REPORT ON OPERATION

2009

EDISON

EDISON IN ITALY

12.3 GW installed generating capacity

28 Thermoelectric Power Plants

68 Hydroelectric Power Plants

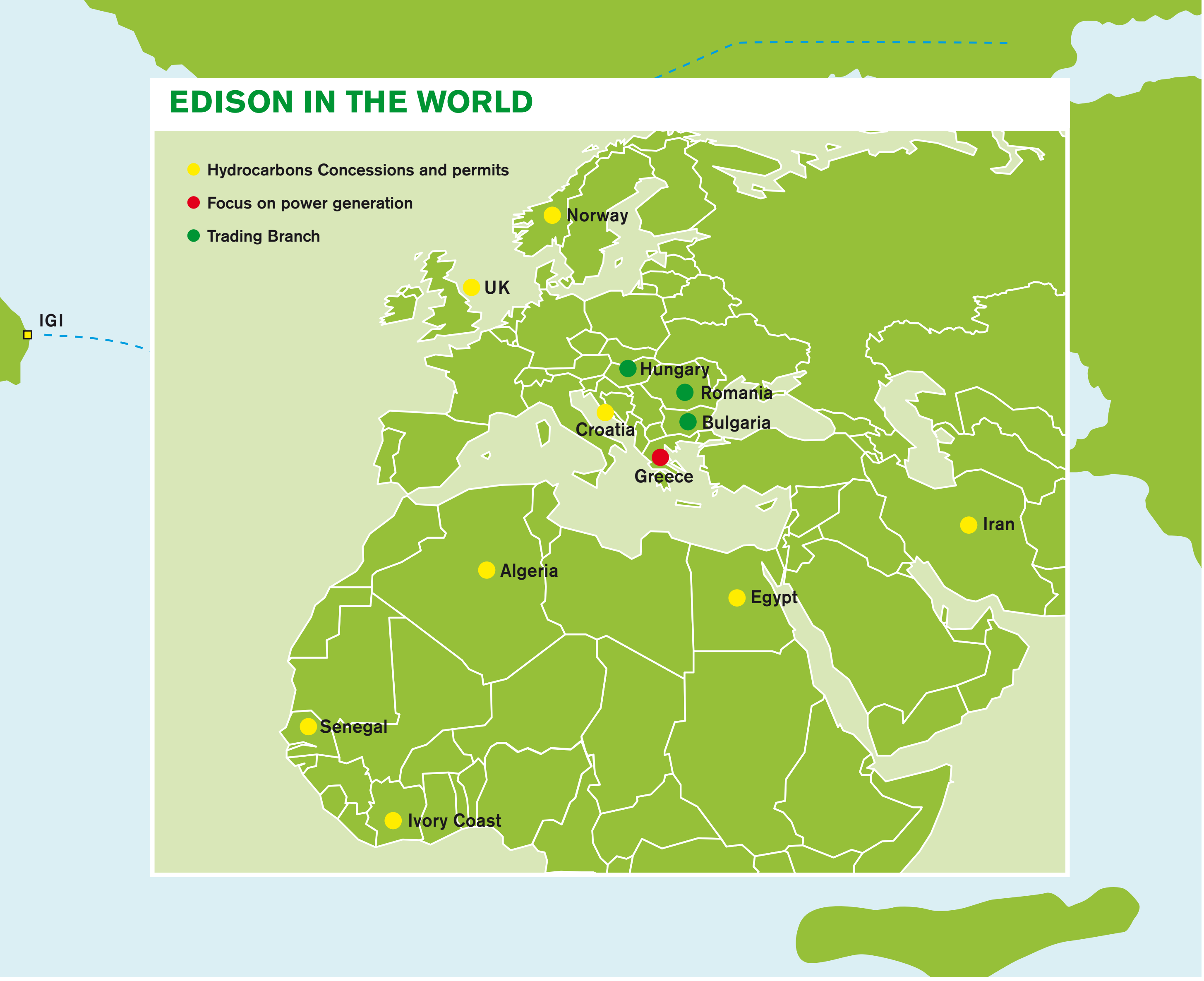
29 Wind Farms

56.1 bcme Hydrocarbons Reserves

80 Concessions and permits in Italy and abroad

3 Gas storage fields

EDISON IN THE WORLD



CONTENTS

Cover:
Top, from left to right: The Altomonte (CS) photovoltaic facility and the Rovigo regasification terminal with an LNG ship at the dock.
Bottom, from left to right: The Abu Qir offshore production platform near Alexandria, in Egypt, and the Marghera Azotati power plant in Porto Marghera (Venice).

REPORT ON OPERATION
2009

EDISON

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).

Electric Power

Italian Market in 2009		
Total Italian gross demand	316.9	TWh
Edison's gross sales in Italy (*)	60.4	TWh
incl.: - Deregulated market (*)	46.8	TWh
- CIP 6/92	11.0	TWh
- Captive	2.5	TWh

Facilities and Production Capacity in 2009		
Edison's installed capacity + Edipower (50%) (**)	12.3	'000 / MW
Total Italian net production of electric power	278.2	TWh
Edison's net production of electric power (*including 50% of Edipower*)	41.6	TWh
Share of total Italian production	15.0	%

Number of direct end customers	226	'000

(*) 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.

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

Hydrocarbons

Italian Market in 2009		
Total Italian demand	77.8	Bill. m^3
Edison's sales in Italy	13.2	Bill. m^3
Edison's sales/Total Italian demand	17.0	%

Facilities and Production Capacity in 2009		
Total Italian gas production	8.3	Bill. m^3
Edison's gas production in Italy	0.6	Bill. m^3
Share of total production	7.3	%
Number of concessions and permits in Italy	58	
Number of storage centers in Italy (*)	3	
Gas production outside Italy	1.2	Bill. m^3
Number of concessions and permits outside Italy	22	n.
Hydrocarbon reserves	56.1	Bill. m^3 eq.
Gas transmission network (low- and medium-pressure pipelines)	3.63	'000 / km
Gas transmission network (high-pressure pipelines)	0.08	'000 / km

Number of direct end customers	314	'000

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

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

SIMPLIFIED STRUCTURE OF THE GROUP AT DECEMBER 31, 2009

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

EDISON Spa [1]

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
- Itgi-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

Energy Efficiency and Sustainable Development
Solutions for sustainable energy use

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 is consolidated at 50% by the proportional method.

(*) Companies subject to functional unbundling requirements.

A LETTER TO SHAREHOLDERS

Dear Shareholders:

In 2009, the world's largest economies were hit by a recession of unprecedented magnitude. International trade contracted by more than 12%, and GDP shrunk dramatically in Italy (-4.8%) and in all major economies (USA -2.6%, E.U. -4.0%, Japan -5.5%), with the exception of China and India, where, however, growth rates slowed.

In Italy, the scenario was characterized by a slump in demand for energy products: minus 6.7% for electric power, minus 8.1% for natural gas. As demand was contracting at such a dramatic pace, supply expanded significantly both in the electric power sector, with the startup of new coal-fired and combined-cycle power plants, and in the natural gas area, due to capacity expansion of pipelines from Algeria and Russia and the commissioning of the Rovigo terminal. The combined impact of lower demand and a larger supply had obvious repercussions on energy prices, already penalized by wide swings in the commodities markets. During the second half of 2008, the highly volatile price of crude oil fluctuated between a high of 146 U.S. dollars per barrel and a low of 36 dollars per barrel, settling at the average level of 63 dollar per barrel in 2009, for a decrease of 36% compared with the average for 2008. The average price of electric power traded on the Power Exchange also decreased, falling by about 27% compared with 2008.

