been disconnected. A critical issue is the C^{MOR} payment flow in which the new seller pays an active role and could be in a position of having to pay a fee that it has not yet collected from its customer, thereby incurring exposure to a credit risk.

Code of commercial conduct for the sale of electric power and natural gas to end customers: The recently published Resolution ARG/com No. 104/10 approves a single Code of Commercial Conduct both for the electric power market and the natural gas market. This resolution introduces changes that are both financially onerous and time consuming for sellers. This resolution has been challenged before the Regional Administrative Court of Lombardy and, while the proceedings are in progress, Edison Energia is working to comply with all of the provisions going into effect on January 1, 2011. The AEEG, responding to the challenges filed by various associations and individual operators, published a consultation document (DCO 39/10) asking operators to define the Code's scope of implementation with regard to multi-site end customers and the rules for payment of an automatic indemnity by the seller to end customers who fail to comply with the periodic billing requirement set forth in the contract freely executed by the parties to the supply relationship.
Subsequent to the consultation process, the AEEG published Resolution No. 239/10, which introduced amendments to Resolution No. 104/10, including the elimination of the definition of multi-site customer and the adoption of an indemnity of 20 euros for the failure to comply with the periodic billing requirement, starting on September 1, 2011, whether such failure is caused by the seller or the distributor.

Provision of commercial quality and gas metering services: The AEEG published Resolution ARG/com 147/10, which introduces significant and onerous changes affecting both distributors and sellers both of electric power and natural gas. These changes include the adoption of a specific standard requiring payment of an indemnity of 30 euros for failure by the seller to promptly transmit to the distributor a request for the provision of commercial quality services. Following two consulting processes, launched for natural gas with DCO 6/10 and DCO 18/10, Resolution 147/10 requires distributors to pay end customers an indemnity of 30 euros for the failure to collect metering data from accessible meters. This resolution is being challenged, but the outcome of the proceedings are not known at this point.

Hydrocarbons

Rates and Market

Rate adjustment payments: The AEEG published Resolution ARG/gas No. 206/10, amending Resolution No. 229/01, which governs the payment in installments of the gas bills.
This resolution reflects the input of the consultation process launched with DCO No. 33/10 in response to challenges to Resolution ARG/gas No. 85/10 filed by some sellers and operator associations. The provisions of the abovementioned resolution, which will go into effect on March 1, 2011, confirm that installment payments cannot be cumulative and set the minimum number of installments, the deadlines for demanding payment and the option for seller and customer to negotiate a payment plan different from the standard plan.
These provisions also apply to rate adjustment payments, including those arising from resolutions approving and amending rates in response to decisions by jurisdictional entities.

Economic terms for the supply of natural gas: By Resolution ARG/gas No. 89/10, the AEEG reduced the value of the wholesale rate component (CCI), within the framework of the economic terms for the supply of natural gas, effective from October 1, 2010 to September 30, 2011. In the 2010-2011 thermal year, this reduction will be implemented by applying to the QE_0 parameter "K" multiplication

coefficients equal to 0.925, resulting in an average CCI reduction of 0.021 euros per cubic meter. This "cut" is also an indication of lower price levels in the end market that will have to be taken into account when renegotiating procurement contracts.
By Resolution ARG/com No. 93/10, the AEEG established the GS_T and RE_T payable by users of transmission services with a direct link to the national transmission network and launched a process to define the criteria and method by which these rate components will be applied. Following a consultation carried out as part of the abovementioned process, the AEEG published Resolution ARG/gas No. 177/10, which sets forth the criteria and method by which the GS_T and RE_T rate components will be applied.

Decree of August 6, 2010 (so-called Royalty Decree): The Ministry of Economic Development published the Royalty Decree setting forth further provisions concerning the methods by which natural gas producers comply with the requirements of Article 11, Section 1, of Decree Law No. 7/07, pursuant to which royalty gas lots must be offered by their owners exclusively on the P-GAS trading platform, operated by the Manager of the Energy Markets (abbreviated as GME in Italian), and the AEEG must revise accordingly its rules concerning the pricing methods for offers of royalty gas lots.
The Ministry also approved an amendment to the Regulations governing the P-GAS platform, introducing a new segment reserved for offers of royalty gas lots, organized on the basis of a competitive bidding method.

Resolution ARG/gas No. 132/10: This Resolution, published on August 9, 2010, defines, pursuant to the Royalty Decree, the pricing methods for offers of royalty gas lots on the P-GAS platform, specifically requiring the following:
- The royalty gas owed to the government must be divided into an equal number of monthly lots with a delivery period corresponding to each of the months from:
  - October 2010 to March 2011, for volumes greater than 20 million standard m^3;
  - January 2011 to March 2011, for volumes greater than 5 million m^3 and smaller than 20 million m^3;
- The sales price must be equal to the QE index;
- Unsold lots must be available on the platform for the entire trading period;
- Each owner must define and publish on its website, sufficiently in advance before offering its lots, the following information: the number of lots being offered, the general terms of the contract and the types of guarantees or other prerequisite, if needed;
- The general terms of the contract must require that the sales price be equal to the corresponding trade price and that the gas delivery occurs at the Virtual Exchange Facility in equal daily quantities throughout the delivery period;
- By April 1, 2011, owners must transmit to the Ministry of Economic Development and the AEEG information about the royalty gas lots actually offered on the platform, showing for each lot the buyer and the sales price;
- By March 15, 2011, the GME must issue to each owner a statement showing the royalty gas lots offered by that owner on the platform.

Infrastructures

Storage: By Resolution ARG/gas No. 119/10, "Regulations of Rates for Natural Gas Storage Services During the 2011-2014 Regulatory Period (RTSG)," the AEEG approved the criteria for defining the rates for natural gas storage services during the third regulatory period (January 1, 2011 - December 31, 2014).
In practice, with this Resolution, the AEEG retained the mechanisms that were already in effect during the previous regulatory period. More specifically:
- The use of a single national rate (TUN) and the corresponding equalization mechanism;
- A system to guarantee revenues for capital expenditures incurred by the storage companies;
- The allocation of a higher rate of return on capital invested in the construction of new storage facilities and the expansion of existing locations.

At the same time, the rate of return on invested capital was lowered to 6.7% pre-tax, down from 7.1% during the second rate period.
The main changes include the following:
- Adoption of the calendar year as a reference period to determine and apply the rates;

- Introduction of a separate rate component to cover decommissioning costs of storage sites;
- Adoption of productivity gain coefficients (X-factors) different for each storage company, computed to reflect the efficiency gains achieved by each company.

In addition, the AEEG adopted Resolution ARG/gas No. 204/10, which governs the quality of storage services for the third regulatory period, introducing new regulations concerning service continuity (effective as of January 1, 2011), safety and commercial quality (effective as of April 1, 2011).
The most significant changes introduced by this resolution are reviewed below:

- Service continuity:
  - the resolution redefined the modulation curve adjustment factors based on the quantities released, allowing the party storing the gas to update these factors compared with the date when first published, just providing data within a tolerance range;
  - storage facilities deemed to be in startup phase (with the startup phase being defined as the period between the date when a service user receives the first capacity award and March 31 of the third thermal year following the year of first award) are exempted from the obligation to comply with most of the requirements of the new rules;
  - no indemnification system has been introduced for failure to comply with the resolution's requirements.
- Commercial quality:
  - companies that operate storage facilities in startup phase are exempted from the obligation to comply with the applicable rules, except that, in the case of the requirements concerning information systems, the indemnity automatically payable to the service user has been set at 150 euros.

Natural gas transmission: In implementation of the Ministry Decree of April 28, 2006, the AEEG adopted Resolution ARG/gas No. 2/10 defining new rules for allocation through the "Open Season" process of transmission capacity on the national gas pipeline network for new regasification terminals and import/export gas pipelines that have been granted exemption from third-party access rights or priority allocation rights (both issued by the Ministry of Economic Development pursuant to the Ministry Decree of April 11, 2006). The purpose of the new rules is to allow the efficient and coordinated planning of future expansions of the national gas pipeline network by gathering, within a well-defined time window, the concerns of all parties interested in expanding the transmission network.
Moreover, once the process is completed, the new rules will enable all involved parties to enter into long-term contracts with the Italian transmission entity for a duration and capacity that are consistent with those of the exemptions they have been granted.

Issues Affecting Multiple Business Segments

Nuclear: The government, having approved Legislative Decree No. 31/2010 setting forth "Rules for the siting, construction and operation within the national territory of facilities for the production of nuclear electric power, facilities for the manufacture of nuclear fuel, systems to store irradiated material and radioactive waste, as well as compensatory measures and public information campaigns," proceeded with the process of completing the regulatory framework.
The Bylaws of the Nuclear Agency were published on July 7, 2010, in Issue No. 156 of the of the *Official Gazette of the Italian Republic.* The Bylaws set forth the criteria defining the Agency's organization, operating procedures, regulations and oversight system. Subsequently, on November 3, 2010, the Constitutional Court handed down decision No. 331 voiding the laws by which some Regional Administrations (Apulia, Basilicata and Campania, specifically) prohibited the installation of nuclear power plants and facilities for the storage of radioactive waste.

Decree concerning trading in quotas of imported natural gas: Ministry Decree of March 18, 2010, enacted in accordance with the combined provisions of Article 11, Section 2, of Decree Law No. 7/2007 and Article 1, Section 1, of Ministry Decree of March 19, 2008, defined the manner in which importers are required to comply with the requirement of Decree Law No. 7/2007 and entrusts to the GME the task of organizing and managing a Trading Platform for the negotiation of quotas of imported natural gas (P-GAS). The purpose of this Decree is to simplify compliance with the requirement to offer import

quotas, facilitate the matching of demand and supply, minimize transaction costs and increase price transparency. The Decree also contemplates the possibility of allowing natural gas volumes that are not subject to the compliance requirements of Decree No. 7/07 to be traded on the platform.
The offer and delivery methods were defined by the AEEG in Resolution ARG/gas No. 58/10. Importers who must comply with the offering requirement will have to submit to the Ministry of Economic Development and the AEEG, by November 30 of each year, a report containing information that may be used to verify proper compliance with the abovementioned requirement (volumes imported and volumes offered). If the required offers are not provided, double the required volume will have to be made available through the platform. Repeated failures to comply with this requirement could result in the cancellation of the import permit or the denial of new permits for a period of up to five years.
P-GAS became operational on May 10, 2010 and is being operated by the GME as the clearing counterparty.

Law No. 111/2010: Law No. 111 of July 19, 2010, which amended and converted into a law Decree Law No. 72 of May 20, 2010, enacted on an urgent basis to extend certain deadlines in the environmental area and in automotive transportation, and concerning the allocation of CO_2 emissions rights, was published on July 20, 2010 in Issue No. 167 of the *Official Gazette of the Italian Republic.* This law contains provisions concerning the allocation of CO_2 emissions rights to energy and industrial operators that own facilities that became operational after the adoption of the National Allocation Plan for these rights for the 2008-2012 period.

Decree Law No. 85/2010 (so-called Federalism in the Ownership of Government Assets): In implementation of Article 19 of Law No. 42 of May 5, 2009, Decree Law No. 85 of May 28, 2010, which endows municipalities, provinces, metropolitan cities and regions with their own assets, was published on June 11, 2010 in Issue No. 134 of the *Official Gazette of the Italian Republic.* In the energy area, this Decree contains the following relevant provisions:

- Transfer to the regional administrations of government owned water resources, as defines in Articles 822, 942, 945, 946 and 947 of the Italian Civil Code and special industry laws;
- Transfer to the provincial administrations of government owned water resources, as defines in Article 5, Section 1, Letter b), limited to closed lakes without surface outlets located within the territory of a single province, as well as mines, but not including oil and gas deposits and their appurtenances and natural gas storage sites and their appurtenances.

Law No. 96/2010 (so-called 2009 EU Law): Law No. 96 of June 4, 2010 containing provisions to comply with requirements arising from Italy's membership in the European Union, which went into effect on July 10, 2010, was published on June 25, 2010 in Issue No. 146 of the *Official Gazette of the Italian Republic.* The Law incorporates into the Italian legal system EU directives concerning the energy market, natural gas infrastructures, renewables and a simplification of the permit issuance process for renewable energy facilities. Specifically, this Law implements Directive No. 2009/73/CE, concerning the internal market for natural gas, Directive No. 2009/72/CE, concerning the internal market for electric power, and Directive No. 2009/28/CE, concerning the promotion of energy from renewable sources.

Law No. 122/2010 (so-called Budget Adjustment Law): Law No. 122 of July 30, 2010 entitled "Conversion into a Law, with Amendments, of Decree Law No. 78 of May 31, 2010 Enacting Urgent Provisions Concerning Financial Stabilization and Economic Competitiveness" was published on July 30, 2010, in Issue No. 176 of the *Official Gazette of the Italian Republic.* This Law contains two particularly significant provisions:

- Article 15, Section 6, and following, pursuant to which: the central government grants a five-year extension for all existing concessions (Section 6-*ter,* Letter b); the Ministry of Economic Development, acting in concert with the Ministry of the Environment and the Protection of the Territory and the Sea and with the approval of the Government/Regional Administrations Conference, shall issue, within six months from the effective date of this law (January 2011), a decree setting forth the minimum organizational and financial requirements, the parameters and deadlines for the competitive bidding procedures required by Article 12, Section 1, of Legislative Decree No. 79 of March 16, 1999 (Section 6-*ter,* Letter c); concessions may be extended for an additional seven years

A definitive agreement has been reached to build the new IGB pipeline between Greece and Bulgaria. The picture shows the complete pipeline route.

(Section 6-*ter,* Letter d), provided mixed corporations are established with the provincial administrations listed in Article 1, Section 153, of Law No. 296/2006 (Sondrio, Brescia, Como and Verbania), and the bases used to compute concession fee surcharges payable to the local watershed entities and Mountain Water Basins referred to in Law No. 925/1980 are increased. It is important to keep in mind that the abovementioned provisions are subject to a supersession clause (Section 6-*quater*), pursuant to which all provisions set forth in the amended law are applicable until regional laws governing the same issues are enacted, within the limits of the respective jurisdictions (as mentioned above, in the "Production" section, the Regional Administration of Lombardy, enforced the supersession clause by enacting Lombardy Regional Law No. 19 of December 23, 2010, which set forth new regulations governing hydroelectric concessions).

- Article 45, which concerns green certificates, states that, by December 31, 2010, the Ministry of Economic Development, acting in concert with the Ministry of the Economy and Finances and with the input of the AEEG, shall issue a decree, pursuant to which, effective in 2011, the total amount of green certificates taken back by the GSE must decrease by 30% compared with 2010 and that at least 80% of this decrease must derive from a reduction in surplus green certificates.

With regard to hydroelectric concessions, it is worth mentioning that these new provisions are being challenged before the Constitutional Court by the Regional Administration of Liguria (which is challenging Article 15, Section 6-*ter,* Letter b) e d) and Section 6-*quater*) and by the Regional Administration of Emilia Romagna (which is challenging only Section 6-*quater*) for alleged violation of Article 117, Section 3, of the Constitution.

Ministry Decree of August 6, 2010 (so-called Energy Account): The decree setting forth the criteria for incentivizing production of electric power from photovoltaic solar systems and the development of innovative technologies for photovoltaic conversion was published on August 24, 2010 in Issue No. 197 of the *Official Gazette of the Italian Republic.* This decree is a further component of a regulatory system that was launched with the Ministerial Decrees of February 19, 2007 and July 28, 2008. The new decree applies to photovoltaic facilities commissioned after December 31, 2010.
The decree calls for a gradual reduction of the incentivizing rates available to photovoltaic facilities, compared with the rates available in 2010. This reduction will be implemented on the basis of periods of four months and the average percentage reduction at the end of 2011, compared with 2010, ranges between 10% and 17% in the last four months of 2011.

Uniform Environmental Code: The Legislative Decree "setting forth amendments and additions to Legislative Decree No. 152 of April 3, 2006, which contained regulations governing environmental

issues, pursuant to Article 12 of Law No. 69 of June 18, 2009" was published on August 11, 2010 in Issue No. 186 of the *Official Gazette of the Italian Republic.*

The abovementioned amendments included some significant changes to Part II and Part V of Legislative Decree No. 152/2006 concerning, respectively, the Environmental Impact Assessment procedure and the Integrated Environmental Authorization procedure, as well as air quality protection regulations. In addition, the new law forbids exploring and prospecting for or producing liquid and gaseous hydrocarbons not only inside protected marine and coastal areas, but also within 12 nautical miles from the base lines of the territorial waters along Italy's entire coastal perimeter and, limited to liquid hydrocarbons, within five nautical miles from the abovementioned base lines. This rule applies retroactively to already filed permit applications that are in process or are being finalized.

Reform of the Natural Gas Market: Legislative Decree No. 130 entitled "Provisions to Increase Competitiveness in the Natural Gas Market and Transfer the Resulting Benefits to End Customers, Pursuant to Article 30, Sections 6 and 7, of Law No. 99 of July 23, 2009" went into effect on August 18, 2010.

This decree revises the antitrust ceilings introduced earlier by the Letta Decree, setting new ceilings for natural gas imports into Italy (40% increasable to 55% based on the submission of commitments to develop new capacity) and a new method to compute the market share of importers.

An importer who exceeds the 40% ceiling will be required to dispose of 4 billion cubic meters of gas for two consecutive years (Gas Release). As an alternative to the Gas Release, the market share of the affected importer can be increased to 55%, provided the importer submits a development plan to increase storage capacity by 4 billion cubic meters to be implemented over five years. This plan becomes binding once it is approved by the Ministry of Economic Development.

Pursuant to the decree, the development of new storage capacity may be financed by third parties specifically identified in the decree on the basis of natural gas usage levels set forth in the decree (end industrial customers and their consortia, aggregations of medium-size/small businesses and owners of thermoelectric facilities fueled exclusively with natural gas) and selected on the basis of competitive bidding procedures.

The parties selected to finance development projects (except for thermoelectric operators) will benefit from a so-called virtual storage mechanism that will provide them (starting in the 2010-2011 thermal year) with a financial benefit in terms of the gas price differential between winter and summer. The virtual storage benefit will be provided for 50% of the gas volume by the affected importer and by the GSE for the balance.

In order to avoid penalizing third parties who store gas with Stogit, the decree allows such third parties to also submit capacity expansion plans, which may not exceed a total of 4 billion cubic meters.

Lastly, the decree requires the AEEG to revise the gas balancing rules on an economic merit basis by

February 28, 2011, in order to ensure that it can be put into effect by April 1, 2011.
On November 11, 2010, in implementation of some of the decree's provisions, the AEEG published Resolution ARG/gas No. 193/10 entitled "Determination of the Rules and Fees Referred to in Article 9 and Article 10 of Legislative Decree No. 130 of August 13, 2010," by which it defined:
- the rights and obligations of virtual storage users;
- the types of virtual services offered;
- the reference foreign markets (TTF and Zeebrugge) and the applicable transmissions costs to bring natural gas to the Virtual Exchange Facility;
- the methods by which the GSE selects the shipper who provide shipping services;
- the manner in which the party upon whom the obligation is incumbent (ENI) meets its contribution obligation regarding the supply of virtual storage for 50% of the assigned volumes either directly or through financial compensation provided to the GSE.

Law No. 129/2010 ("Power Plant Unblocking" Law): Law No. 129 of 2010, which amended and converted into a law Decree Law No. 105 of July 8, 2010 setting forth urgent measures concerning energy issues, was published on August 18, 2010 in Issue No. 192 of the *Official Gazette of the Italian Republic.* The law extends the deadline of the delegation of legislative authority to implement a reorganization of the incentive system.
This statute sets forth urgent measures concerning the transmission, distribution and production of electric power that are strategically in the nation's interest. The government, acting in concert with the affected regions and autonomous provinces, shall identify urgent and non-postponable projects related to the transmission, distribution and production of energy that meet special urgency requirements, specifically with regard to socio-economic development, the implementation of which requires the deployment of extraordinary resources and powers.

Ministry Decree of December 10, 2010: A decree by the Ministry of Economic Development carrying out the "implementation of Article 30, Section 27, of Law No. 99 of July 23, 2009 concerning transactions between operators of electric power networks, concessionaire distributors, owners of private networks and end customers connected to these networks," including Internal User Networks, was published on December 31, 2010 in Issue No. 305 of the Official Gazette of the Italian Republic.
The decree sets forth the following main requirements:
- It places an obligation to provide a connection to third parties exclusively on operators of transmission (Terna) and distribution (distributors) systems. Internal User Networks and private networks in general are not required to provide a connection to third parties.
- It introduces the obligation for all operators of private networks, including Internal User Networks, to provide free access to the electric power system: basically, this requirement enables end users connected to their networks to freely choose their supplier (there are no changes to current rules concerning the deregulated market and eligible customers).
- It introduces a system for the self-supply of energy: this is the case when one or more electric power generating facilities are connected to a user facility belonging to the same end customer or the same group of companies. Production facilities may be owned by a third party, the only requirement being that they be built on property belonging to the owner of the user facility and share with the user facility the connection to the public grid (in practice, this is an extension of Efficient User Systems to all production facilities connected to a user facility-but power plants are excluded).
- It provides distributors with the right to ask operators of private networks to allow them to use their networks to provide connection services to end customers: the criteria and economic conditions of this activity will be defined by the AEEG.
- It requires Internal User Networks to pay for transmission and system costs only for supplemental energy. This provision applies also to prior period charges.

European Energy Policies

European Recovery Plan: The process for the allocation of funds earmarked for the development of electric power and natural gas interconnector systems is continuing, consistent with the adoption of

the European Recovery Plan. In January 2010, the European Parliament voted to approve the Commission's decision and the final decisions for individual resource allocations are currently being finalized.
This process also applies to some projects sponsored by Edison, such as the ITGI, IGB and GALSI gas importation infrastructures, to which funding totaling 100 million euros, 45 million euros and 120 million euros, respectively, have been allocated.
The required progress reports and letters extending the final investment decision to November 2011 (a prerequisite for funds disbursement) have been submitted to the European Commission.

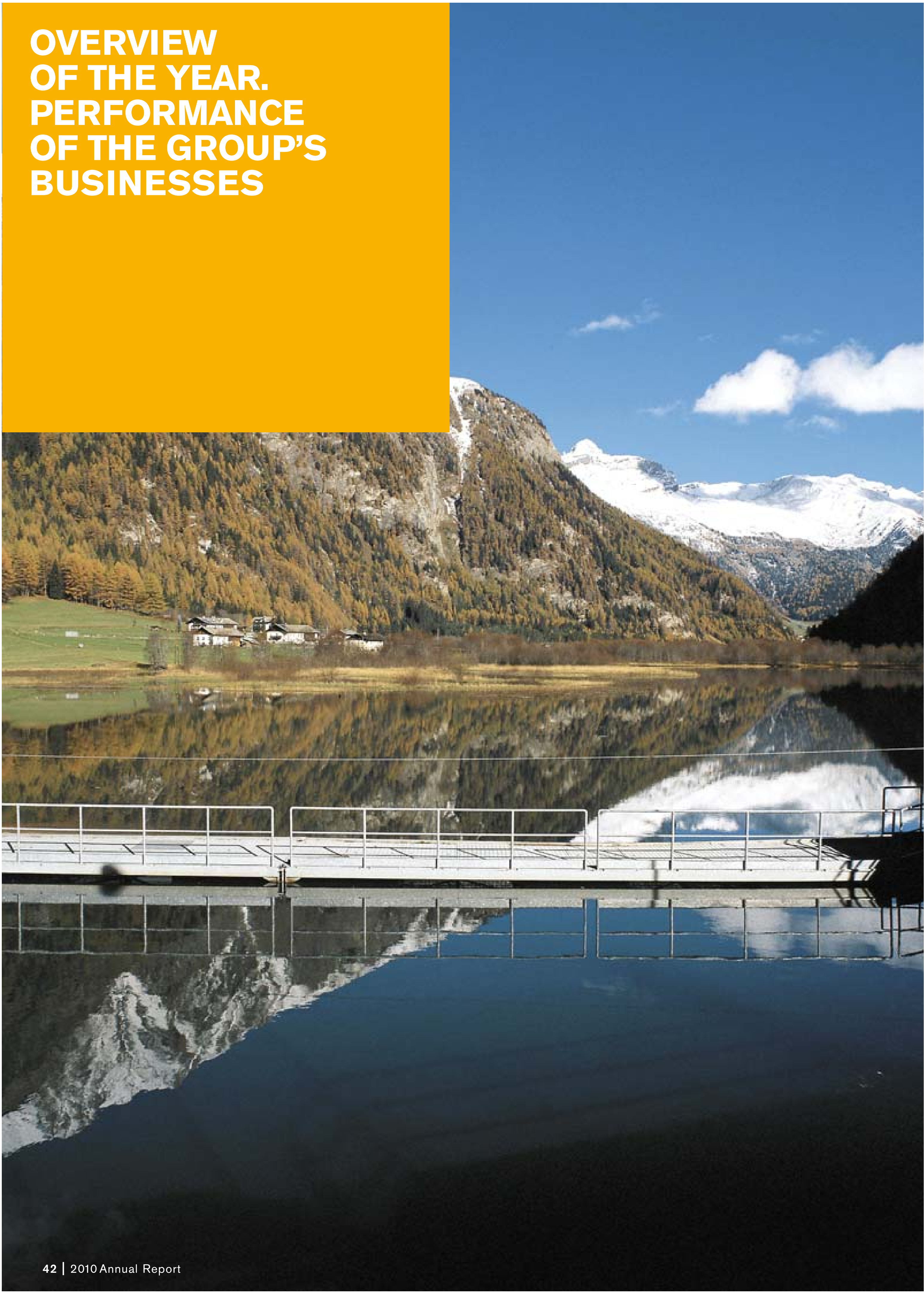
Transparency and integrity in the wholesale markets (natural gas, electric power, CO_2) and financial market regulations (OTC derivatives, MiFID Directive): The Third Internal Market Package introduced a series of requirements for electric power and natural gas operators concerning the collection of information about supply contracts and derivative contracts and the availability of the data to the regulatory institutions, with the aim of strengthening transparency and record keeping at the E.U. level. In addition, in response to the international financial crisis, the European Commission has been presenting a series of new legislative proposals aimed at further strengthening the control and supervision of the financial markets.
Moreover, the Commission has recently completed (February 2011) a consultation process for the revision of Markets in Financial Instruments Directive (MiFID) No. 39/2004/EC. The objectives of the revision of the current network will probably include changes to the exempt status provided under Article 2 (1) (k) of the Directive to parties (including energy companies) the main activity of which consists of trading for their own account in commodities or commodity-based derivatives and which are part of a group the main activity of which is the provision of other investment services, as defined in the MiFID or the banking services directive.

E.U. ETS and CO_2 market:The main developments concerning the CO_2 market and the Emissions Trading System are reviewed below:

- **Free ETS allocations for 2013-2020:** The European Commission adopted a decision (implementing the new ETS Directive No. 29/2009/EC) defining the benchmark values (stated in tons of CO_2/ton produced) used to quantify the free allocations for CO_2 in the industries exposed to carbon leakage for the 2013-2020 period. With regard to the recycling of process gasses for the production of electric power, the decision requires that, when determining the benchmark values (including the production of steel and paper), the CO_2 content of process gasses be taken into account in order to quantify the free allocations awarded to the production facilities.
- **CO_2 ETS auctions for 2013 - 2020:** The Regulations governing the organization and management of auctions for the award, for consideration, of CO_2 emissions rights for the 2013-2020 period (adopted to implement the new ETS Directive No. 29/2009/EC) has been published in the *Official Journal of the European Union.* The Regulations define harmonized procedures to organize, manage and monitor auction platforms (a E.U. platform and, possibly, national platforms), as well as the timing, calendar and participation criteria of the auctions, with the aim of ensuring that they are conducted in a transparent and non-discriminatory fashion. In addition, the Commission has recently completed (February 2011) a consultation process concerning an earlier implementation of the CO_2 auctions, with the aim of possibly amending the Regulation and allowing early purchases of European Union Allocations by thermoelectric operators for Phase 3 hedging purposes.

New E.U. energy policy strategy through 2020: The European Commission published a Communication defining the objectives pursued and the activities planned through 2020 by the E.U. to achieve the environmental targets defined in the climate package and facilitate the implementation in due time of investments in infrastructures (for about 1,000 billion euros) needed to replace generating capacity, achieve market integration and diversify supply sources and routes, in order to ensure supply reliability. The activities planned by the E.U. are defined within the framework of the Lisbon Treaty, pursuant to which the E.U. has direct jurisdiction over energy issues (article 194). Among the three objectives of sustainability, competitiveness and reliability of supply sources, the emphasis is now being placed on competitiveness, in an economic context changed by the crisis, and on investments, which are essential in enabling the economy to sustain the recovery, while at the same time seeking to minimize the impact of the cycle of necessary investments (first and foremost, on energy prices).