By taking effective actions in response to this highly turbulent scenario, Edison was able to report 2009 results that are in line with those of the previous year, based on a constant scope of consolidation and comparable non-recurring effects. Such a positive performance, achieved in an extremely challenging economic environment, was made possible by the effective use of multiple tools to: increase sales to end customers, improve the procurement mix of natural gas, optimize the use of production facilities, expand trading activities, and generate better than expected results from the Operating Excellence Program.
In the deregulated market, the Group reported higher sales volumes both in the electric power sector (+25%) and the natural gas sector (+12.4%), reaching a combined total of 600,000 customers. The commissioning of the Rovigo terminal represents a decisive step forward in Edison's progress toward full supply independence, while at the same time significantly improving the average cost of natural gas in the Group's supply portfolio. Imports of natural gas increased by 37%, reflecting the impact of new deliveries from Algeria and Qatar.
In the electric power area, Edison effectively counteracted the impact of a sharp contraction in the spark spread with important economic returns generated by drastically curtailing its exposure on the Power Exchange, while at the same time increasing trading activity and expanding in the wholesale and forward markets.
Lastly, the outstanding results of the Operating Excellence Program, which surpassed the program's objectives, not only helped contain operating costs, holding them essentially at the same level as in 2008, but also improved performance in all industrial areas.

The achievement of positive overall results enabled Edison to maintain a strong balance sheet and a healthy financial position, while it implemented the most ambitious capital investment program in its history (1,745 million euros). Specifically, in January 2009, the Group finalized the acquisition of a twenty-year concession for the exploration, production and development rights of the Abu Qir *fields, in Egypt, from the Egyptian government and the Egyptian General Petroleum Corporation, at a cost of more than 1 billion euros. The Abu Qir fields produce about 1.5 billion cubic meters of natural gas and 1.5 million barrels of oil a year, from reserves totaling 70 billion cubic meters of natural gas equivalents. Edison is planning further investments in Abu Qir, which will double production in the coming years.*

Additional investments were earmarked for strategic growth areas: international expansion, renewable energy sources, natural gas storage and completion of the portfolio of Italian generating facilities. Edison's internationalization continued with ElpEdison, a joint venture with Hellenic Petroleum that created the second largest operator in the Greek market, with 400 MW of generating capacity already in service and an additional 400 MW under construction at the Thisvi power plant.
In addition, Edison's ongoing commitment to growth in the production of energy from renewable sources resulted in the commissioning of new wind farms, raising the Group's installed capacity to over 400 MW.

The developments that characterized last year's scenario are unfortunately expected to continue in 2010. However, it is precisely when market conditions are most difficult that the best companies stand out for their ability to counteract the effect of a negative economic environment and seize the opportunities provided by a crisis. It is at these moments that the professionalism of the strongest organizations makes a difference. We are grateful to all of employees and to management for their outstanding performance in the face of great external challenges.
The accomplishments of 2009, the Group's growth strategies, its current capital investment programs and the exceptional ability of its people to react promptly to external change enable us to look at the future with reasonable confidence, with the expectation of delivering satisfactory results to the shareholders in 2010.

Giuliano Zuccoli
Chairman

Umberto Quadrino
Chief Executive Officer

BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

Board of Directors [1]

Chairman		Giuliano Zuccoli [2]
Chief Executive Officer		Umberto Quadrino [2]
Directors		Marc Boudier [2][3]
		Didier Calvez [4][5]
	Independent Director	Mario Cocchi [3]
	Independent Director	Gregorio Gitti [3]
		Henri Proglio [6]
	Independent Director	Gian Maria Gros-Pietro [3][4]
		Marco Merler [4]
		Renato Ravanelli [2]
		Paolo Rossetti
		Andrea Viero [4][7]
		Gerard Wolf

Board of Statutory Auditors [1]

Chairman	Alfredo Fossati
Statutory Auditors	Angelo Palma
	Leonello Schinasi

Independent Auditors [8]

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] Coopted on April 30, 2009 to replace Daniel Camus, who resigned. His term of office ends with the Shareholders' Meeting of March 23, 2010.
[5] Member of the Audit Committee.
[6] Coopted on February 8, 2009 to replace Pierre Gadonneix, who resigned. His term of office ends with the Shareholders' Meeting of March 23, 2010.
[7] Coopted on November 12, 2008 to replace Ivan Strozzi, who resigned and elected by the Shareholders' Meeting of March 31, 2009.
[8] 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, 2009

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

Shareholders with Significant Holdings at December 31, 2009

	% of voting rights	% interest held
Transalpina di Energia Srl	61.281%	60.001%
EDF Eléctricité de France Sa [1]	19.359%	18.955%
Carlo Tassara Spa [2]	10.025%	9.815%

[1] Interest held indirectly.
[2] Interest held directly and indirectly.

In 2009, the Group invested in the development of wind power facilities in Italy, which included commissioning the new Melissa-Strongoli (KR) (see photo) wind farm and beginning construction of another wind farm in Mistretta (ME).

REPORT ON OPERATIONS

KEY EVENTS IN 2009

A new route for natural gas from Qatar was officially inaugurated in Rovigo on October 20, 2009. Through the Adriatic LNG terminal, Edison will import over 8 billion cubic meters of natural gas a year from the world's largest natural gas field.

GROWING OUR BUSINESS

Edison, the Egyptian Government and EGPC Sign a Contract for the Abu Qir Hydrocarbon Concession in Egypt

On January 15, 2009, Edison, acting through its Edison International Spa subsidiary (“Edison”), the Egyptian Oil Minister, in his capacity as representative of the Arab Republic of Egypt, and the Egyptian General Petroleum Corporation (“EGPC”) signed a contract awarding to Edison the Abu Qir offshore concession, in Egypt, and granting Edison the concession’s exploration, production and development rights.
Edison is the operator of the Abu Qir concession jointly with EGPC through a new operating company. The concession’s award, which became effective immediately, followed the signing of an agreement by Edison and EGPC on December 2, 2008, which was later ratified by the Egyptian Parliament. The Concession has a duration of 20 years and may be extended for 10 additional years at Edison’s request. Upon closing, Edison paid to EGPC the stipulated amount of US$1,405 million as a signing bonus.
Subsequently, at the end of March 2009, Edison made a new hydrocarbon discovery in the Abu Qir concession after drilling a well - the NAQ PII-2 well - at a depth of 3,750 meters offshore Alexandria, in Egypt. The well tested at 1.85 million cubic meters of natural gas and 850 barrels of condensate a day. In order to speed up the process of bringing this new discovery into production, work has already started on a project for the construction of a new platform.
Based on the available data, the new discovery could increase current production levels by 30%. Production is scheduled to start in 2010. In addition, in the area that encompasses the new deposit, identified reserves appear to be higher than originally projected, confirming the concession’s significant development potential.