OVERVIEW OF THE YEAR. PERFORMANCE OF THE GROUP'S BUSINESSES



ELECTRIC POWER OPERATIONS

Quantitative Data

Sources

GWh (*)	2010	2009	% change
Production in Italy:	**41,824**	**41,601**	**0.5%**
- Thermoelectric power plants	35,361	35,646	(0.8%)
- Hydroelectric power plants	5,734	5,397	6.2%
- Wind farms and other renewables	729	558	30.8%
Other purchases [1]	**30,070**	**18,771**	**60.2%**
Total sources in Italy	**71,894**	**60,372**	**19.1%**
Production outside Italy	**943**	**236**	**n.m.**

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

Uses

GWh (*)	2010	2009	% change
CIP 6/92 dedicated	**10,733**	**11,050**	**(2.9%)**
Captive and other customers	**3,641**	**2,464**	**47.8%**
Deregulated market:	**57,520**	**46,858**	**22.8%**
End customers [1]	27,276	24,978	9.2%
IPEX and mandates	1,327	2,452	(45.9%)
Wholesalers and industrial portfolio	15,422	8,837	74.5%
Other sales [2]	13,495	10,591	27.4%
Total uses in Italy	**71,894**	**60,372**	**19.1%**
Sales of production outside Italy	**943**	**236**	**n.m.**

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

Financial Highlights

(in millions of euros)	2010	2009	% change
Sales revenues	**7,289**	**6,463**	**12.8%**
EBITDA	1,055	1,227	(14.0%)
Adjusted EBITDA [1]	1,130	1,086	4.1%
Capital expenditures	242	372	(34.9%)
Number of employees [1]	1,949	1,946	0.2%
- including these employees of discontinued operations	119	-	n.m.

(1) See note on page 20.
(2) Year-end data. The changes are computed against the data at December 31, 2009.

Production and Procurement

In 2010, the Group's net production in Italy totaled 41,824 GWh, about the same as in 2009. More specifically, thermoelectric production decreased by about 0.8%, owing in part to a substantial increase in output from hydroelectric power plants and other renewable-source facilities (+6.2% and +30.8%, respectively). Production outside Italy refers to the contribution of the power plant operated by Elpedison Power Sa in Thessaloniki, in Greece, which is being consolidated since March 31, 2009.

The reservoir of the Prati di Vizze (Bolzano) hydroelectric power plant.

Other purchases carried out to round out the sources portfolio increased by more than 60% compared with 2009; however, it is important to keep in mind that this category includes purchases that occur when facilities operate in bidding mode and other transactions with relatively low unit margins.

Sales and Marketing

Sales of electric power totaled 71,894 GWh in 2010, for an increase of 19.1% compared with the previous year (60,372 GWh). Sales in the CIP 6/92 segment were down slightly, due mainly to the expiration of contracts for some of the Group's thermoelectric power plants. Sales to captive customers grew by 47.8%, reflecting the effect of an upturn in steel production at the mills served by dedicated power plants. In the deregulated market, sales grew by 22.8%, showing that the positive trend that started earlier in the year is continuing, but were characterized by contrasting trends, depending on the business segment. Given the extreme scenario volatility, the Group opted for reducing its exposure to the risk of fluctuations in commodity prices, focusing on sales to end customers (+9.2%) and wholesalers (+74.5%), while reducing the volumes it offered on the Power Exchange. Other sales in the deregulated market increased by 27.4%. However, as mentioned above when discussing other purchases, the unit margins earned in these business segments are extremely small.

Operating Performance

Sales revenues totaled 7,289 million euros in 2010. The increase of 12.8% compared with 2009 is the result of higher unit sales, which more than offset the impact of a reduction in unit sales prices driven by changes in the benchmark scenario.

At December 31, 2010, adjusted EBITDA totaled 1,130 million euros, or 4.1% more than in 2009 (1,086 million euros). The consideration received for early termination of CIP 6/92 contracts for some thermoelectric power plants (as described in the Regulatory Framework section of this Report), amounting to 173 million euros, accounts for most of this gain, as it more than offset the effect of a drop in profitability caused by the contractual expiration of CIP 6/92 contracts and incentives for other power plants in 2010 and the absence of nonrecurring income recognized in 2009. In the deregulated market segment, sales benefited from an increase in sales volumes, which helped alleviate the effect of lower sales margins, and from more satisfying results in the dispatching services market.

Capital Investments

Capital expenditures by the electric power operations, which totaled 242 million euros in 2010, were allocated as follows: about 114 million euros for the thermoelectric operations; about 27 million euros to develop wind power operations in Italy, primarily the Mistretta, San Giorgio and Foiano wind farms; about 47 million euros to streamline and revamp hydroelectric facilities; about 41 million euros for the development of the Thisvi power plant, in Greece; and about 13 million euros for photovoltaic and energy efficiency projects.

HYDROCARBONS OPERATIONS

Quantitative Data

Sources of Natural Gas

in millions of cubic meters	2010	2009	% change
Production in Italy	509	604	(15.6%)
Pipeline imports	7,671	8,678	(11.6%)
LNG imports	5,813	1,682	n.m.
Domestic purchases	1,873	2,502	(25.1%)
Change in stored gas inventory (1)	(27)	(256)	(89.4%)
Total sources (Italy)	**15,839**	**13,210**	**19.9%**
Production outside Italy (2)	**1,458**	**1,231**	**18.5%**

(1) Includes pipeline leaks. A negative change reflects an addition to the stored inventory.
(2) Counting volumes withheld as production tax.

Uses of Natural Gas

in millions of cubic meters	2010	2009	% change
Residential use	2,975	3,043	(2.2%)
Industrial use	1,460	1,378	6.0%
Thermoelectric fuel use	10,294	8,151	26.3%
Other sales	1,110	638	73.8%
Total uses in Italy	**15,839**	**13,210**	**19.9%**
Sales of production outside Italy (1)	**1,458**	**1,231**	**18.5%**

(1) Counting volumes withheld as production tax.

Crude Oil Production

in thousands of barrels	2010	2009	% change
Production in Italy	2,331	1,703	36.9%
Production outside Italy (1)	1,159	957	21.1%
Total production	**3,490**	**2,660**	**31.2%**

(1) Counting volumes withheld as production tax.

Financial Highlights

(in millions of euros)	2010	2009	% change
Sales revenues	**5,040**	**4,158**	**21.2%**
EBITDA	413	347	19.0%
Adjusted EBITDA (1)	338	488	(30.7%)
Capital expenditures	193	1,296	(85.1%)
Investments in exploration	52	66	(21.2%)
Number of employees (2)	1,357	1,357	-

(1) See note on page 20.
(2) Year-end data. The changes are computed against the data at December 31, 2009.

Production and Procurement

In 2010, production of natural gas, counting the output both of Italian and international operations, amounted to 1,967 million cubic meters, or 7.2% more than in 2009. A gain in production outside Italy (+18.5%), which reflected the contribution of the Rosetta and Abu Qir concessions in Egypt, more than offset the impact of the natural depletion of existing fields in Italy.
The Group's production of crude oil was also up substantially (+31.2%), rising to a total of 3,490,000 barrels, compared with 2,660,000 barrels in 2009. The resumption of operations at the Vega field, in Italy, combined with the production from the Abu Qir concession and the new West Wadi el Rayan field, in Egypt, account for this increase.

The Vega oil field, which is located in the Strait of Sicily, about 12 miles offshore, began producing in 1987. It has been estimated that the Vega field is capable of producing an additional 12 million barrels of oil.

Total natural gas imports were up 30% owing to the availability for the full year of LNG imported from Qatar and regasified at the Rovigo LNG Terminal, which became operational in the third quarter of 2009. At the same time, imports of natural gas delivered via pipelines under long-term contracts decreased by 11.6%, as large quantities of spot gas became available on the main markets in Europe at prices substantially lower than those charged under conventional long-term contracts to purchase natural gas. Starting at the end of July, the effect of this trend was magnified by an interruption in the supply of North Sea natural gas delivered through the Transitgas pipeline, due to mudslides in Switzerland.

Sales and Marketing

Reflecting the increased supply available thanks to the LNG regasified at the Rovigo Terminal, unit sales of natural gas to customers in Italy totaled 15,839 million cubic meters, for a gain of 19.9% compared with 2009. This increase, which shows that the positive trend that started earlier in the year is continuing, reflects the impact of gains in sales to industrial users and thermoelectric users, which grew by 6% and 26.3%, respectively.
On the other hand, sales to residential users decreased by 2.2%, due mainly to the strong competitive pressure on sales prices that characterized the sales campaign for the 2010-2011 thermal year.
Sales to wholesalers and volumes traded on the virtual exchange facility totaled 1,110 million cubic meters (638 million cubic meters a year ago).

Operating Performance

In 2010, sales revenues amounted to 5,040 million euros, or 21.2% more than in 2009. A substantial increase in unit sales accounts for this improvement.

Adjusted EBITDA totaled 338 million euros in 2010, for a decrease of 30.7% compared with 2009. This large shortfall is attributable in its entirety to the natural gas trading activity, which, while benefiting from the Group's having substantially achieved independence in the procurement of natural gas for its power plants, was penalized by the flattening of unit sales margins. This lack of profitability is a consequence of competitive pressure on prices caused by the effect of a supply overhang, in combination with the availability of large quantities of spot gas at prices substantially lower than those charged under conventional long-term contracts to purchase natural gas, which was magnified by the collapse of demand for natural gas in Italy, compared with pre-crisis levels. For these reasons, as already explained

in the section of this Report entitled “Business Outlook for 2011,” Edison has already begun to renegotiate its long-term contracts for the importation of natural gas in order to make its portfolio of multi-year import contracts again financially viable.
This sharp reduction in profitability was offset in part by the higher EBITDA reported by the exploration and production activities, which benefited from a more favorable oil market scenario, an increase in unit sales compared with 2009 and the growing contribution provided by the international operations.

Capital Investments

Capital investments totaled 193 million euros in 2010. The main investments in Italy included: 17 million euros to expand the Cellino and Collalto fields and 5 million euros for the San Potito and Cotignola fields, 5 million euros for the preparatory activities required to develop the Panda and Cassiopea deposits, 5 million euros to develop the Daria field and 2 million euros for the Tresauro field, and 5 million euros to develop the new Capparuccia (AP) field.
Investment projects in Egypt focused on the Abu Qir concession (90 million euros), where work included the continuation of drilling activities and design activities for the construction of the new NAQ PII platform and the renovation and expansion of the existing NAQ PI and WAQ PI platforms.
In Croatia, the commissioning and startup activities for the Izabela South and Izabela North offshore platforms were completed, at a cost of 37 million euros.

Exploration Activities

In 2010, the Group invested about 52 million euros in exploration. Virtually the entire amount was allocated to projects outside Italy, with the largest amounts invested in Egypt (19 million euros), for drilling projects in the Abu Qir concession and in the West Wadi el Rayan and Sidi Abd el Rahaman blocks, and in Norway (21 million euros), for activities involving the drilling of well 6507/7-14s in the 435 Zidane license, operational in the recently discovered field.

Hydrocarbon Reserves

The Group’s hydrocarbon reserves totaled 52.8 billion cubic meter equivalent, compared with 56.1 billion cubic meter equivalent at the end of 2009. The decrease of 0.7 billion cubic meters, net of about 2.6 billion cubic meter equivalent produced in 2010, reflects primarily a revision of the estimates, performed by an independent expert appraiser, concerning mainly the Abu Qir offshore fields in Egypt.

CORPORATE ACTIVITIES AND OTHER SEGMENTS

Financial Highlights

(in millions of euros)	2010	2009	% change
Sales revenues	**51**	**53**	**(3.8%)**
EBITDA	(99)	(103)	(3.9%)
as a % of sales revenues	n.m.	n.m.	
Capital expenditures	70	11	n.m.
Number of employees [1]	633	620	2.1%

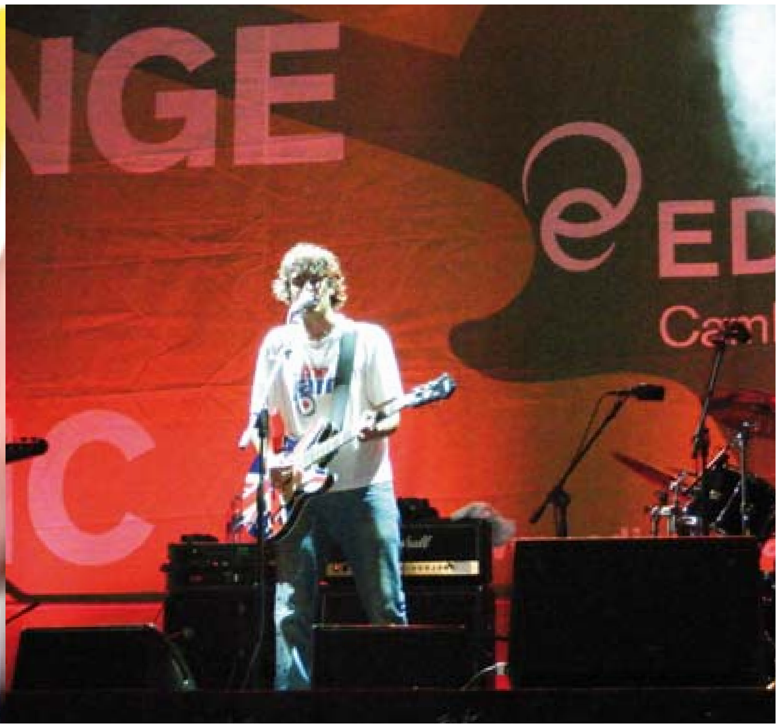
(1) Year-end data.

Corporate Activities and Other Segments include those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature, and certain holding companies and real estate companies.

At 51 million euros, sales revenues were about the same as in 2009, while EBITDA showed an improvement, as the loss narrowed by 4 million euros compared with the previous year.

Investments in property, plant and equipment include 62 million euros for a building at 35 Foro Buonaparte, in Milan, purchased in January 2010.

Edison - Change The Music is the first musical project with a low environmental impact developed to promotes a culture of sustainable energy in the music world (www.edisonchangethemusic.it).



RECONCILIATION OF THE PARENT COMPANY'S NET PROFIT AND SHAREHOLDERS' EQUITY TO THE CORRESPONDING DATA FOR THE GROUP

Pursuant to Consob Communication No. DEM/6064293 of July 28, 2006, the schedules that follow provide reconciliations of the Group interest in net profit and the shareholders' equity attributable to Parent Company shareholders at December 31, 2010 to the corresponding data for Edison Spa, the Group's Parent Company.

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

(in millions of euros)	2010	2009
Net profit of Edison Spa	**(86)**	**423**
Intra-Group dividends eliminated in the consolidated financial statements	(325)	(322)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	446	138
Different valuation of the result of discontinued operations, divested operations and acquisitions	-	(2)
Other consolidation adjustments	(14)	3
Group interest in net profit	**21**	**240**

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

(in millions of euros)	12/31/2010	12/31/2009
Shareholders' equity of Edison Spa	**6,864**	**7,129**
Carrying amount of investments in associates eliminated against the corresponding interests in the shareholders' equities of the investee companies, including:		
- Elimination of the carrying values of the consolidated investments in associates	(2,273)	(1,983)
- Recognition of the shareholders' equities of consolidated companies	3,326	2,902
Valuation of investments in associates measured by the equity method	8	5
Other consolidation adjustments	14	24
Shareholders' equity attributable to Controlling Company shareholders	**7,939**	**8,077**

SOCIAL RESPONSIBILITY. OUR ACTIONS

INNOVATION, RESEARCH AND DEVELOPMENT

In 2010, the Innovation, Research and Development Department focused its activity on projects involving fuel-cell power generation, innovative photovoltaic technologies and advanced energy materials. In addition, it carried out activities and studies in support of projects managed by other departments, providing them with access to specific competencies and methodologies available both internally and externally, through the Research Department's network. Among these collaborative efforts, projects carried out in the areas of energy efficiency and renewable energy sources were especially noteworthy. Joint research activities with EDF continued, within the framework of a collaboration agreement aimed at developing synergies between the competencies and research organizations of the two companies.

Fuel Cells

Activities in this area continued both at the laboratory of the Edison Research Center in Trofarello and in collaboration with the Chemistry and Energetics Departments of Turin's Politecnico University and the EIFER Institute in Karlsruhe, Germany.

Advanced Photovoltaic Technologies

The study of innovative high-efficiency photovoltaic systems continued both in the laboratory and in the field, at a facility built within the compound of the Altomonte power plant, where several photovoltaic systems, including systems with photovoltaic concentrators, are being tested to determine the application and development potential.

Advanced Energy Materials

Activities involving the development of Edison technologies for the production of a magnesium diboride superconductor continued at the CNR IENI Institute in Lecco and at the Trofarello Research Center In addition, the Group is pursuing, jointly with EDF's R&D organization, a study of materials and the corresponding thin-film deposition techniques for application in high-temperature fuel cells.

Energy Efficiency

A series of studies and assessments of technologies used to implement energy efficiency services were carried out in 2010. This area encompasses a wide spectrum of constantly evolving technologies, many of which are also part of the complex of technological solutions collectively referred to as "smart grid."

Photovoltaic panels at a facility
in Altomonte (Cosenza).

HEALTH, SAFETY AND THE ENVIRONMENT

Contributing to the fight against climate change and the development of an energy system with a reduced environmental impact, while supporting the development of our employees and providing them with healthy and safe workplaces are two of the challenges inherent in Edison's responsibility.
With this in mind, Edison addresses and manages environmental and safety issues taking an integrated system approach. Accordingly, the Company promotes the development and use of integrated and certified management systems as essential drivers of prevention and the continuous improvement of management activities, within a context of respect for and continuous dialog with its host communities, consistent with best international practices.
The main achievements of 2010 are reviewed below.

Occupational Safety

Edison has been implementing for some time programs to promote occupational safety. As a result, it has been able to achieve outstanding results and bring its occupational safety indices to levels that place it among the most virtuous companies with respect both to its own employees and the employees of contractors.
In 2010, the occupational safety performance for Group employees was in line with the data reported the previous year, with an Injury Incidence Rate of 3.8 and a Lost Workday Incidence Rate of 0.16. With regard to employees of contractors, the year ended with an Injury Incidence Rate of 3.8, showing that the strong performance of 2009 is continuing, and a Lost Workday Incidence Rate of 0.12, in line with the level achieved in 2009.
Overall, Edipower's occupational safety indices, which posted significant improvements in recent years, appear to have stabilized at satisfactory levels that are competitive with those of other market operators. Even though the indices were slightly higher than in 2009, the 2010 accident data for Edipower employees (there were eight on-the-job accidents in 2010) show that the trend of overall improvement is continuing, with the Injury Incidence Rate and the Lost Workday Incidence Rate standing at 4.2 and 0.14, respectively.
Also with regard to the employees of maintenance companies (with six on-the-job accidents in 2010), the occupational safety data show that the positive performance of previous years is continuing, with an Injury Incidence Rate of 5.19 and Lost Workday Incidence Rate 0.08.
In 2010, there was only one accident at construction sites subject to the provisions of Title IV of Legislative Decree No. 81/2008.

Activities Concerning Occupational Health and Safety

Consistent with its relentless pursuit of a "zero accidents" objective, Edison continued to identify and develop activities that will produce a further improvement in its occupational safety indices. The main activities carried out or launched in 2010 in this area are reviewed below:

- The Risk Assessment Documents were amended to comply with the requirements of the updated Legislative Decree No. 81/08. By year's end, the risk assessment software covered about 95% of the Group's locations.
- A process to assess risk from work-related stress, designed in accordance with the general guidelines of the European Agreement of October 8, 2004, was launched ahead of the deadline of Legislative Decree No. 81/08. The first part of this process, involving the collection of objective indicators, has been completed and work has started on recording subjective perceptions (through focus groups) required to complete the assessment process.
- Using as a basis the safety organizational model of the Edison Group, the first phase of a project aimed at the adoption of a health and safety management system consistent with the BS OHSAS 18001 standard for use at all administrative facilities and offices and the Trofarello Research Center was completed in 2010, resulting in the development of the system's documental structure.
- A training program for all company officials involved in managing occupational safety (employers, delegated managers, supervisors, prevention and protection service managers, employee safety representatives and maintenance managers) with regard to the requirements of the Uniform Occupational Safety Code (Legislative Decree No. 81/08) was completed. In addition, training

continued to be provided for newly hired employees and a project to provide online training about the risks entailed by the different tasks performed by Company employees was started.

- As part of the preventive and management activities concerning health and safety at the Group's international operations, specific audits and inspections were carried out at the Abu Qir Branch, in Egypt (acquired in 2009), and at the construction site for the new Thisvi thermoelectric power plant in Greece.
- As was the case in 2009, Edison was an active participant in "OSHA Week 2010," the European health and safety week (October 25-29), implementing several communication and training programs to promote risk assessment and increasingly healthy and safe work environments.
- Activities concerning the handling of construction contracts and contractor companies were further strengthened. Specifically, special attention was paid to the qualification process for contractor companies and the assessment of interference risks involving Group employees and employees of contractors, identifying the corresponding safety costs, as required by Legislative Decree No. 81/08.
- The Company launched at its Foro Buonaparte head office a pilot project based on observing and reporting risky behavior. This project, which requires the involvement and participation of all head office employees, is designed to promote a more widespread understanding of the concept of safety and a greater acceptance of personal responsibility in this area. The project will be completed in 2011.
- The Company carried out the 2010 integrated safety and environment internal audit plan, with completed engagements accounting for 90% of planned audits.

Environmental Activities

In recent years, consistent with a commitment to pursue continuous improvement, Edison's environmental performance reached levels of excellence, thanks to the adoption of virtuous organizational models based on the implementation of certified management systems, the deployment of the best available technologies and the ongoing use of projects to train and educate Company staff and employees of contractors.
The main activities carried out or launched in 2010 in this area are reviewed below:

- The Company launched a biodiversity action plan that calls for the adoption of an analysis tool for the creation of a geo-referenced databank, which it then can use to focus its efforts on more sensitive areas, which are potentially at greater risk, as identified among the locations where Edison operates.
- Work continued on the process of implementing the Decree of December 17, 2009 concerning the introduction of an online waste traceability control system (known as SISTRI in Italian), which is supposed to significantly alter formal waste management procedures in Italy. Specifically, the registration of all local units of the Edison Group that generate waste has been completed, but many of these units have not yet received the USB device needed to use the online system. In 2010, as a result of problems that arose during the year, the Ministry of the Environment repeatedly postponed SISTRI's start, which is now scheduled for May 31, 2011.
- EMAS III training: A training course was provided following the publication of new EMAS III regulations (EC Regulation No. 1221/2009 of the European Parliament). The main topics covered included: environmental analysis and significance assessment, key environmental performance indicators, the audit process, and environmental communication and reporting.
- Environmental remediation work continued, focusing mainly on particularly significant industrial sites potentially polluted by activities carried out in the past that are no longer part of the Group's core businesses.

Electric Power Business Unit

Having achieved the objective of environmental and safety certification in accordance with UNI EN ISO 14001 and BS OHSAS 18001 standards and the EMAS Regulation for 100% of its Thermoelectric and Hydroelectric Operating Divisions, the Business Unit successfully completed the renewal of the certifications.
Work continued on securing the issuance and renewal of the Integrated Environmental Permit required by Legislative Decree No. 59/2005 for facilities under Ministry jurisdiction with a thermal capacity in excess of 300 MW. In 2010, the Taranto, Marghera Levante, Piombino and Milazzo power plants received the abovementioned permit. Among facilities with a capacity of less than 300 MW, the Porcari thermoelectric power plant also received the required permit

Hydrocarbons Business Unit

The activities required to complete the certification of the Italian Production Department in accordance with the UNI EN ISO 14001 and BS OHSAS 18001 standards, with the aim of covering 100% of the operating sites, continued. Work carried out as part of this project included completion of the activities at the San Giorgio Mare onshore site, which was then certified by an independent entity.
In 2010, all monitoring inspections of the Business Unit's integrated environmental and safety management system, which include those of the Production Italy unit, Edison Stoccaggio and Edison Distribuzione Gas were successfully completed. In addition, the EMAS environmental registration of the Cellino gas storage center and the Garguso gas production facility were renewed.
Training activities carried out in 2010 included the successful performance of pollution prevention exercises at the Vega and Rospo Mare offshore oil fields and a safe driving course for the employees of Edison Stoccaggio.

The Group closed the purchase of Parco Eolico San Francesco, a fully operational 26-MW wind farm in the municipality of Melissa (Crotone). The facility is capable of generating about 46 GWh of power a year.

Lastly, work continued on the preparation of the surveys required to implement the "Seveso II" Directive for gas storage facilities.

Renewable Sources Business Unit

Monitoring inspections of the integrated environmental and safety management system in accordance with the UNI EN ISO 14001 and BS OHSAS 18001 and the EMAS Regulation of Edison Energie Speciali and of the environmental management system of the Castellavazzo biomass power plant operated by Compagnia Elettrica Bellunese Spa were successfully completed.

Marketing and Distribution Business Unit

A monitoring inspection of the quality management system for the Business Unit's organization, in accordance with the UNI EN ISO 9001 reference standard, was successfully completed in 2010.

Engineering Department

The certification process of the health and safety management system in accordance with the BSI OHSAS 18001 standard and a semiannual monitoring inspection were successfully completed.

In addition, work started on the development of management and governance procedures for environmental issues that arise during the construction of industrial facilities.

Edipower Spa

In 2010, work continued on environmental remediation projects concerning areas of soil and aquifer contamination or potential contamination identified or started in previous years at some thermoelectric power plants.
Specifically with regard to the San Filippo del Mela power plant, the Monitoring Plan reached the expansion phase with an intensification of cross-checked controls with the relevant local entities (Provincial Administration and Arpa Messina), while optimizing the functionality of some remediation facilities.
As for the Brindisi power plant, on December 20, 2010, Edipower and the Ministry of the Environment signed a settlement agreement returning the areas comprising the Brindisi Site of National Interest to their appropriate use, which is a prerequisite for starting the environmental remediation work.

With regard to the Company's environmental performance in 2010, emissions of the main pollutants (sulfur dioxide, nitric oxide, particulates and carbon monoxide), in specific terms, showed a further decrease from the levels of previous years.
Work completed in 2010 included the activities required to secure an initial Integrated Environmental Permit and a Permit renewal for Edipower's Turbigo and Chivasso power plants, respectively. The permit granting decree for the Turbigo facility was published and went into effect in 2010, while the publication of the decree for the Chivasso power plant is expected in 2011.
Activities concerning the Safety Management System carried out in 2010 included completing the process for the adoption of a Safety Management System specifically compliant with the BS OHSAS 18001/2007 reference standard at two pilot production units (Brindisi thermoelectric power plant and Udine hydroelectric hub), which received OHSAS 18001 certification on September 30, 2010. A standardized document set for the Integrated Environmental and Safety Management System was also completed. Customized document sets for the Integrated Environmental and Safety Management System are being developed by all other production units. In addition, the various production units have begun to implement training programs for the Management System, which will continue in 2011.
Lastly, during the second half of 2010, the Projects Department began to carry out the activities required for adoption and subsequent certification of an Environmental and Safety Management System.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Human Resources

At December 31, 2010, counting the staff of companies consolidated on a proportional basis, the staff of the Edison Group was little changed compared with a year earlier, totaling 3,939 employees, or 16 more than at December 31, 2009, when 3,923 employees were on its payroll.

The staff increase resulting from a change in the scope of consolidation related to the startup of new renewable energy facilities and the development of a support organization for new international initiatives in Greece and Egypt was largely offset through organizational efficiencies at Italian businesses included in the scope of consolidation.

Total labor costs for the year amounted to 253 million euros, or about 5% more than in the previous year. This increase is the combined result of a change in the scope of consolidation and wage increases resulting from the renewal of national, industry-wide collective bargaining agreements.

Industrial Relations

An agreement renewing the National Collective Agreement, which expired on June 30, 2009, was signed on March 4, 2010 with the labor unions representing workers in the electrical industry. Consistent with the terms of the agreement signed by all unions on April 15, 2009, which implemented a reform of the contractual stipulations that govern the Italian system of industrial relations, the contract will be in effect for three years (i.e., until December 31, 2012) with regard both to benefits and economic issues.

Likewise, an agreement with the labor unions representing workers in the energy and oil industry renewing the National Collective Agreement, which expired on December 31, 2009, was signed on April 23, 2010. The new agreement will be in effect until December 31, 2012.

On March 26, 2010, the Company and the Unified Union Representatives for Edison's central offices signed an agreement governing the shift from a 39-hour workweek to a 38-hour workweek. The agreement reached by the parties adjusted the provisions of the National Collective Agreements for workers in the energy and oil industry in order to take into account the operating needs of the central offices, achieving a substantial balance between the Company's technical and organizational requirements and the personal needs of employees working at those offices.

Other agreement reached with the unions in 2010 concerned the use of resources available in the "bilateral" funds (*Fondoimpresa* and *Fondirigenti*) to create funded training programs for eligible companies, consistent with the adopted Management Model and with specific interfunctional professional development needs, through the development of transversal competencies.

As for Edipower**,** industrial relations at the company level focused primarily on identifying and implementing management and organizational solutions concerning the operating efficiency of facilities with a low utilization profile (Brindisi, San Filippo del Mela and Turbigo power plants).

In June, Edipower and the unions reached an agreement that made it possible to activate a further long-term unemployment benefits program for the Sermide facility (thermoelectric power plant and Specialized Services Unit), with the aim of continuing the implementation of the staff downsizing programs adopted at this facility following the shutdown of the power plant's production units 1 and 2.

Organization

The main new developments concerning the Group's organization included the following:

- In order to address current conditions in the natural gas market, the Company launched *Project Storm,* the main purpose of which is to manage, with interfunctional teams, the renegotiation of contracts executed with major gas suppliers using, if necessary, arbitration proceedings.

- In response to its steady expansion in the international markets, the Group defined a set of general rules that govern the main operating processes in the administrative, financial and procurement areas for subsidiaries and/or branches that operate outside Italy and the corresponding transactions between Company departments and counterparties in the countries where Edison operates.
- The Company published a Procedure Governing Related-party Transactions that complies with the regulatory changes recently introduced by the Consob. The purpose of this Procedure is to define rules, methods and principles designed to ensure that related-party transactions are transparent and substantively and procedurally fair.