Edison Buys 80% of AMG Gas in Palermo

On March 10, 2009, Edison closed the purchase of an 80% interest in Amg Gas Srl from Amg Energia Spa. Amg Gas Srl is a natural gas distributor that serves more than 133,000 customers in the Palermo area and sells 80 million cubic meters of natural gas a year.
This transaction was carried out as a result of the selection of Edison as the winning bidder in a public call for bids issued by Amg Energia Spa in October 2008 and the subsequent approval by the antitrust authorities. The price paid for this equity investment was 25.1 million euros. Through its interest in Amg Gas, Edison doubled the number of its natural gas customers, passing the milestone of 300,000 residential customers nationwide, and made significant progress in the pursuit of its growth strategy, which calls for expanding its share of the residential natural gas market.

Elpedison: Green Light for the Second Largest Operator in the Greek Market

On March 12, 2009, further to the agreements signed on July 3, 2008, Edison closed a transaction establishing a joint venture with Hellenic Petroleum, Greece’s largest hydrocarbon company and a significant player in the local electric power market. This event marks the beginning of operating activity for Elpedison Bv, which plans to develop a generating capacity of more than 2,000 MW (including 390 MW already operational), thereby becoming, through with its subsidiaries, the second largest electric power operator in Greece.
At the corporate level, the transaction involved an asset conveyance and acquisition process in which Elpedison served as the vehicle. Specifically, Hellenic Petroleum Sa contributed a 50% interest in Energiaki Thessalonikis Sa and Edison International Holding Nv contributed a 65% interest in Thisvi Sa and 55 million euros. Elpedison then purchased the remaining 50% of Energiaki Thessalonikis Sa from Hellenic Petroleum Sa and Hellenic Petroleum International AG.
Energiaki Thessalonikis Sa operates a 390-MW combined-cycle power plant fueled with natural gas

Edison closed the agreement with the Egyptian government and EGPC for the award of the Abu Qir offshore hydrocarbon concession near Alexandria, in Egypt. The photos show the concession's area and views of the production platforms.

in Thessaloniki. This facility is the first private-sector power plant built in Greece. Thisvi Sa is completing the construction of a 420-MW combined-cycle facility in Thisvi, in central Greece.

In September 2009, Thisvi Sa was merged through absorption into Energiaki Thessalonikis Sa, which then changed its name to Elpedison Power Sa.

On October 15, as a further step in the implementation of the agreements of July 3, 2008, Elpedison Bv transferred to Hed and Halcor (Thisvi's minority shareholders) 21% of the shares representing Elpedison Power's share capital for a consideration of about 30.7 million euros. Following these transactions, Elpedison Bv owned 75% of Elpedison Power Sa, with Hed Sa and Halcor Sa holding the remaining 25%.

This transaction has already been green lighted by the relevant Greek government entities and the European Commission.

In addition, Edison and Hellenic Petroleum established Elpedison Trading as a trading company that will sell electric power and operate related services.

Edison, BEH and DEPA Sign an Agreement to Build the Greece - Bulgaria Natural Gas Pipeline

On July 14, 2009, meeting in Sofia, BEH (Bulgarian Energy Holding), DEPA (the Greek Public Gas Corporation) and Edison signed a Memorandum of Understanding concerning the construction of the IGB (Greece-Bulgaria Interconnector) natural gas pipeline.

IGB is a natural gas pipeline of about 160 km that will run between Komotini (Greece) and Stara Zagora (Bulgaria). With an annual capacity of 3 to 5 billion cubic meters of naturalgas, it will provide Bulgaria with access to new supply sources through Greece. Planned investments will total 140 billion euros and the project is expected to have access (application in the approval phase) to 45 million euros in funding under the EU's Economic Recovery Plan. The effectiveness of the Memorandum is subject to the approval of the cororate governance bodies of the companies involved.

Pursuant to the agreement, the pipeline will be built by an asset company owned in equal shares by BEH and IGI Poseidon, which is a 50-50 joint venture of Edison and Depa. IGI Poseidon is currently building a natural gas pipeline between Greece and Italy.

With the signing of this agreement Edison reaffirms its presence in the Balkans as the reference operator in the energy sector and strengthens the regional significance of the ITGI project (Turkey-Greece-Italy Interconnector).

Moreover, on October 19, 2009, Claudio Scajola, Italy's Minister of Economic Development, and Taner

Yildiz, Turkey's Energy Minister, signed a joint declaration concerning the ITGI project.
The declaration emphasizes the strategic significance of this project as a tool for the fast development of a Southern Corridor to supply Europe with natural gas from the Caspian Basin by way of Turkey. Consistent with the intergovernmental agreement of July 2007, both Ministers underscored their commitment to supporting Edison and Botas (a Turkish company involved in the development of this infrastructure) in their efforts to finalize the agreements needed to begin construction of the pipeline. Lastly, the Turkish government confirmed its commitment to ensuring that the ITGI project will be offered transit terms that assure its competitiveness.

The European Union recognized the strategic importance of the ITGI pipeline as a Project of European interest, including it among the Southern Corridor projects of the European Recovery Plan, with proposed funding of 100 million euros.

Edison Launches a Natural Gas Sales Campaign for the Residential Market

One year after the introduction of its first electric power sales package for residential customers, Edison launched its *Edison Luce&Gas* sales campaign. On September 27, 2009, with an intense advertising campaign on the main media, Edison presented to the residential market a broad range of affordable solutions for all levels of consumption requirements, equally available throughout Italy, from large cities to small towns.

Edison Inaugurates a new Power Line Between Italy and Switzerland

On October 5, 2009, at an event in Tirano, Edison inaugurated a new electric power infrastructure, linking Italy and Switzerland, built and operated by EL.IT.E, a company owned by Edison (48.45%), Raetia Energie (46.55%) and the Municipal Administration of Tirano (5%). The new line, which required a total investment of 17 million euros, consists of a 150-kV underground cable, running for a length of 4.4 km from Campocologno to Tirano, and 150/220-kV transformer station in Tirano, equipped with a special, innovative transformer system that can be used to regulated the transit of energy.
This new power line increases by 150 MW the transmission capacity between Italy and Switzerland, thereby strengthening the safety and reliability of Italy's connection with Northern Europe.

Edison Opens a New Route for Natural Gas from Qatar

On October 20, 2009, at an event in Rovigo, Edison's new route for natural gas from Qatar was officially inaugurated. Through the Adriatic LNG Terminal, Edison will import over 8 billion cubic meters of natural gas a year from the world's biggest gas field. LNG carriers, loaded at Ras

Laffan, will dock about seven times per month at the terminal, which has now reached full operating capacity.

Special unloading hoses transfer the liquefied gas from to the ship to pipes leading to the terminal's storage tanks, where the gas is cooled to the temperature required for storage prior to regasification. Once the cooling process is completed, the terminal is ready to feed the natural gas into the national distribution network.

The Qatari gas that is already being distributed through the national network increases the diversification and reliability of Italy's energy sources and significantly increases market competition, for the benefit of businesses and consumers.

When fully operational, this facility will be capable of delivering to the national network up to 8 billion cubic meters of natural gas a year, equal to about 10% of Italy's natural gas needs. Qatar Terminal Limited, an affiliate of Qatar Petroleum, and ExxonMobil Italiana Gas each own 45% of Terminale GNL Adriatico, with Edison holding the remaining 10% interest. Pursuant to a supply contract signed with Ras Laffan Liquefied Natural Gas Company Limited II (RasGas II), Edison will have access to 80% of the terminal's capacity for 25 years, which it will use to regasify LNG imported from the North Field in Qatar. The remaining 20% of capacity, 12% of which has already been allocated, is available to market operators in accordance with procedures defined by the Ministry of Economic Development and the Italian Electric Power and Natural Gas Authority (abbreviated as AEEG in Italian).