Personnel Training and Development

The main development that characterized Edison's training and development activities in 2010 was the second cycle of the management review process, which involved an integrated assessment of managerial results and competencies extended to all executives and middle managers on a triennial basis.

The assessment process was launched in the second half of 2009, targeting more than 500 employees who were assessed against the benchmarks of the Management Model adopted by the Group, and ended with a strategic analysis by top management and a comprehensive feedback process involving all assessed resources.

In addition, Edison carried out a training program for a total of about 83,087 hours provided to 1,934 employees, for a teaching cost of 1.6 million euros. In 2010, this program, which targeted with specific projects different populations within the Group, was characterized, in addition to the customary emphasis on occupational safety and the environment, also by a twin focus on two areas: managerial-operational skills and professional competencies.

Projects addressing management skills included the "action learning" project for junior managers, aimed at defining an action plan for an increasingly efficient implementation of the Management Model, and new training courses designed to strengthen the management skills of employees in the professional category. Projects in the professional competencies area included conceptual and developmental training initiatives for professionals, such as the launch of the Market Academy in the sales area.

The Group's investments in training and development also include the increasingly frequent use of internal programs to update its entire management population on relevant business topics.

The training and development activity carried out by Edipower in 2010 focused on a program called "Competencies to Compete," which was funded through *Fondoimpresa.*

This program was structured into different courses targeting different professional families at the head office and at the production facilities and entire professional groups, supplemented by a series of courses addressing specific needs.

Overall, a total of about 80,000 training hours were provided to 1,150 employees.

Continuous training, which is designed to constantly update professional knowledge and skills, particularly with regard to occupational safety and health, the environment (especially concerning EMAS certification) and technical and professional development, accounted for 68% of total training hours provided. Training that focused on professional development, i.e., the development of Edipower's distinctive specialized and managerial competencies, accounted for about 32% of the courses provided. More specifically, several management development programs were offered to the entire middle management population, focusing on the development of key management competencies (self-management, problem solving, interfunctional cooperation, result-oriented approach, communication, negotiations, etc.) and of international issues, with the aim to broaden their horizons and encourage benchmarking against different scenarios.

RISKS AND UNCERTAINTIES

Risk Management at the Edison Group

Enterprise Risk Management

Edison developed an integrated risk management model based on the international principles of Enterprise Risk Management (ERM), the COSO framework (sponsored by the Committee of Sponsoring Organizations of the Treadway Commission) specifically. The main purpose of ERM is the adoption of a systematic approach in identifying the Company's most significant risks, addressing in advance their potential negative effects and taking appropriate actions to minimize them.

In pursuit of this objective, Edison adopted a Corporate Risk Model and a risk mapping and risk scoring method that assigns a relevance index to risks based on an assessment of their overall impact, probability of occurrence and level of control.

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

The Corporate Risk Model, which was developed based on best industry and international practices, covers within an integrated framework the types of risks that are inherent in the businesses in which the Group operates and makes a distinction between risks related to the external environment and internal process and strategic risks.

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

Energy Risk Management

Within the risk management activities, a separate process specifically addresses the commodity risk, which is the risk associated with price fluctuations in the financial and physical markets in which the Company operates with respect to such energy raw materials as electric power, natural gas, coal, crude oil and derivative products, and the related foreign exchange risk.

The specific objectives and operating procedures of the energy risk management process are discussed in detail in the section of the Consolidated Financial Statements at December 31, 2010 entitled "Group Financial Risk Management," which should be consulted for additional information.

Risk Factors

Risks Related to the External Environment

Legislative and Regulatory Risk

A potential source of significant risk for Edison is constant evolution occurring in the reference legislative and regulatory framework, which affects how the market operates, rate plans, required levels of service quality and technical and operational compliance requirements. In this area, Edison is engaged in an ongoing activity to monitor and carry out a constructive dialog with national and local public institutions, so as to develop opportunities for discussing and promptly assessing the impact of regulatory changes, with the aim of minimizing the resulting economic impact.

The main changes in the legislative framework, which are discussed in detail in the section of this Report entitled "Legislative and Regulatory Framework," are reviewed below:

- **Hydroelectric Concessions**

 The legislative gap that resulted from Constitutional Court Decision No. 1 of January 14, 2008, which voided the 10-year extension of hydroelectric concessions for large-scale diversions of water, was filled with the publication of Law No. 122/2010. Specifically, pursuant to Article 12, Section 1-*bis,* of Legislative Decree No. 79 of March 16, 1999 (introduced by means of the abovementioned law), the central government can grant a five-year extension to the holders of expiring concessions.

 Law No. 122 also provides for an additional seven-year extension for mixed corporations established jointly with the provincial administrations listed in Article 1, Section 153, of Law No. 296/2006 (Sondrio, Brescia, Como and Verbania), and an increase of the bases used to compute concession fee surcharges payable to the local watershed entities and Mountain Water Basins referred to in Law No. 925/1980.

 However, these extension are subject to a supersession clause, pursuant to which all of the abovementioned provisions are applicable only until different regional regulations are enacted with regard to this issue, within the scope of the respective jurisdictions.

 It is also worth mentioning that the rules introduced by Law No. 122/2010 are already being challenged before the Constitutional Court by the Regional Administration of Liguria and the Regional Administration of Emilia Romagna (appeal filed on September 28, 2010).

 Lastly, choosing to enforce the supersession clause, provided for in Article 15, Section 6-*quater,* of Law No. 122/2010, the Regional Administration of Lombardy published new regulations on December 27, 2010 (effective as of December 28, 2010), pursuant to which, exclusively for concessions expiring on or before December 31, 2015, the holder of an expiring concession may be granted, in lieu of the five-year extension provided by Law No. 122/2010, a temporary extension of up to five years.

- **Changes in the Regulations Governing CIP 6/92 Contracts**

 With regard to issues related to the Avoided Fuel Cost and the various reimbursement mechanisms (CO_2 costs and Green Certificates costs), Edison is monitoring and addressing the issues raised by the activities of the Electric Power and Natural Gas Authority and the complex related legal disputes currently pending.

 Moreover, Article 30, Section 20, of Law No. 99 of July 23, 2009 (the so-called Development Law) calls for the introduction by the Ministry of Economic Development of mechanisms for the early termination of CIP 6/92 contracts, which producers can agree to accept voluntarily.

 As required by Article 3, Section 1, of the Ministry Decree of December 2, 2009, Edison submitted to the GSE a non-binding indication of interest to participate in the early termination mechanism proposed by the Ministry of Economic Development for those facilities that met the law's requirements.

 Subsequently, the Ministry of Economic Development issued a general implementation decree for binomial rate facilities, to which Edison responded by filing a binding application for early termination of CIP 6/92 contracts for the Jesi, Milazzo, Porto Viro and Porcari power plants, opting for payment of the consideration in installments. The Ministry is now expected to issue an implementation decree for mononomial rate facilities.

- **Environmental Costs: CO_2 Emissions Rights**

 With regard to the reduction of CO_2 emissions, the current E.U. regulations (Directive No. 2009/29/EC, which amends Directive No. 2003/87/EC) governing the trading of CO_2 emissions rights (E.U. ETS) requires, effective January 1, 2013, that thermoelectric operators purchase for consideration the necessary CO_2 emissions rights. Specifically, the allocation of permits for consideration will be carried out by means of auctions. The impact on energy companies will depend on the prices of CO_2 emissions rights and the potential volatility of the market for these rights.

- **Provisions Concerning Incentives for Renewable Energy Sources**

 The Italian government prepared and approved the decree that implements Directive No. 2009/28/EC concerning incentives for the production of electric power from renewable energy sources, which was signed by Italy's President on March 5, 2011. This legislative decree calls for the following:

In 1883, Edison brought the electric light to La Scala, for the first time in the theater's history, replacing the existing gas lamps. This year, Edison is again partnering with La Scala to neutralize the CO_2 emissions resulting from the theater's opening night.

- The award of an incentive that will remain constant over time (feed-in tariff), starting on January 1, 2013, for new facilities commissioned after December 31, 2012 with an installed capacity equal at least to a not-yet determined "P" level (in any case, not less than 5 MW).
- The award through a low bid auction (managed by the GSE) of an incentive (feed-in tariff) for new facilities commissioned after December 31, 2012 with an installed capacity greater than "P" MW. The auction amounts will be limited based on installed capacity and source/technology.
- The award of an incentive also for repowering projects, partial or total renovations, complete rebuilding projects and hybrid power plants.
- Existing facilities (commissioned before December 31, 2012) will continue to benefit from CVs and the fixed tariff system until 2015. According to the decree, CVs may be converted into feed-ins for the remaining duration of the right to receive the incentive in accordance with methods that ensure a return on the investments made.
- A transitional period during which the green certificates (GCs) and the mandatory allocation for thermoelectric operators will remain in effect. As scheduled, the mandatory allocation will rise steadily until 2012 (7.55%) and then gradually decrease to zero in 2015. The GSE will take back surplus green certificates at a price equal to 78% of the reference price (listed in Law No. 244/07), consistent with the provisions recently introduced by Article 45 of Law No. 122/10.

Detailed regulations will be defined by means of subsequent implementation decrees within six months from the effective date of the abovementioned decree.

Price Risk and Foreign Exchange Risk Related to Commodity Activities

The Edison Group is exposed to the risk of fluctuations in the prices of all of the energy commodities that it handles, including, specifically, electric power, natural gas, coal, petroleum products and environmental securities. 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 foreign exchange rate risk.

The activities required to manage and control these risks are governed by the Energy Risk Policies, which require the adoption of specific risk limits, in terms of economic capital, and the use of financial derivatives that are commonly available in the market for the purpose of containing the risk exposure within preset limits. Approved activities that are part of the core businesses of the Edison Group include physical and financial commodity trading, which must be carried out in accordance with special procedures and segregated at inception in special trading portfolios. Trading portfolios are monitored by means of strict risk limits and compliance with these limits is verified by an organizational unit independent of those who execute the transactions.

A more detailed analysis of these risks is provided in the section of the Consolidated Financial Statements at December 31, 2010 entitled "Group Financial Risk Management."

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. Edison's policy in managing its foreign exchange risk is to minimize its exposure arising from commodity activities, in accordance with approved limits and strategies governed by the Energy Risk Policies. A more detailed analysis of these risks is provided in the section of the Consolidated Financial Statements at December 31, 2010 entitled "Group Financial Risk Management."

Interest Rate Risk

Because it is exposed to fluctuations in interest rates primarily with regard to the measurement of debt service costs, the Edison Group assesses on a regular basis its exposure to the risk of changes in interest rates and uses derivatives to hedge its positions. The Group's main interest rate exposure is to the Euribor.
A more detailed analysis of these risks is provided in the section of the Consolidated Financial Statements at December 31, 2010 entitled "Group Financial Risk Management."

Credit Risk

The credit risk represents Edison's exposure to potential losses caused by the failure of commercial and financial counterparties to honor the commitments they have undertaken. The Edison Group's exposure to the credit risk is related to sales of electric power and natural gas, the investment of temporary excess liquidity and financial derivative positions.
To control this risk, the operational management of which is specifically the responsibility of the Credit Management Function, which is part of the central Finance Department, the Group implemented procedures and activities that are described more in detail in the section of the Consolidated Financial Statements at December 31, 2010 entitled "Group Financial Risk Management."

Competitive Pressure

The energy markets in which the Group operates are subject to intense competition. Specifically, in the Italian electric market, Edison competes with other Italian and international producers and traders who sell electric power to industrial, commercial and residential customers. In order to address the risks entailed by its involvement in the domestic electric power market, the Group pursues the following lines

of action: development of a portfolio of customers in the deregulated segment of the market, consistent with a strategy of gradual downstream integration; geographic diversification; optimization of the production mix; and development of renewable energy sources.
In the Italian natural gas market, Edison is faced with an increase in competition from Italian and international operators, which has caused a steady erosion of natural gas sales margins. In addition, some foreign producers from countries with abundant natural gas reserves are planning to sell natural gas directly to end customers in Italy. This threatens the market position of companies that, like Edison, resell to end customers natural gas that they buy in other countries. Moreover, the natural gas market is currently going through a phase of excess supply that developed due to a number of concurrent factors, including the full availability of new importation infrastructures started during the previous two years, an ample supply of LNG and the development of major reserves of non-conventional gas in the United States, which resulted in a corresponding reduction in U.S. imports.
Among the various actions taken to minimize the competitive pressure risk in the hydrocarbon area, a major contractual tool is the enforcement of clauses allowing the renegotiation of prices, based on changes in the benchmark energy scenario and market conditions, which are included in long-term natural gas supply contracts. In this respect, Edison is engaged in activities specifically focused on renegotiating existing contracts with all its current suppliers of natural gas. The success of these negotiations is essential to relieve over the near term the pressure on sales margins that the Group is currently experiencing in the natural gas area. For some of its suppliers, the Group filed for arbitration proceedings with the aim of asserting Edison's right to obtain reasonable margins that are commensurate with its long-term commitments, without the immediate need to secure short-term fixes that could prove to be detrimental over the medium term.

Technological Innovation

Radical changes in the electric power generation technologies currently in use or under development could make them more competitive than the otherwise excellent technologies currently represented in the Group's production mix. In addition, changes to the regulatory framework could affect the order of preference for power generation facilities. To minimize these risks, Edison monitors on an ongoing basis the development of new technologies both in the electric power and the hydrocarbon sectors. The Company is also engaged in the assessment of innovative technologies in the fields of energy efficiency and generation from renewable sources. Additional information about activities in this area is provided in the section of this Report on Operations at December 31, 2010 entitled "Innovation, Research and Development."

Demand for Electric Power and Natural Gas

Generally, demand for electric power and natural gas is tied to changes in GDP. The situation created by the global economic crisis that started in the last quarter of 2008 caused demand for electric power to show negative growth throughout 2009, compared with the previous year. This negative trend reversed itself in 2010, as demand for electric power began to show modest signs of improvement and a positive trend. However, the level of demand for electric power remained significantly below pre-crisis levels throughout 2010. The weak upward trend that characterized 2010 is expected to continue in 2011, with an overall level of demand for electric power equal to or slightly higher than the one recorded in the year just ended.
Demand for natural gas was also affected by the economic crisis, with consumption decreasing in 2009. Demand rebounded in 2010 with overall consumption rising compared with the previous year, even though monthly trends fluctuated when compared with 2009. Specifically, owing in part to changes in temperature patterns, demand for natural gas showed a significant year-over-year improvement during the first seven months of 2010, with the biggest increase recorded in April. After turning negative in August and September, the trend resumed its growth track in the fourth quarter of 2010. While total consumption for 2010 was higher than in 2009, demand remained well below the levels achieved before the global crisis. Consumption of natural gas is not expected to increase by a significant amount in 2011, with total volumes holding at about the same level as in 2010.
The reduction in the overall level of demand for energy put significant pressure on sales margins, already

adversely affected by the competitive pressure developments described in the preceding paragraph, particularly in the natural gas area, and could have an impact on the Group's exposure to take-or-pay clauses in long-term contracts for the supply of natural gas. Under these clauses, Edison is required to take delivery each year of contractually determined volumes of natural gas or, should it fail to do so, pay the full amount, or a portion thereof, owed for the undelivered volumes up to the contractual minimum. However, under the take-or-pay clauses, Edison can take delivery of the abovementioned prepaid volumes in subsequent contract years. Based on internally developed forecasts, management believes that it will be able to take delivery, within the applicable contract terms, of the gas volumes prepaid at December 31, 2010, thereby recovering the cash advances paid, net of the finance charges associated with the abovementioned advances.
A resurgence in the future of the negative trend in the demand for energy could have an impact in terms of lower sales volumes of electric power and natural gas by Edison and, consequently, reduce the Group's overall sales margins.
Among the activities carried out in this area, in addition to specific initiatives aimed at renegotiating the prices of the abovementioned long-term contract for the importation of natural gas, the Group monitors both trends in electrical load and natural gas consumption (on a daily basis) and the Italian and international macroeconomic scenario, based on the updates published by major economic and financial forecasting entities. This information is analyzed in order to spot, as early as possible, potential changes in electric power and natural gas demand trends and optimize the production scenario accordingly. In addition, the adoption of a strategy of commercial diversification makes it possible to counter, up to a point, the effects of an unfavorable market scenario.

Process Risks

Operational Risk

Edison's core businesses include building and managing technologically complex facilities for the production of electric power and hydrocarbons that are interconnected along the entire length of the value chain. The risk of losses or damages can arise from the unexpected unavailability of one or more pieces of equipment or facilities of critical importance for the production process caused by damaging events, including material damages to the equipment or specific components of it, that cannot be fully covered or transferred by means of insurance policies.
Therefore, Edison pursues an industrial risk management policy that includes risk prevention and control activities, the adoption specific security standards developed by international recognized entities, such as NFPA and FM, implementation of the upgrades required by national laws and local entities with regulatory authority over such issues, and frequently scheduled equipment overhauls, contingency planning and maintenance activities. When appropriate, an effective industrial insurance and expert evaluation strategy that includes the use of Erection All-Risk and Property All-Risk policies that also provide coverage for indirect damages or delays in the availability of new facilities can help minimize the potential consequences of such damage events.
Additional information about the management of environmental and occupational safety risks is provided in the section of this Report on Operations at December 31, 2010 entitled "Health, Safety and the Environment."

Information Technology

The Group's operations are supported by complex information systems, specifically with regard to the technical, commercial and administrative areas. Risks issues also exist with regard to the adequacy of these systems and the integrity and confidentiality of data and information. The continuous development of IT solutions to support business activities, the adoption of strict security standards and of authentication and profiling systems help mitigate these risks. In addition, to limit the risk of activity interruption caused by a system fault, Edison has adopted a high reliability hardware and software configuration for those applications that support critical activities. Specifically, the services provided by the Group's outsourcer include a disaster recovery service that guarantees system recovery within time frames that are consistent with the critical relevance of the affected applications.

Liquidity

Managing the liquidity risk means addressing the risk that the Company may not have access to sufficient financial resources to meet its financial and commercial obligations in accordance with agreed terms and maturities.

The Group's strategic objective is to minimize the impact of financial debt maturities by maintaining access to existing credit lines and adequate liquidity, implementing on a timely basis negotiations for the funding of maturing financing facilities and scheduling the placement of bond issues.

A more detailed analysis of these risks is provided in the section of the Consolidated Financial Statements at December 31, 2010 entitled "Group Financial Risk Management."

Strategy and Planning Risks

Investments in Development, Acquisitions and Presence in International Markets

The development of the core businesses of the Edison Group must be supported with direct investments (internal growth) and acquisitions.

Insofar as direct investments are concerned the Edison Group is constantly engaged in programs to upgrade older facilities in order to increase their yield, efficiency and operating flexibility. In addition, the average age of the thermoelectric power plants in Edison's portfolio of production facilities is quite low, because in recent years the Group completed an ambitious program to expand electric power generating capacity, adding a total of 7,000 MW in Italy. Moreover, also in the areas of electric power distribution and production, the Group is pursuing a strategy of international expansion, focusing on the Balkans and Southeast Europe. As part of this effort, three foreign branches were recently established in Bulgaria, Hungary and Romania to pursue opportunities in sales of electric power. Also in this area, a new CCGT thermoelectric power plant built in Thisvi, Greece, under an agreement with Hellenic Petroleum began commercial operations at the end of 2010. With regard to this facility, it is worth mentioning that the regulatory framework of the Greek electric power market improved, starting in the fourth quarter of 2010. This development confirms Edison's assessment that the investment made in this power plant will produce attractive industrial opportunities.

In addition, the Rovigo LNG regasification terminal, which has been commercially operational since the last quarter of 2009, is now operating at full capacity, making it possible to import from Qatar more than 8 billion cubic meters of natural gas a year. Under the terms of the LNG sales contract with Ras Laffan Liquefied Natural Gas Company Limited II, 80% of the terminal's regasification capacity is reserved for Edison. The remaining 20% is available to the market in accordance with procedures defined by the AEEG.

Also in the hydrocarbon area, the Edison Group made a major investment in the Egyptian oil and gas market in 2009, acquiring the Abu Qir offshore concession. Prospectively, this acquisition will significantly increase the Group's hydrocarbon reserves and help it develop a portfolio consistent with the needs of an integrated energy operator. Drilling and development programs that are part of the concession's management activities continued in 2010.

It is important to keep in mind that hydrocarbon development and production activities are typically subject to uncertainties with regard to estimates of proven reserves, projections of future production rates and the timing of development investments, due to the fact that estimates of proven reserves depend on a long series of factors, assumptions and variables. Moreover, between the exploration phase and the start of subsequent phases involving the development and commercial exploitation of the discovered hydrocarbon reserves there is usually a significant time lag needed to assess the commercial viability of the discovered hydrocarbon deposits, authorize the development project and build and put into service the necessary equipment (time to market). During this time lag, the project's profitability can be affected by volatility in oil and gas prices and by increases in development and production costs. However, in the specific case of the Abu Qir concession, the very characteristics of the existing infrastructures mitigate the exposure to this risk.

Moreover, future hydrocarbon production levels will depend on the Group's ability to access new reserves through new discoveries made possible by exploration activities, the success of its development activities and its ability to negotiate concession agreements with the countries that possess proven hydrocarbon reserves. The recent events in Egypt, which heightened internal social and political unrest, and their

potential repercussions on Edison's ability to continue operating under economically viable conditions are being closely monitored by the Group's Parent Company. This resulted, among other things, in the management decision to prudentially increase the component country risk premium in the discount rate associated with the investments in question.
Additional investment and some carefully selected divestments, implemented as part of a strategy to streamline the overall portfolio, are planned for the future to support the growth of the Group's core businesses both in the electric power sector and the hydrocarbons area. As mentioned above, this development strategy also calls for expansion of the Group's international operations outside the European Union, in countries where Edison is already present, but where the political, social and economic environment could be less stable.
As a result of these activities, the Edison Group is exposed to permit risks; risks of delays in the construction and launch of commercial activity of new projects; risk of increases in operating, materials and service costs; risks related to new developments in existing technologies; and risks related to changes in the political and regulatory framework in some of the countries where it operates or plans to operate in the future.
As for the strategy of growth through acquisitions, its success is predicated on Edison's ability to identify and seize opportunities available in the market to acquire assets or companies that would help the growth of the Group's core businesses at an acceptable cost. In this area, there can be no absolute guarantee that Edison will be able to achieve the benefits initially expected from such transactions. Specifically, this could result from an ineffective integration of the acquired assets or from losses and costs not originally anticipated. Moreover, acquisition also entail the financial risk of being unable to cover purchasing costs, due to the occurrence of a protracted weakness in prices and the benchmark scenario.
In order to minimize these risks, Edison has adopted a series of internal processes to monitor the research and assessment phases of investment initiatives. In addition to requiring the use of appropriate written procedures, these processes require the use of due diligence activities, binding contracts, multilevel internal authorization processes, project risk assessment activities and strict project management and project control activities.

Policies and Management Tools Adopted by the Group

Energy Risk Policy

Governance

Pursuant to the rules governing Energy Risks Management, risk limits, stated in terms of economic capital, may be approved exclusively by the Board of Directors together with the budget.
The Risk Committee defines the policies, monitors risk levels, approves hedging strategies and defines any subsets of risk limits.
Consistent with the need to establish a clear separation of functions, the Risk Office, which reports to the CFO, prepares the items on the agenda of Risk Committee meetings and monitors compliance with limits and the results of financial hedges, while the Front Office, which reports to the manager of the Energy Management BU, executes transactions in the financial markets, striving to optimize their structure, timing and counterparties.

Financial Hedges

One of the objectives of the Group's risk management activity is to stabilize the cash flows generated by the existing portfolio of assets and contracts and use strategic hedging to protect the Group's industrial margins from fluctuations caused by the effect of the price risk and the foreign exchange risk (as defined above in the Risk Factors section of this chapter) on the commodities used.
Strategic hedging is carried out by means of financial hedges that are activated gradually during the year, based on market trends and changes in projections of the volumes of physical buy and sell contracts and the production of the Group's assets.
The gradual implementation of strategic hedging helps minimize the execution risk, which refers to the possibility that all hedges will be activated during an unfavorable market phase, the volume risk, which

is related to the variability of the underlying items that require hedging based on the best volume projections, and the operational risk, which is related to implementation errors.
Moreover, the Group's policy is designed to minimize the use of financial markets for hedging purposes by maximizing the benefits of the vertical and horizontal integration of its different business segments. Accordingly, the Group makes it a planning priority to physically balance the volumes of physical energy commodities that it will sell in the market on the different due dates, using for this purpose the production assets it owns and its portfolio of medium/long-term contracts and spot contracts.
In addition, the Group pursues a strategy designed to homogenize sources and physical uses, so that the formulas and indexing mechanisms that determine the revenues generated by the sale of energy commodities reflect as much as possible the formulas and indexing mechanisms that govern the costs that the Group incurs to purchase energy commodities in market transactions and to supply its production assets.
To manage the price and foreign exchange risk on the remaining exposure of its portfolio of assets and contracts, the Group can use structured hedges executed in the financial markets in accordance with a cash flow hedging strategy.
Financial hedges can also be established in response to specific requests by individual business units to lock in, with operational hedging, the margin earned on a single transaction or a limited number of related transactions.

Enterprise Risk Management Policy

The ERM Process and Assessments of the Impact on Margins-Objectives

The Enterprise Risk Management process is carried out concurrently with the development of the Budget and Strategic Plan by means of a Risk Self Assessment process, the results of which are presented on predetermined dates at meetings of the Audit Committee and Board of Directors. In this case as well, the model is based on information provided by the individual operating units and departments, each of which, limited to the areas under its jurisdiction, prepared a map of the existing risks based on three parameters that measure their overall impact, the probability of occurrence and the level of control.
The overall results for 2010 are reviewed in the Risk Factors section of this Report.
A coordinator is designated for each of the mapped priority risks and specific mitigating actions are identified and codified within predefined classes of actions. Regular updates are performed during the year to review the results of the selected mitigating actions and assess their potential impact.

Provisions for Risks

In addition to the disclosures provided above concerning risk management and mitigation activities, whenever it incurs current obligations arising from past events, which can be of a legal or contractual nature or implied by Company declarations or conduct such as to create in a third party a valid expectation that the Company will be responsible or assume responsibility for the performance of an obligation, the Edison Group sets aside appropriate amounts in special provisions for risks and charges, which are shown among the liabilities on the balance sheet (see also the Notes to the Consolidated Financial Statements). Specifically, in the normal course of business, Group companies have become parties to judicial proceedings and tax disputes, a description of which is provided in the section of the Notes entitled "Status of the Main Legal and Tax Disputes Pending at December 31, 2010."

OTHER INFORMATION

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

- At December 31, 2010, it did not hold treasury shares or shares of its parent company, either directly or indirectly through nominees or other third parties. No transactions involving treasury shares or shares of the parent company were executed during the year, either directly or indirectly through nominees or other third parties.
- In 2010, the Group executed significant transactions with related parties, a description of which is provided in the section entitled "Intercompany and Related-Party Transactions" that appears in the "Other Information" chapter of the Consolidated Financial Statements.
- No secondary registered offices have been established.

Information about the Company's ownership structure and corporate governance are provided in a separate document, which is an integral part of this annual report. The abovementioned information includes data about the equity investments, compensation and stock option plans of Directors and Statutory Auditors, and about the fees of the Independent Auditors.

MOTION FOR A RESOLUTION

Dear Shareholders,
Your company's separate financial statements at December 31, 2010 show a negative result for an amount of 86,008,924.03 euros.

If you concur with the criteria used to prepare the financial statements and with the accounting principles and methods applied, we propose that you adopt the following resolutions:

" The Shareholders' Meeting,

- having reviewed the company's separate financial statements, the consolidated financial statements at December 31, 2010, the Report on Operations submitted by the Board of Directors and the Report on Corporate Governance and on the Company's Ownership Structure;
- being cognizant of the Report of the Independent Auditors pursuant to Article 153 of Legislative Decree No. 58/1958 (tuf);
- being cognizant of the Reports of the Independent Auditors on the separate and consolidated financial statements at December 31, 2010;
- considering that, as a result of the transition to and adoption of the IFRS principles, the shareholders' equity at December 31, 2010 include reserves that are unavailable pursuant to Articles 6 and 7 of Legislative Decree No. 38/2005;

resolves to:

FIRST RESOLUTION
Approve the Company's separate financial statements for the year ended December 31, 2010, and the individual items contained therein.

SECOND RESOLUTION
Cover the loss of 86.008.924,03 euros using the share premium of 1,253,565.56 euros and, for the remaining amount of 84,755,267.47 euros, using, for the same amount, the retained earnings reserve, which will be reduced to 799,739,595.79 euros.

Milan, March 21, 2011

The Board of Directors
by Giuliano Zuccoli
Chairman

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF EDISON SPA PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98

Dear Shareholders:

In the year ended December 31, 2010, the Board of Statutory Auditors of Edison S.p.A. (the "**Company**") carried out its oversight activities in accordance with the provisions of the relevant statute (Legislative Decree No. 58 of February 24, 1998 - "Uniform Code of Financial Intermediation"), performing its work in accordance with the rules of conduct for Boards of Statutory Auditors of corporations with shares traded on regulated markets published by the Italian Board of Certified Public Accountants and Accounting Experts and consistent with Consob pronouncements concerning corporate controls and the activities of the Board of Statutory Auditors.

The Board of Statutory Auditors currently in office was elected by the Shareholders' Meeting of April 2, 2008, in accordance with the provisions of the Bylaws, which, as amended by the Shareholders' Meeting of June 26, 2007, incorporate the statutory requirement that the Chairman of the Board of Statutory Auditors should be elected from the slate of Statutory Auditors filed by minority shareholders. The term of office of this Board of Statutory Auditors ends upon the approval of the Company's financial statements at December 31, 2010.