STRENGTHENING OUR BALANCE SHEET

The Group Secures Three-year Credit Lines Totaling 600 Million Euros

On May 27, 2009, Edison executed a three-year loan agreement for a 600-million euro facility provided by a pool of international banks that included Unicredit Group, Banco Bilbao Vizcaya Argentaria Sa, Bnp Paribas Sa - BNL, Calyon Sa, Intesa Sanpaolo Spa (Agent Bank) and Société Générale Sa. This transaction, which was structured as a Club Deal, will not require syndication. The full amount of this facility, a Senior Unsecured Term Loan, is repayable in a lump sum in May 2012. The loan accrues interest at an interest rate equal to the Euribor plus a spread consistent with the best market terms currently available. This credit line, which enables Edison to refinance a portion of its short-term debt to a medium-term maturity, increases the Company cash management flexibility and strengthens its sourcing of funds by lengthening the corresponding maturities.

At the end of 2009 the Adriatic LNG terminal operates at full capacity. A fleet of tanker ships delivers a steady stream of LNG from the North Field, in Qatar, in line with contract projections (seven ships a month).

The Board Authorizes the Issuance of up to 2 Billion Euros in Bonds

On June 25, 2009, the Board of Directors of Edison Spa approved the launch of a new Euro Medium-Term Note Program, setting forth the general terms and conditions of future Edison Eurobond issues for an amount of up to 2 billion euros. The purpose of this program is to provide the Company with an efficient and flexible funding source.

Edison Successfully Completes the Placement of a 700-million-euro Bond Issue

On July 16, 2009, with demand exceeding 7 billion euros, Edison Spa completed the placement of a five-year bond issue, listed on the Luxembourg Exchange, for a total amount of 700 million euros, sold exclusively to qualified investors.
The bonds, which were offered at a 99.841 issue price with a minimum denomination of 50,000 euros, mature on July 22, 2014 and carry a gross annual coupon of 4.25%.

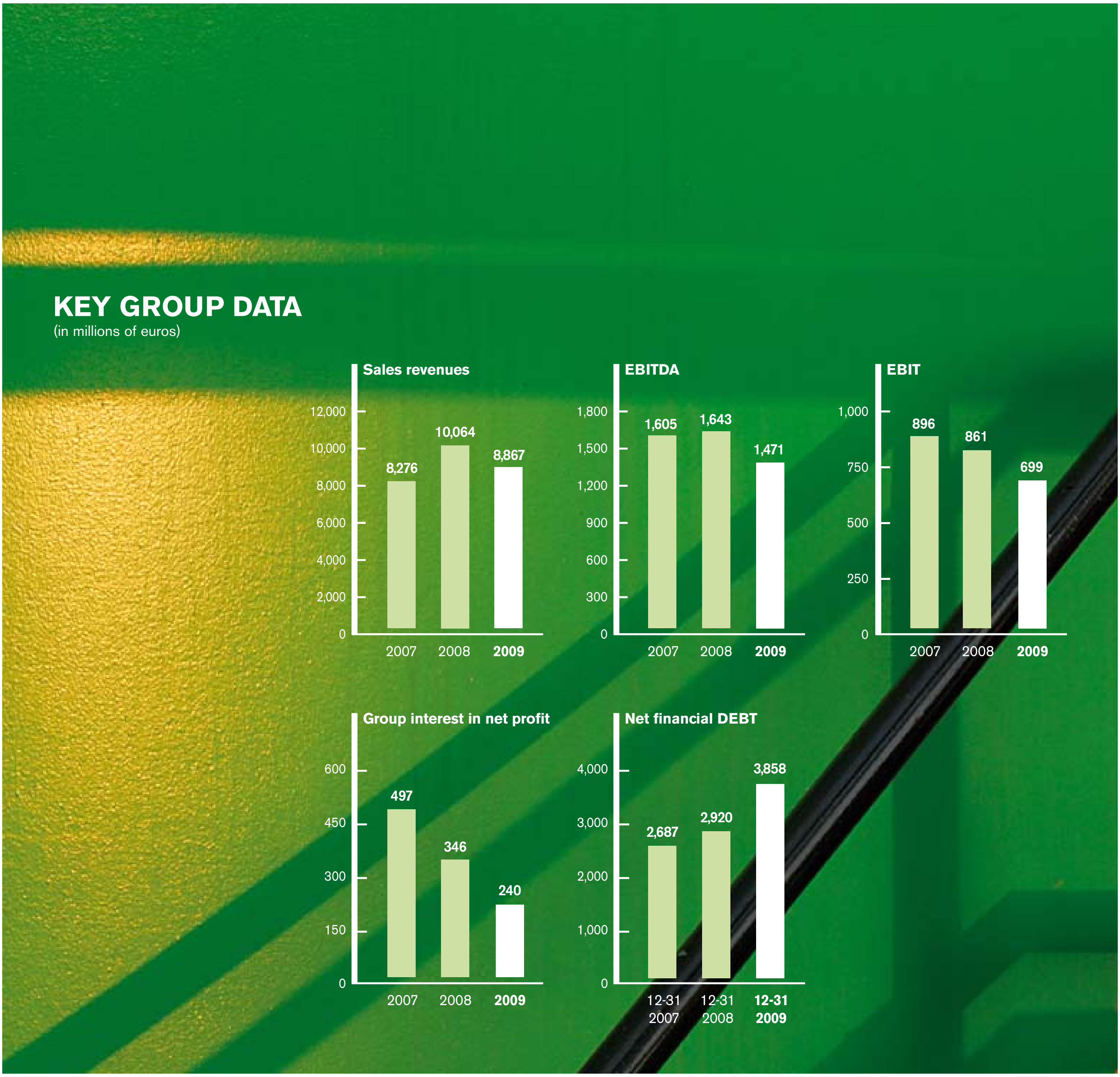
OTHER KEY EVENTS

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

On July 7, 2009, the rating agency Moody's Investors Services, at the end of its annual review, affirmed its Baa2 rating for Edison's long-term debt securities. Subsequently, on September 29, 2009, Standard & Poor's affirmed its BBB+ rating for Edison's long-term debt securities. In view of the competitive environment that developed in Italy following a significant drop in demand for electric power and natural gas and the possibility of a slow economic recovery in 2010, both rating agencies changed their outlook from "stable" to "negative."

SIGNIFICANT EVENTS OCCURRING SINCE DECEMBER 31, 2009

Information about events occurring after the end of the year subject of this Report is provided in the section of the Consolidated Financial Statements entitled "Significant Events Occurring Since December 31, 2009.



FINANCIAL HIGHLIGHTS
FOCUS ON RESULTS

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)	2009 (*)	2008 (*)	% Change
Sales revenues	8,867	10,064	(11.9%)
EBITDA	1,471	1,643	(10.5%)
as a % of sales revenues	16.6%	16.3%	
EBIT	699	861	(18.8%)
as a % of sales revenues	7.9%	8.6%	
Profit before taxes	529	730	(27.5%)
Group interest in net profit	240	346	(30.6%)
Capital expenditures	1,679	582	n.m.
Investments in exploration	66	62	6.5%
Net invested capital (A + B)	12,112	10,993	10.2%
Net financial debt (A)[1]	3,858	2,920	32.1%
Shareholders' equity before minority interest (B)	8,254	8,073	2.2%
Group interest in shareholders' equity	8,077	7,909	2.1%
ROI [2]	6.22%	8.08%	
ROE [3]	3.00%	4.35%	
Debt/Equity ratio (A/B)	0.47	0.36	
Gearing (A / A+B)	32%	27%	
Number of employees [4]	3,923	2,961	32.5%

(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 period and at the end of the previous year.
(3) Group interest in net profit/Average Group interest in shareholders' equity. Average Group interest in shareholders' equity is the arithmetic average of Group interest in shareholders' equity at the end of the period and at the end of the previous year.
(4) Companies consolidated line by line and Group interest in companies consolidated by the proportional method.
(*) Sales revenues reflect a new presentation of trading activities that recognizes only the resulting "trading margin" (net presentation).

Edison Spa

(in millions of euros)	2009	2008	% Change
Sales revenues	5,007	5,927	(15.5%)
EBITDA	647	676	(4.4%)
as a % of sales revenues	*12.9%*	*11.4%*	
EBIT	278	231	20.3%
as a % of sales revenues	*5.6%*	*3.9%*	
Net profit	423	374	13.1%
Capital expenditures	217	233	(6.9%)
Net invested capital	8,317	8,303	0.2%
Net financial debt	1,188	1,534	(22.6%)
Shareholders' equity	7,129	6,769	5.3%
Debt/Equity ratio	0.17	0.23	(26.5%)
Number of employees	1,735	1,697	2.2%

Sales Revenues and EBITDA by Business Segment

(in millions of euros)	2009 (*)	2008 (*)	% Change
Electric Power Operations [1]			
Sales revenues	6,463	7,687	(15.9%)
EBITDA	1,227	1,326	(7.5%)
as a % of sales revenues	*19.0%*	17.2%	
Hydrocarbons Operations [2]			
Sales revenues	4,158	5,093	(18.4%)
EBITDA	347	405	(14.3%)
as a % of sales revenues	*8.3%*	8.0%	
Corporate Activities [3]			
Sales revenues	53	77	(31.2%)
EBITDA	(103)	(88)	(17.0%)
as a % of sales revenues	*n.m.*	*n.m.*	
Eliminations			
Sales revenues	(1,807)	(2,793)	35.3%
EBITDA		-	
Edison Group			
Sales revenues	**8,867**	**10,064**	**(11.9%)**
EBITDA	**1,471**	**1,643**	**(10.5%)**
as a % of sales revenues	***16.6%***	***16.3%***	

(1) Activities carried out by the following Business Units: Electric Power Operations, Energy Management and Marketing & Distribution.
(2) Activities carried out by the following Business Units: Hydrocarbons Operations, 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.
(*) Sales revenues reflect a new presentation of trading activities that recognizes only the resulting "trading margin" (net presentation).

PERFORMANCE AND RESULTS OF THE GROUP IN 2009 AND BUSINESS OUTLOOK FOR 2010

Operating Performance

In 2009, sales revenues decreased to 8,867 million euros, or 11.9% less than the 10,064 million euros reported in 2008, due to a reduction in unit revenues, which reflected unfavorable conditions in the energy scenario, and to lower sales volumes in Italy, caused by the difficult market context that developed in the Italian economy, characterized by an across-the-board contraction in consumption of natural gas and electric power at the national level. However, it is worth noting that the Group, despite the shortfall in total sales volume, successfully implemented the strategy of increasing sales in the end-customer segments of the market, achieving important growth targets in both business segments: +24.6% for the electric power operations and +12.4% for the hydrocarbons operations.

EBITDA totaled 1,471 million euros, down 10.5% compared with the 1,643 million euros booked in 2008, with both business segments contributing to the decrease. Indeed given the same scope of consolidation and excluding non recurring effects 2009 EBITDA is substantially in line with 2008. In fact the reduction in EBITDA reported by the electric power operations reflects a weaker performance by the CIP 6/92 operations, which last year benefited from 81 million euros in extraordinary and non-recurring income resulting from the reimbursement of green certificate and CO_2 certificate costs incurred in previous years and this year were penalized by the expiration of contracts and incentive and by the absence of the EBITDA generated by the seven power plants sold in April of last year. Other factors include lower results generated by sales in the deregulated markets, caused by a decrease in volumes produced and sold on the Power Exchange (IPEX) that resulted from a contraction in national demand for energy, and a reduction in the margins available in the Dispatching Services Market.
It worth to remind last year benefited from 79-million-euros gain on the sale of a 60% interest in Hydros.

The performance of the hydrocarbons operations was adversely affected by a contraction of the margins generated by gas and oil production activities in Italy caused by sharply lower benchmark prices, offset only in part by the contribution of the newly acquired Abu Qir Egyptian concession.

Consolidated EBIT totaled 699 million euros. The reasons explained above account for the 18.8% decrease compared with the 861 million euros earned in 2008.

The Group's interest in profit before taxes decreased to 529 million euros, or 27.5% less than the 730 million euros earned in 2008, reflecting the impact of the rise in financial expense that resulted from higher losses on foreign exchange rates and positive non recurring items occurred in 2008.
The current tax burden reflects the impact of Law No. 99 of July 23, 2009, which increased the corporate income tax (IRES) surcharge (the so-called Robin Hood Tax) from 5.5% to 6.5%, producing a negative impact of 19 million euros (11 million euros in deferred taxes and 8 million euros in current taxes), while at December 31, 2008, the introduction of the Robin Hood Tax and the enactment of Decree Law No. 185/08 required adjustments to deferred taxes totaling about 90 million euros.
As a result of the factors described above, the net profit fell to 240 million euros, down 30.6% compared with the 2008 amount (346 million euros).

At December 31, 2009, net financial debt totaled 3,858 million euros, up significantly compared with the 2,920 million euros owed at December 31, 2008. The acquisition of the Abu Qir concession in Egypt, at a cost of 1,011 million euros, accounts for most of this increase. More detailed information about the individual components of this item is provided in the "Net Financial Debt" chapter found within the section entitled Review of the Group's Operating Performance, Financial Results and Financial Position.

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

(in millions of euros)	2009	2008
A. NET FINANCIAL DEBT AT JANUARY 1	**(2,920)**	**(2,687)**
EBITDA	1,471	1,643
Change in operating working capital	274	(465)
Income taxes paid (-)	(401)	(396)
Change in other assets (liabilities)	28	(169)
B. CASH FLOW FROM OPERATING ACTIVITIES	**1,372**	**613**
Investments in property, plant and equipment and intangibles (-) [1]	(1,745)	(644)
Investments in non-current financial assets (-)	(136)	(232)
Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	58	421
Dividends received	1	2
C. FREE CASH FLOW	**(450)**	**160**
Financial income (expense), net	(156)	(100)
Contributions of share capital and reserves	-	3
Dividends paid (-)	(278)	(281)
D. CASH FLOW AFTER FINANCING ACTIVITIES	**(884)**	**(218)**
Change in the scope of consolidation	(54)	(15)
E. NET CASH FLOW FOR THE PERIOD	**(938)**	**(233)**
F. NET FINANCIAL DEBT AT DECEMBER 31	**(3,858)**	**(2,920)**