The members of the Board of Statutory Auditors are in compliance with the limit set forth in Article 144-*terdecies* of the Consob Issuers' Regulation No. 11971 with regard to the number of corporate governance posts that may be held and, during the year, met their disclosure obligations toward the Consob and the public, when required.

Pursuant to Legislative Decree No. 58/1998 and Legislative Decree No. 39/2010, the task of performing a statutory independent audit of the financial statements was assigned to the Independent Auditors PricewaterhouseCoopers S.p.A. by the Shareholders' Meeting of April 19, 2005. The Independent Auditors' report should be consulted for additional information. The Shareholders' Meeting of April 5, 2007 extended the term of the auditing assignment until the date of the Shareholders' Meeting convened to approve the 2010 financial statements.

1. Based on the information received and the facts gathered by the Board of Statutory Auditors, we summarize below the transactions with a material impact on the Company's income statement, balance sheet and financial position, including those executed through subsidiaries, all of which were reviewed and approved by the Board of Directors and are discussed in the Report on Operations prepared by the Board of Directors:
    - On March 4, 2010, IGI Poseidon Sa (a 50-50 joint venture of Edison and DEPA, Greece's national gas company) finalized an agreement with BEH (Bulgarian Energy Holding) to establish an asset company (IGI Poseidon Sa 50% and BEH 50%) that will build a new natural gas pipeline (IGB) linking Greece and Bulgaria. This pipeline extension will be connected to the ITGI (Turkey-Greece-Italy Interconnector), which is the first component being built in Europe of the so-called "Southern Corridor." Subsequently, (i) on June 17, 2010, Edison, DEPA and Botas (Turkey's national gas company) signed a Memorandum of Understanding allowing transit through Turkey for natural gas delivered through the ITGI and (ii) on November 30, 2010, the relevant parties signed documents establishing the company that will be responsible for developing, building and operating the IGB pipeline.
    - On March 10, 2010, Edison Spa completed the placement of a five-year bond issue, for a total amount of 500 million euros, sold exclusively to qualified investors. The bonds, which carry a gross annual coupon of 3.25%, were offered at a 99.70 issue price.
    - On July 20, 2010, Edison, acting through its Edison Energie Speciali Spa subsidiary, closed the purchase of 100% of Parco Eolico San Francesco Srl, which owns a fully operational 26-MW wind farm in the municipality of Melissa (KR).
    - On September 24, 2010, Edison's Board of Directors agreed to increase from 2 to 3 billion euros the maximum amounts of bonds that may be issued under the Euro Medium-term Note Program.
    - On October 14, 2010, Moody's Investor Service downgraded Edison's long-term credit rating, revising it from Baa2, Negative Outlook, to Baa3, Stable Outlook. On November 2, 2010, Standard

& Poor's also downgraded Edison's long-term credit rating, revising it from BBB+, Negative Outlook, to BBB, Stable Outlook.
- On October 26, 2010, Edison's Board of Directors authorized the filing, with the Ministry of Economic Development, of a binding application for voluntary, early termination of the CIP 6/92 contracts for the Jesi, Milazzo, Porto Viro and Porcari power plants. On November 30, 2010, the GSE countersigned the agreements for early termination of the abovementioned contracts, effective January 1, 2011. On December 17, 2010, the receivable corresponding to the proceeds generated by the early termination of the contracts was assigned to a factoring company and recognized as Other revenues and income in the amount of 173 million euros.
- On November 3, 2010, Edison completed the placement of a new seven-year bond issue for a total amount of 600 million euros, sold exclusively to qualified investors. The bonds, which carry a gross annual coupon of 3.875%, were offered at a 99.555 issue price.
- On December 17, 2010, Edison signed a term sheet in connection with the divestment of some business operations, comprised of two thermoelectric power plants located in Taranto, for a price of 165 million euros. This transaction, which is expected to close by January 15, 2012, required the Company to recognize an asset writedown of 40 million euros in 2010 and reclassify the assets and liabilities of the abovementioned business operations to assets and liabilities held for sale.
- In the activity that involves buying and selling natural gas, the unit margins contracted to zero due (i) on the one hand, to the competitive price pressure caused by increased competition, excess supply and the availability of large quantities of spot gas at prices lower than those paid under conventional long-term gas procurement contracts (with activation of the take-or-pay clause for those contracts and recognition in the financial statements of advances paid totaling 91 million euros and commitments owed to the counterparties amounting to 140 million euros), and (ii) on the other hand, to a decrease in demand for natural gas in Italy, compared with the levels before the 2009 economic crisis. With regard to this issue, Edison, acting pursuant to the relevant contract clauses, is renegotiating contract prices with all of its suppliers and, in some instances, has filed for arbitration, as allowed under the abovementioned contracts, with the aim of asserting its right to earn a reasonable margin on its portfolio of multi-year import contracts.

2. In the exercise of its function, in order to obtain the information needed to carry out its oversight activities, the Board of Statutory Auditors performed the following activities:
   - It met on a regular basis and drew up 14 minutes of the meetings recording its activities.
   - It attended all meetings of the Board of Directors (7), obtaining from the Board of Directors a steady flow of information concerning its activity and transactions with a material impact on the Company's income statement, balance sheet and financial position executed by the Company and its subsidiaries.
   - Its Chairman attended the meetings of the Audit Committee (5), the Compensation Committee (4) and the Oversight Board (6).
   - It attended the Shareholders' Meeting held on March 23, 2010.
   - It reviewed issues under its jurisdiction through interviews with management, direct observation, reviews of Company documents, information obtained from managers of Company departments, and meetings with the Internal Control Officer.
   - It met on a regular basis with representatives of the Independent Auditors hired to perform statutory independent audits of the Company's financial statements, with whom it exchanged data and information, analyzing the product of the work they performed and verifying issues related to their independence.
   - It interacted with the governance bodies of the subsidiaries, as required by Article 151 of Legislative Decree No. 58/1998.
   - It attended the meetings of the Oversight Board of the Organizational Model adopted pursuant to Law No. 231/2001, for the purpose of exchanging information.

Moreover, by attending the meetings of the Audit Committee established internally by the Board of Directors, the Board of Statutory Auditors was able to carry out the function of Internal Control and Independent Audit Committee assigned to it by Article 19 of Legislative Decree No. 39 of January 27, 2010, and performed its oversight function with regard to:

- the financial reporting process;
- the effectiveness of the internal control, internal auditing and risk management systems;
- the statutory independent auditing of the annual and consolidated financial statements;
- issues concerning the independence of the Independent Auditors.

3. The characteristics of intercompany and related-party transactions executed in 2010, the parties involved and their financial effects are adequately explained in the section of the 2010 Consolidated Financial Statements entitled "Intercompany and Related-party Transactions," which should be consulted for additional information.
   In 2010, the Company implemented a procedure approved by the Board of Directors adopted a Group procedure (revised most recently in 2008) that governs transactions between Edison and all significant and related parties. This procedure, which applies to the Chief Executive Officer as well, requires compliance with the principles of objectivity, transparency and truthfulness, based on the general principles that all transactions with related parties, including those executed through subsidiaries, must be conducted fairly, both substantively and procedurally. In accordance with this procedure, the Board of Directors must be provided with adequate information about the nature of the relationship with the significant or related party, the manner in which the transaction will be implemented, the timing and financial terms of the transaction, the assessment process applied, the interests in and the underlying reasons for the transaction, and any risks to which the Company and its subsidiaries could be exposed as a result of the abovementioned transactions with significant parties or of transactions that are not executed on standard term and atypical or unusual transactions executed directly or indirectly with other related parties.
   Insofar as the areas under its jurisdiction are concerned, the Board of Statutory Auditors found no issues requiring mention with regard to the fairness of intercompany and related-party transactions and the Company's interest in executing those transactions and, in the course of its work, did not uncover any atypical and/or unusual intercompany and/or related-party transactions.
   On December 3, 2010, as required by Consob Resolution No. 17221 of March 12, 2010, as amended, Edison's Board of Directors adopted a new internal Procedure Governing Related-party Transactions. This procedure classifies these transactions into different categories and provides for each category specific validation and implementation methods, in accordance with a process explained in detail in Edison's 2010 Report on Corporate Governance and on the Company's Ownership Structure, which should be consulted for additional information.
   As part of this new procedure, the Company established a Committee of Independent Directors, comprised of three independent directors, which is required to render an opinion whether related-party transactions executed by the Company and its subsidiaries are in the Company's interest and whether their terms and conditions are beneficial and substantively fair, depending on the type transaction.
   Pursuant to Article 4, Section 6, of the regulations adopted by the Consob with the abovementioned Resolution No. 17221/2010, we inform you that the procedure adopted by the Company (i) is consistent with the principles of the abovementioned Consob Resolution, (ii) is applicable as of January 1, 2011, and (iii) has been posted on the Company website.

4. On April 4, 2011, the Independent Auditors PricewaterhouseCoopers S.p.A. issued the reports required by Article 14 of Legislative Decree No. 39 of January 27, 2010, which contained no qualifications or disclosure requirements, certifying that the separate and consolidated financial statements at December 31, 2010 were prepared transparently and present truthfully and fairly the balance sheet, income statement and other components of the comprehensive income statement, changes in shareholders' equity and cash flow of the Company and the Group, and attesting that the Report on Operations and the disclosures provided in the Report on Corporate Governance and on the Company's Ownership Structure in accordance with Article 123-*bis,* Section 4, of Legislative Decree No. 58/1998 are consistent with the Company's Statutory Financial Statements and the Group's Consolidated Financial Statements.

5. We noted that, in the course of the year, Edison S.p.A. awarded to the Independent Auditors PricewaterhouseCoopers S.p.A. the following additional assignments within the framework of the statutory independent audit of the financial statements:
   a. 22,220.00 euros for additional work required to audit the consolidated financial statements;
   b. 11,000.00 euros for a limited audit of the semiannual report of Edison Trading S.p.A.;
   c. 4,900.00 euros for additional work required to coordinate the activity of other independent auditors;
   d. 6,000.00 euros for work concerning the purchase price allocation for Parco Eolico San Francesco; and the following additional assignments that were not related to the statutory independent auditing of the financial statements:
   e. 18,000.00 euros for additional review work concerning unbundling;
   f. 8,729.00 euros for reviewing the 2010 Pay Schedule for expatriates in Egypt;
   g. 25,096.00 euros for reviewing the 2010 Pay Schedule for Gas JV Employees in Italy;
   h. 25,096.00 euros for reviewing the 2010 Pay Schedule for Gas JV Employees abroad;
   i. 5,894.00 euros for activities related to Sel-Edison's 2010 Reporting Package;
   j. 8,000.00 euros for attestations concerning the contract with G.C. Partecipazioni Società Agricola;
   k. 15,000.00 euros for attestations in connection with the Operating Excellence Project;
   l. 80,000.00 euros for attestations provided in connection with arbitration proceedings for the renegotiation of long-term gas procurement contracts;
   m. 20,000.00 euros for attestations provided in connection with a bond placement in March 2010;
   n. 30,000.00 euros for attestations provided in connection with a bond placement in October 2010.

   In addition, the Board of Statutory Auditors monitored the independence of the Independent Auditors, taking also into account the requirements of Article 19 of Legislative Decree No. 39/2010, ascertaining that they were in compliance with the provisions of the relevant statutes in providing Edison S.p.A. and its subsidiaries with services other than the statutory, independent audits of the financial statements, and determined that no significant assignments were granted in 2010 to members of the network to which the Independent Auditors belong.

6. The assignment to perform statutory, independent audits of the financial statements awarded to PricewaterhouseCoopers S.p.A. ends upon the approval of the financial statements at December 31, 2010 and cannot be renewed, having reached the maximum total duration of nine years.
   Edison's Board of Statutory Auditors, working with the support of corporate departments (Internal Control Systems Department, Administration Department and Corporate Affairs Department) carried out the activities needed to develop a detailed proposal for the Shareholders' Meeting concerning the award of the auditing assignment for the 2011-2019 period to new Independent Auditors.
   Meeting on March 2, 2010, the Board of Statutory Auditors, based on the conclusions obtained by reviewing the technical and cost offers it received and the entire process applied to study and analyze the abovementioned offers, determined that the offer submitted by Deloitte & Touche S.p.A. was the best offer. Accordingly, it prepared a detailed proposal for the Shareholders' Meeting convened to award the statutory, independent auditing assignment. The abovementioned proposal should be consulted for additional information.

7. In 2010, the Board of Statutory Auditors received no complaints filed pursuant to Article 2408 of the Italian Civil Code or memoranda submitted by third parties.
   In response to a request by some shareholders, the Board of Statutory Auditors reviewed the situation that developed as a result of decision No. 14099/08 handed down on July 16, 2008 by the Court of Milan in the proceedings launched by a summons that Stefano Bollino served on Edison on August 9, 2002 in his capacity as Common Representative of the holders of savings shares, the purpose of which was to challenge the Shareholders' Meeting resolution of June 27, 2002, by which holders of Edison common shares approved the merger by absorption of Edison into Italenergia S.p.A. These proceedings, which UBS AG also joined to put forth the same claims and pursue an independent and separate claim for damages, ended with a decision that found in favor of the plaintiffs and quantified the damage suffered by the savings shareholders.

In the Company's opinion, the decision handed down by the Court of Milan, with regard to the claims of the Common Representative of the holders of savings shares, contains a declaration judgment providing a mere finding of facts, devoid of any indication of an order to pay damages. Consequently, the damage claims of the holders of savings shares (other than UBS AG) who, during the five years that followed the execution of the deed of merger (November 4, 2002), failed to take action to suspend the running of the statute of limitations can no longer be pursued for that reason, pursuant to Article 2949 of the Italian Civil Code.
However, in view of the lack of case law concerning this issue and in order to avoid the risks and costs entailed by seeking a confirmation of this opinion in the courts, Edison's Board of Directors, meeting on March 14, 2011, agreed to offer to the holders of savings shares who are claiming damages, in settlement of any and all claims, a sum equal to 75% of amount determined with the criteria set forth in the abovementioned court decision (number of share held at the time of the merger multiplied by 0.4426), without any interest and inflation adjustments. The settlement offer is conditional on the acceptance of the offer by shareholders representing a minimum percentage of the savings shares.

8. In 2010, the Board of Statutory Auditors issued the opinions required pursuant to law in connection with the compensation awarded to Directors who perform special functions, which were determined by the Board of Directors upon a recommendation by the Compensation Committee.
With regard to this issue, we wish to remind you that, at a meeting held on October 30, 2009, the Board of Directors, in view of the effects of the economic crisis, acting upon a recommendation by the Compensation Committee and with the consent of the Board of Statutory Auditors, agreed to reduce the compensation of the Chairman (10% reduction of the fixed compensation) and the Chief Executive Officer (reduction of 10% for the fixed compensation and of up to 25% for the variable compensation).
In addition, the Shareholders' Meeting of March 23, 2010 approved a motion put forth by the Board of Directors, based on a recommendation by the Compensation Committee and with the consent of the Board of Statutory Auditors, similarly reducing by 10% the compensation of the members of the Board of Directors.
Detailed information about the total compensation of the members of the Board of Directors is provided in a special section of the Report on Corporate Governance and on the Company's Ownership Structure.