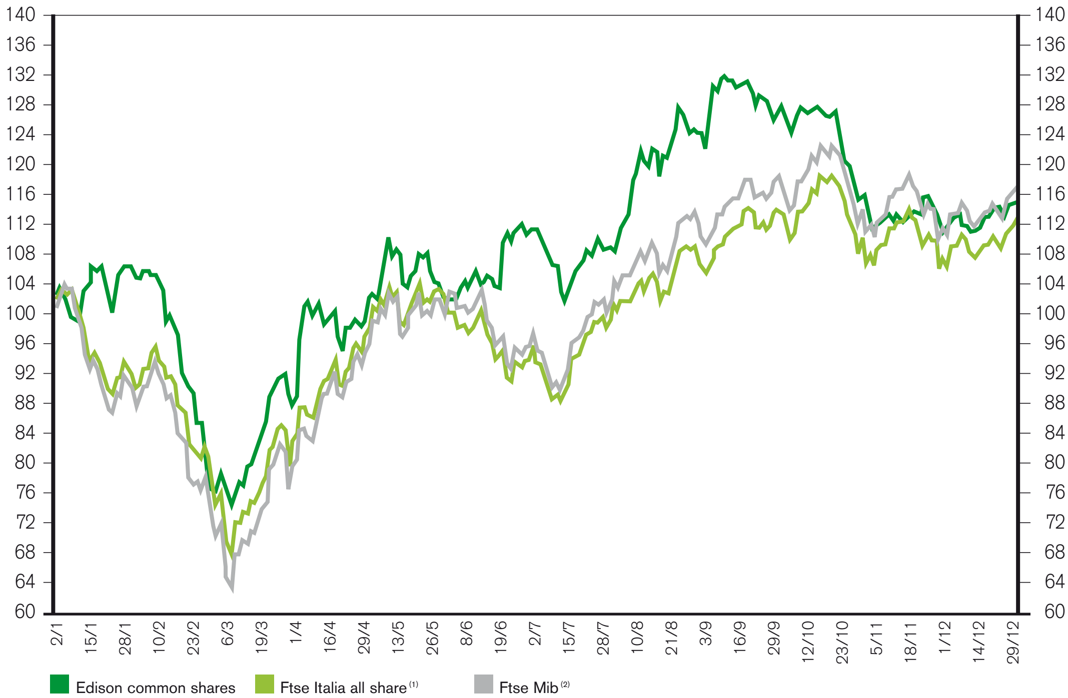
[1] The data for 2009 reflect the outlay required to purchase the Abu Qir concession for 1,011 million euros.

Business Outlook for 2010

In 2010 electric power and gas demand will be slightly higher than 2009, but still below the levels reached before the crisis. Therefore, the scenario elements which marked 2009 are expected to continue. However, the Company's management experience gained in 2009 makes us look to the future with reasonable confidence. The investments made and those expected, the new objectives of the Operational Excellence Plan and the commercial actions in progress makes us expect for 2010 results to be in line with 2009.

EDISON AND THE FINANCIAL MARKETS

Chart of the stock market prices of the Edison shares in 2009.



(1) Mibtel Index from January 2, 2009 to May 29, 2009 and FTSE Italia All Share Index from June 1, 2009 to December 31, 2009. The FTSE Italia All Share Index replaced the Mibtel Index, with a basket of 250 stocks instead of 275 stocks.

(2) The FTSE MIB Index replaced the S&P/MIB Index.

Stock Market Price and Other Per Share Data

(in euros)	December 31, 2009	December 31, 2008
Edison Spa		
Stock market price (unit price in euros) [(1)]:		
- common shares	1.0463	0.9518
- savings shares	1.2939	1.1732
Number of shares (at end of period):		
- 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)]	0.0448	0.0647
basic earnings per savings share [(2)]	0.0748	0.0947
diluted earnings per common share [(2)]	0.0448	0.0647
diluted earnings per savings share [(2)]	0.0748	0.0947
Group interest in shareholders' equity per share (in euros)	1.526	1.495
Price/Earnings ratio (P/E) [(3)]	23,77	13.88

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

Other Financial Indicators

Rating

	Current	December 31, 2008
Standard & Poor's		
Medium/long-term rating	BBB+	BBB+
Medium/long-term outlook	Negative	Stable
Short-term rating	A-2	A-2
Moody's		
Rating	Baa2	Baa2
Medium/long-term outlook	Negative	Stable

EVOLVING SCENARIO
MARKETS AND LAWS

From 2002 to 2007 Edison completed one of Europe's most ambitious capital investment plans in the electric power industry, increasing its total installed capacity to 12.3 GW at the end of 2009.

ECONOMIC FRAMEWORK

Two thousand nine will be remembered as the year when the negative effects of the deep economic and financial crisis triggered by the real estate and financial bubble unleashed their disruptive force. This bubble, which began shortly after the earlier high-tech bubble, had its epicenter in the United States and, in a subsequent phase, spread to other countries that had followed the American model, such as Great Britain, Ireland, Iceland the Netherlands and Spain. For these countries, whose growth rates appeared to be stronger than those of other industrialized countries, such as Japan, France, Germany and, especially, Italy, more recent developments have shown that the growth they enjoyed was driven mainly by the extremely high level of private-sector debt carried by households and businesses, which, by artificially swelling consumption and investments, caused economies to expand in an unbalanced and unsustainable fashion during the past decade.

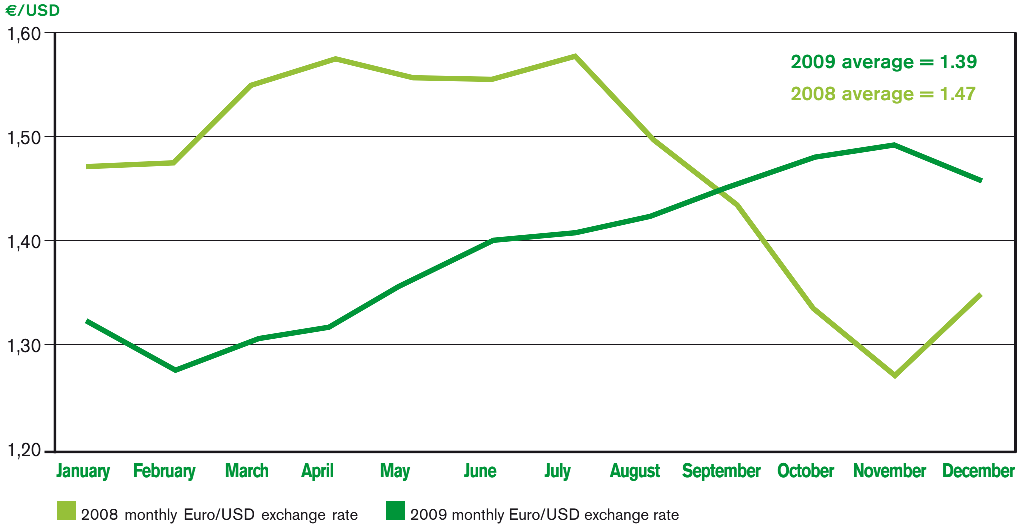
As a result, in 2009, the world economy was forced to contend with a GDP contraction on a global scale, an across-the-board slump in consumer spending and investments, the collapse of international trade, skyrocketing unemployment rates that affected some countries (the United States and Spain above all) more than others, and major problems in the financial markets that have not yet been fully resolved.

All major economies shrank in 2009. In the United States, the contraction in GDP was caused mainly by a slump in consumer demand and investments, particularly in the real estate sector, while in Europe, the biggest drops in GDP occurred in Ireland and the United Kingdom, where, in recent years, growth had been driven by the real estate and financial sectors, often with huge inflows of foreign capital. Germany and Italy, both highly dependent on exports, suffered a dramatic reduction in their ability to generate wealth, due to the collapse of world trade. The emerging countries, initially thought to be less exposed to the crisis because of the limited integration of their markets into the global financial system, experienced a general contraction in GDP, particularly in Eastern Europe and Asia (with the exception of China and India, where growth rates simply slowed), thereby diminishing their role as the engines driving global growth.

Overall, the data for 2009 show that global GDP shrunk by about 0.4% and world trade contracted by more than 12%, with both reductions caused largely by the events that occurred between the end of 2008 and the early months of 2009. The economic cycle bottomed out in second quarter of 2009, as the contraction in global GDP began to slow thanks to the contribution of the industrialized countries, which stopped their downward spiral with fiscal incentives designed to support domestic demand (France, Germany and Japan in particular), and of some emerging countries (India and China above all), where economic growth showed fresh momentum thanks to a structural situation that was less affected by the crisis of the financial markets and expansive economic policies. In the third quarter of 2009, responding to massive stimulus programs launched by governments in response to the economic and financial crisis, the economies of the United States and the euro-zone countries emerged from the recession, recovering at a rate that appeared to be more robust in the United States, thanks to the bigger programs implemented to boost domestic demand and available liquidity. Year-end 2009 data should show that GDP was down 2.6% in the United States, contracted by 4.0% in the euro zone and 5.5% in Japan, with the shortfall for Italy is estimated at 4.8%. However, 2010 should be the year when the economic recovery get under way.

As for interest rates, the Federal Reserve, in an effort to jumpstart an economy that continued to face serious challenges, kept the cost of money through 2009 at the all-time low of 0.25% set in December 2008. In the United States, the inflation rate was down dramatically, falling from +3.8% in 2008 to -0.4% in 2009. The European Central Bank took a more conservative approach, holding the cost of money at 1%. The inflation rate in the euro zone followed the same sharp downward trend as in the United States during 2009, decreasing from +3.3% in 2008 to +0.3% in 2009. In Italy, inflation was slightly higher, reaching +0.8% in 2009 (+3.4% in 2008).

In the foreign currency market, the trend of the euro/dollar exchange rate was characterized by a steady appreciation of the European currency. The exception was February, when the euro lost value trading at an average rate of 1.28 USD for one euro, down from 1.32 USD for one euro in January. However, starting in March, the European currency resumed its rise, reaching an average rate of 1.49 USD for one euro in November, but fell back slightly to 1.46 USD for one euro in December. The average euro/dollar exchange rate for the year was 1.39 USD for one euro, down about 5.3% compared with the average for 2008 (1.47 USD for one euro).



THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy and Market Environment

TWh	2009	2008	% change
Net production	278.2	307.1	(9.4%)
Imports	44.4	40.0	11.0%
Surges	(5.7)	(7.6)	(24.8%)
Total demand	**316.9**	**339.5**	**(6.7%)**

Source: Analysis of official 2008 data and pre-closing 2009 Terna and AU data, before line losses.

In 2009, gross total demand for electric power from the Italian grid totaled 316.9 TWh (1 TWh = 1 billion kWh), or 6.7% less than in 2008, with most of the decrease occurring in the first half of the year. On a seasonally adjusted basis (i.e., eliminating the impact of changes in average temperature and the number of business days), the year-over-year reduction is 6.5%.

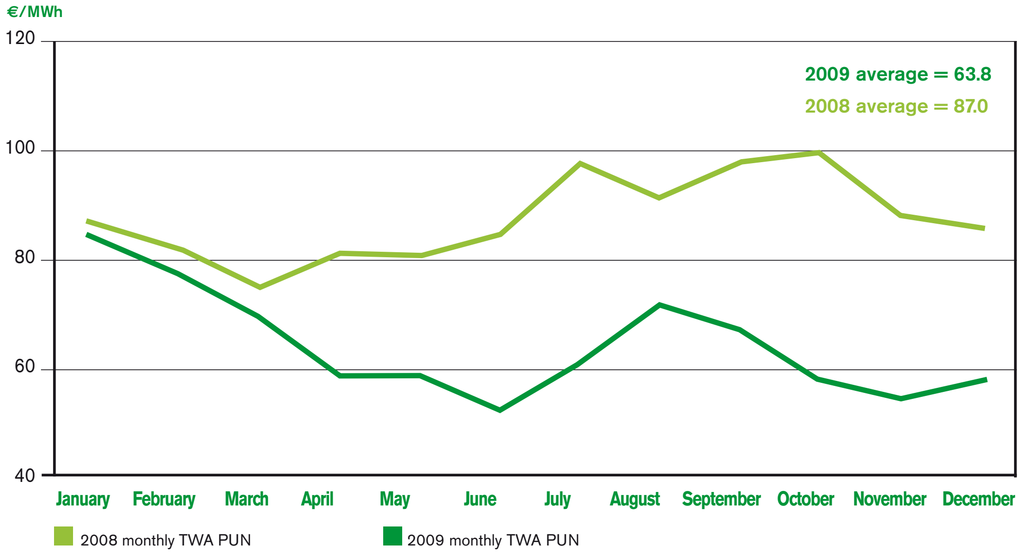
A sharp contraction in demand for energy (-22.6 TWh compared with the previous year), coupled with an increase of 4.4 TWh in net imports and a 1.9 TWh decrease in surge volumes, caused a significant reduction in net domestic production (-28.9 TWh). As a result, net of the impact of surges, domestic production for the period covered 86.0% of demand, down from 88.2% in 2008, while the percentage supplied by net imports grew from 11.8% to 14.0%.

The gain of 4.4 TWh in net imports is the combined result of an increase of 3.1 TWh in imports and a decrease of 1.3 TWh in exports. Specifically, net imports from the Northeast (borders with Austria and Slovenia) were up significantly, rising by 1.9 TWh (+31.9%), while those from the Northwest (borders with France and Switzerland) fell slightly, decreasing by 0.9 TWh (-2.4%).

The substantial reduction of 28.9 TWh in net domestic production, coupled with a large increase of 5.4 TWh (+9.3%) in production from renewable sources and a slight decrease in consumption by auxiliary services (-1.0 TWh), translated into a significant decrease of 35.3 TWh (-13.5%) in the gross output of thermoelectric power plants.
Specifically with regard to output from the main renewable sources, production was up sharply (+4.5 TWh; 9.6%) for hydroelectric power plants, which benefited from a much increased availability of water resources early in the year, and for wind farms (+1.0 TWh; 20.4%), while the output of geothermal facilities held relatively steady (-0.2 TWh).
Demand in the market served by the Single Buyer (market for customers with greater protection status), fell to 95.7TWh, down 4.8%, or 4.9 TWh, compared with 2008. The percentage of total domestic demand accounted for by this market has been holding steady at the 30% level (30.2% in 2009 and 29.6% in 2008), despite the impact of the steady exodus caused by the full deregulation of the electric power market (Directive No. 2003/54/CE). This is because the drop in consumption caused by the economic crisis was more pronounced among customers served by private-sector suppliers (mainly industrial users). Demand in this market (the so-called "deregulated market"), including internal consumption and the protected status users, decreased by 17.8 TWh (-7.4%), accounting for 69.8% of national demand.