9. The Board of Statutory Auditors monitored compliance with the law and the Articles of Incorporation and with the principles of sound management, ensuring that all transactions approved and executed by the Board of Directors complied with the applicable statutes and the Bylaws, were financially sound, were not manifestly imprudent or reckless, did not give rise to potential conflicts of interest, were not in conflict with resolutions approved by the Shareholders' Meeting and did not compromise the integrity of the Company's assets.
The Board of Directors reserves for its exclusive jurisdiction all significant transactions with related parties, which, as the Board of Directors specified, include, in addition to transactions with Transalpina di Energia ("**TdE**"), the Company's controlling shareholder, and TdE's shareholders, also transactions with the shareholders of TdE's shareholders and group companies owned by these parties, all of which have been classified as "**Significant Parties.**" Additional information about this issue is discussed in Section 3 above, keeping in mind that all of the abovementioned Significant Parties are classified as Related Parties for the purposes of the new procedure approved in accordance with Consob Resolution No. 17221/2010.
The Board of Statutory Auditors believes that the governance tools and systems adopted by the Company provide adequate assurance that the principles of sound management are being followed in operating practice.

10. The Board of Statutory Auditors monitored the adequacy of the organizational structure of the Company and the Group by gaining an understanding of the organizational structure, obtaining information from the relevant departments and through meetings with managers of various Company

functions, the manager of the Internal Control Systems Department and the Independent Auditors, with whom it exchanged data and information.
The Board of Directors, acting directly or through governance bodies delegated to represent it, is responsible for managing the Company. In order to strengthen its managerial function, a series of issues that are especially significant for Edison S.p.A. and the subsidiaries of Edison S.p.A. are reserved for the Board's exclusive jurisdiction and, consequently, cannot be delegated to individual Directors.
Pursuant to the Bylaws, the Chairman of the Board of Directors and the Chief Executive Officer are the Company's legal representative vis-à-vis third parties and in court proceedings.
The Chairman of the Board of Directors does not have operational authority, serving instead in an institutional, guidance and control function. The Chief Executive Officer has the most ample powers to manage the Company.
The organizational structure of the Company and the Group can be defined as a system of organizational communications, by which the Chief Executive Officer appoints the managers of the various departments and business units, and a system for the delegation of authority, consistent with the assigned responsibilities, the attribution guidelines of which are established within the framework of the Model 231/2001. Similar organizational communications issued by the managers of the different departments and business units and reviewed by the Chief Executive Officer, are used to define the organizational structure at a more operational level. All employees can access these organizational communications on the Company Intranet.

11. In monitoring the adequacy and effectiveness of the system of internal controls, also with regard to the requirements of Article 19 of Legislative Decree No. 39/2010, the Board of Statutory Auditors met on a regular basis with managers of the Internal Control Systems Department and other Company departments and relied on the information obtained by the Chairman of the Board of Statutory Auditors by attending relevant meetings of the Audit Committee and the Oversight Board of the 231/2001 Model.
Edison's System of Internal Controls is a structured and organic set of rules, procedures and organizational structures, applied pervasively throughout the Company, to prevent or minimize the impact of unexpected results and allow the achievement of the Company's strategic and operating objectives (i.e., consistency of the activities with the desired objectives, effectiveness and efficiency in conducting its operations, and protection of the corporate assets), compliance with applicable laws and regulations, and accurate and transparent internal and market communications (reporting).
The Board of Directors, working with the support of the Audit Committee, (i) defines the guidelines of the System of Internal Controls; (ii) regularly reviews the main risks faced by the Company, as defined by the Chief Executive Officer, who is responsible for implementing the guidelines of the system of internal controls; and (iii) assesses the adequacy, efficacy and effectiveness of the System of Internal Controls at least once a year.
The system of internal controls includes an Internal Auditing Unit, which is responsible for providing support to the Board of Directors, the Audit Committee and the Company's management. The manager of this unit, part of the Internal Control Systems Department, whom the Board of Directors appointed to the post of Internal Control Officer, is responsible for assessing the adequacy and effectiveness of the overall system of internal controls. The activity of the Internal Control Officer is carried out primarily through an annual plan of auditing and compliance engagements and includes monitoring the actual implementation of recommendations issued in connection with auditing engagements (follow up).
The Group uses additional tools to monitor progress toward the achievement of operational and compliance objectives, including a structured and periodic planning, management control and reporting system, a financial risk governance system (commodity and foreign exchange risks primarily), a system to manage Company risks in accordance with Enterprise Risk Management (ERM) principles, and the accounting control model required by Law No. 262/2005 in the area of financial disclosures.
As part of the ERM activities, the Company developed a map of the main business risks by implementing a structured risk mapping and risk scoring activity, carried out through a risk self-assessment process that involved all department and business unit managers.
Edison's Risk Officer is responsible for coordinating the risk management process, supporting management in defining the overall strategy and risk policies; analyzing, identifying, assessing and

managing risks; and defining and managing an appropriate control and reporting system.
Periodically, the Board of Statutory Auditors, working with managers of the relevant department, reviewed changes in the risk map based on ERM methods.
Edison adopted the organizational model required pursuant to Legislative Decree No. 231/2001 ("**231 Model**"). The Model is designed to prevent the perpetration of the unlawful acts referred to in the abovementioned Decree and, consequently, shield the Company from administrative liability. The 231 Model, of which the Code of Ethics is an integral part, was adopted following an analysis of the Company's operations to identify activities with a risk potential. It includes a series of general principles, rules of conduct, control tools, administrative procedures, training and information programs, and disciplinary systems that are designed to prevent, as much as possible, the occurrence of the abovementioned crimes. The Board of Directors also established an Oversight Board (**OB**), which is responsible for ensuring that the 231 Model is functioning effectively and is kept up to date, and is required to report to the Board of Directors and the Board of Statutory Auditors every six months. The members of the OB include an outside professional, who serves as Chairman, and two independent Directors. The Chairman of the Board of Statutory auditors attends the meetings of the OB (6 in 2010).
The Company has been using for some time a procedure for the internal management and external communication of documents and information concerning its activities as an issuer of securities, with special emphasis on insider information. This procedure is an integral part of the 231 Model. This procedure was amended in 2010 to make it more consistent with regulatory changes introduced to reflect European Union rules governing market abuse and to address operational issues that developed in connection with the procedure's implementation.
In the area of internal dealing, in addition to the obligations that already exist pursuant to the regulations concerning market abuse, the Board of Directors, acting pursuant to law, introduced an obligation to refrain, during certain periods of the year, from executing transactions that involve financial instruments issued by the Company.
In 2010, there were no transactions executed by Directors or Statutory Auditors for which disclosure to the market and the regulatory authorities was required.
Lastly, the Board of Statutory Auditors interfaced on an ongoing basis with the Internal Control Systems Department to monitor the implementation of the internal auditing plan and its findings, both during the design phase and in analyzing completed engagements and any related follow-up activities.
As mentioned earlier in this report, the Board of Statutory Auditors, through its Chairman, attended the meetings of the Audit Committee and the Oversight Board and analyzed the semiannual reports sent by these entities to the Board of Directors.

12. In addition, the Board of Statutory Auditors monitored the adequacy of the Company's administrative and accounting system and its reliability in presenting accurately the results from operations, through direct observations, by obtaining information from the managers of the relevant departments, reviewing Company documents and analyzing the information produced by the Independent Auditors.
Acting pursuant to law and based on the mandatory recommendation of the Board of Statutory Auditors, the Board of Directors appointed a Corporate Accounting Documents Officer, who was awarded the powers and attributions that the law requires and was provided with sufficient authority and resources to discharge his duties.
The Board of Directors approved an "Accounting Control Model Pursuant to Law No. 262/2005," the purpose of which is to establish the guidelines that must be applied within the Edison Group to satisfy the obligations set forth in Article 154-*bis* of Legislative Decree No. 58/1998 with regard to the preparation of corporate accounting documents and comply with the resulting certification requirements, and authorized the Chief Executive Officer, acting through the Corporate Accounting Documents Officer, to implement the abovementioned Model.
The preparation of accounting disclosures and of statutory and consolidated financial statements is governed by the Group Accounting Manual and by the other administrative and accounting procedures that are part of the Model adopted pursuant to Law No. 262/2005, including the fast closing procedure.
The Model adopted pursuant to Law No. 262/2005 includes official procedures concerning the impairment test, performed in accordance with IAS 36. As in the past, the analysis of the recoverable

values of goodwill and other assets was carried out with the support of a highly qualified independent expert and approved by the Board of Directors on April 21, 2011. A detailed description of the methods and assumptions applied is provided in Note 17 to the consolidated financial statements. The performance of the impairment test and its results were analyzed and discussed at meetings of Audit Committee, which were attended by the Chairman of the Board of Statutory Auditors, and at meeting held by the Board of Statutory Auditors, which constantly monitored the implementation of the test through discussions with company managers, the independent expert and the Independent Auditors.

The Board of Statutory Auditors is cognizant of the attestations issued by the Chief Executive Officer and Corporate Accounting Documents Officer of Edison S.p.A. regarding the adequacy of the administrative and accounting system, in light of the Company's characteristics, and the effective implementation of the administrative and accounting procedures required for the preparation of the separate financial statements of Edison S.p.A. and the consolidated financial statements of the Edison Group.

Lastly, the Board of Statutory Auditors monitored the financial information reporting process, obtaining information from Company managers and by other means.

13. The Board of Statutory Auditors monitored the process adopted to ensure the concrete implementation of the corporate governance rules set forth in the 2006 updated edition of the Corporate Governance Code published by Borsa Italiana (the "**Code**"), with the support of the Corporate Affairs Department. The Report on Corporate Governance and on the Company's Ownership Structure lists the limited number of Code recommendations that the Board of Directors chose not to adopt and explains the reasons for these choices.

    The main rules of corporate governance, as defined after September 16, 2005, the date that TdE became Edison's controlling shareholder, have been incorporated into Edison's Bylaws and reflect the provision of the framework agreement executed on May 12, 2005 by Electricitè de France S.a. and its WGRM Holding 4 S.p.A. subsidiary and A2A S.p.A. and its Delmi S.p.A. subsidiary and of the Shareholders' Agreement executed by the same parties to address issues concerning the management and corporate governance of Edison and TdE (the "**Governance Agreements**"). The governance rules set forth in the Governance Agreements have been incorporated into Edison's Bylaws for the sake of transparency and to disclose to the market the governance rules of the Company's controlling entity.

    The abovementioned Governance Agreements expire on September 15, 2011 and will be automatically renewed for three years, unless one of the parties cancels them before the expiration date of September 15, 2011. New terms recently agreed to by the parties included the elimination of the previous requirement that notice of cancellation should be given six months before the expiration date and the stipulation that upon the end of the term of office of the current Board of Directors, which will coincide with the Shareholders' Meeting convened to approve the 2010 financial statements, the new Board of Directors of Edison S.p.A. will be elected for a term of just one year.

    The Company established an Audit Committee, a Compensation Committee and a Strategy Committee as internal committees of the Board of Directors. Based on the general guidelines provided in the Governance Agreements, the Board of Directors approved special resolutions setting forth the specific attributions of each committee.

    The Company's Board of Directors is comprised of 13 Directors, including 12 non-executive Directors. The Board of Directors qualified three of the non-executive Directors as independent Directors, based on affidavits submitted by the Directors. Based on information available to the Company and provided by the Directors, the Board of Directors assessed compliance with the independence requirements. The Board of Statutory Auditors monitored this assessment process, performing tests for issues under its jurisdiction, determining that the criteria and procedures chosen by the Board of Directors to assess compliance with independence requirements were being correctly implemented and that the requirements applicable to the composition of the Board of Directors as a whole were being complied with.

    In addition, the Board of Statutory Auditors ascertained that its members met the same independence requirements as the Directors and adopted the Code's recommendation requiring its members to disclose any personal or third-party interest in specific transactions submitted to the Board of Directors for approval. In 2010, there were no instances in which the members of the Board of Statutory Auditors were required to make such a disclosure.

Lastly, the Board of Directors performed a self-assessment with regard to the size, composition and activities of the Board itself and its Committees, using a questionnaire that was filled out by all Directors. The findings of the self-assessment process, which were presented at a meeting of the Board of Directors on March 14, 2011, provided an overall positive assessment of the activities of the Board of Directors and its Committees.

In 2010, following the resignation of the Directors Pierre Gadonneix and Didier Calvez, the Board of Directors coopted, at meetings held on February 8, 2010 and June 29, 2010, respectively, (i) the Director Henri Proglio, who was confirmed by the Shareholders' Meeting of March 23, 2010, and (ii) the Director Thomas Piquemal.

In addition, the Directors Marc Boudier and Gerard Wolf resigned effective January 14, 2011 and, on the same date, the Board of Directors coopted Bruno Lescoeur and Jean-Louis Mathias as their replacements.

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

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

15. Lastly, the Board of Statutory Auditors verified directly compliance with the provisions of the statutes governing the preparation of the draft separate financial statements and consolidated financial statements at December 31, 2010, the respective accompanying Notes and the Report of the Board of Directors. It accomplished this task through direct observations and with the support of managers of Company departments and representatives of the Independent Auditors.

    Specifically, the Board of Statutory Auditors attests that the separate and consolidated financial statements of Edison S.p.A. at December 31, 2010 were prepared in accordance with the International Financial Reporting Standards ("IFRS international accounting principles") issued by the International Accounting Standards Board, as published in the *Official Journal of the European Union* (*OJEU*).

The oversight and control activity carried out by the Board of Statutory Auditors, as described above, did not uncover any significant facts that would require mention in this Report to the Shareholders' Meeting or reporting to oversight and control entities.

Based on the foregoing considerations, which provide an overview of its activities in 2010, the Board of Statutory Auditors has no remarks, as would be required pursuant to Article 153 of Legislative Decree No. 58/1998, with regard to issues under its jurisdiction concerning the separate and consolidated financial statements, the accompanying notes and the report on operations, and concurs with the motion submitted to the Shareholders' Meeting by the Board of Directors to replenish the loss reported in 2010.

The Shareholders' Meeting convened to approve the 2010 financial statements marks the end of the term of office of the Board of Directors and Board of Statutory Auditors elected by the Shareholders' Meeting of April 2, 2008. The Board of Statutory Auditors therefore recommends that the shareholders take appropriate action with regard to this issue.

Milan, April 4, 2011

The Board of Statutory Auditors

Alfredo Fossati	Chairman
Angelo Maria Palma	Statutory Auditor
Leonello Schinasi	Statutory Auditor

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