In the Italian electric power market, the time-weighted average for the Single National Price (abbreviated as PUN in Italian) decreased to 63.8 euros per MWh at December 31, 2009, or about 26.7% less than in 2008 (87.0 euros per MWh). The competitive pressure resulting from the reduction in demand for energy discussed above is the main reason for this decrease, together with the decrease of the Brent and on the other side of some derived oil products, of the coal Ara CIF (-52,1% in comparison to the 2008) and of the environmental charges (-40,3% come down of the price of the CO_2).

The chart below provides a monthly comparison of the PUN trend in 2008 and 2009: the whole first semester 2009 shows a meaningful descent of the PUN, due to the temporal timelag by which the changes of the level of price of the Brent affect the price of the natural gas.



Demand for Natural Gas in Italy and Market Environment

in billions of m³	2009	2008	% change
Services and residential customers	30.9	30.2	2.2%
Industrial users	16.8	18.7	(10.1%)
Thermoelectric power plants	28.5	34.1	(16.2%)
Transportation	0.6	0.7	(10.8%)
System usage and leaks	1.0	1.0	(5.7%)
Total demand	**77.8**	**84.7**	**(8.1%)**

Source: Official 2008 data and preliminary 2009 data provided by the Ministry of Economic Development and Edison estimates.

Sports provide Edison with an important tool to reach the general public and its clients, thereby contributing to the achievement of its business objectives.

In 2009, Italian demand for natural gas contracted by 8.1% compared with the previous year to a total of 77.8 billion cubic meters, consistent with expectations of a negative trend caused by a continuation of the economic and financial crisis that started in the second half of 2008.
The contraction was more severe during the first six months the year, particularly in the industrial and thermoelectric sectors. The impact of the crisis became less pronounced in the second half of 2009 and the negative difference compared with the second half of 2008 narrowed slightly. More specifically, the following trends shaped demand in 2009:

- Consumption by thermoelectric users, who were more exposed to the effects of the crisis, was especially hard hit (-16.2%);
- Consumption by industrial users was down 10.1% overall, as the impact of the crisis on this segment was more pronounced during the firs six months of 2009, becoming less noticeable later in the year.
- Demand from residential users was up slightly (+2.2%), due mainly to colder weather.

Reflecting the impact of current economic conditions, a breakdown of demand for natural gas in 2009 shows a partial shift in consumption patterns, with a gain for residential users (accounting for about 40% of total consumption, for an increase of about 4%) and a loss for the thermoelectric sector (accounting for 37% of total consumption, for a decrease of 3%). Demand from industrial users held steady at 22% of total consumption.

With regard to supply sources, the following developments characterized 2009:

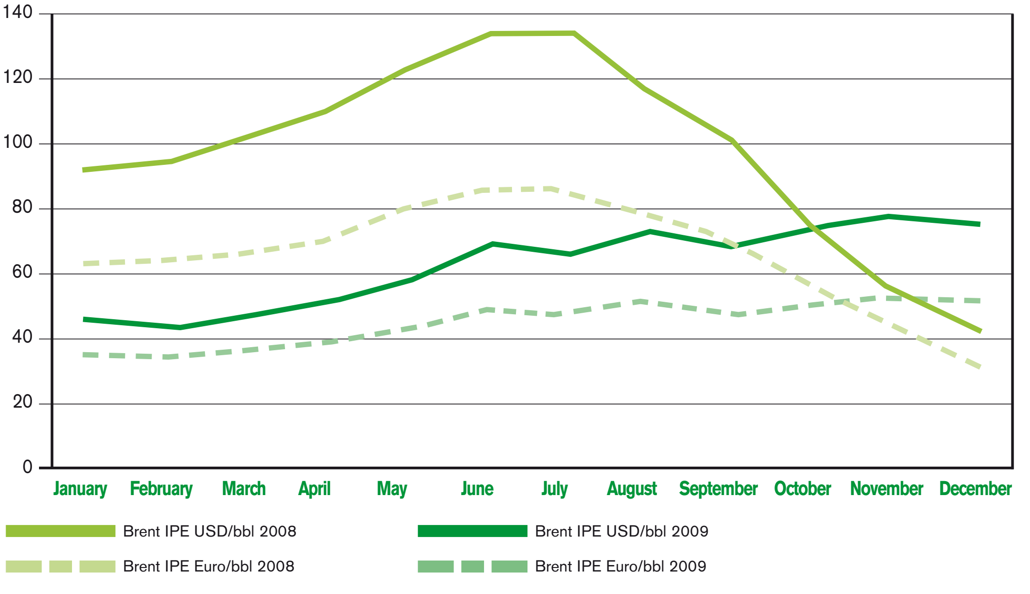
- A steady reduction in domestic production (-9%, consistent with the downward trend of recent years, which is expected to continue in the future);
- A decrease in imports (-10%) that reflects primarily a drop in deliveries caused by the economic crisis (the dispute between Russia and the Ukraine in January 2009, which resulted in an underdelivery of 1.1 billion cubic meters was also a factor);
- A net withdrawal of stored natural gas of 1 billion cubic meters on an annualized basis, consistent with system balancing trends.

In the benchmark oil market, the price of oil fluctuated between US$40 and US$80 per barrel in 2009, falling to a low of US$42.95 per barrel in February, and reaching a high of US$76.83 per barrel in November. Overall, the average price of Brent crude decreased by 36.4%, falling from US$98.40 per barrel in 2008 to US$62.60 per barrel in 2009.

The table and chart provided below show the annual average data and the monthly trends for 2009 and 2008:

	2009	2008	% change
Oil price in USD/bbl (1)	62.6	98.4	(36.4%)
US$/euro exchange rate	1.39	1.47	(5.3%)
Oil price in EUR/bbl	44.9	66.9	(32.9%)
Wholesale distribution charge in EUR/000 m³ (2)	282.4	317.9	(11.2%)

(1) Brent IPE
(2) Wholesale distribution charge set pursuant to Resolution No. 134/06 and updated pursuant to Resolution ARG/gas No. 192/08.



It is important to keep in mind that, because of the time lag with which the changes in the crude oil market discussed above are reflected in the natural gas pricing formula, there can be significant difference with how prices change in the natural gas market. For example, the rate component that corresponds to the Wholesale Distribution Charge, was equal to 317.90 euros per thousand cubic meter in 2008 and 282.40 euros per thousand cubic meters in 2009, showing a much smaller decrease (-11.2%) than that of the price of Brent crude (-36.4%).

LEGISLATIVE AND REGULATORY FRAMEWORK

The main legislative and regulatory measures enacted in 2009 that had an impact on the various businesses of the Group are reviewed below.

Electric Power

Production

Avoided fuel cost (AFC): Following a decision by the Regional Administrative Court that voided Resolution No. 154/08, while this decision is being appealed before the Council of State, the Electric Power and Natural Gas Authority (AEEG) issued Resolution ARG/elt No. 50/09, by which it determined provisionally the AFC adjustment for 2008 in accordance with the computation methods specified in Resolution No. 249/06, which was previously in effect. Edison, based on the AEEG's failure to comply with the decision of the Regional Administrative Court of Lombardy in favor of the appeal filed against Resolution ARG/gas No. 154/08, challenged Resolution No. 50/09.
On November 2, 2009, Edison filed an appeal before the Council of State challenging Resolution No. 154/08 on the grounds of inadequate interpretation of the principle of "consistency with the actual cost structure of the natural gas market" by the Region Administrative Court (excessive discretion granted to the AEEG in quantifying the components of AFC).

Hydroelectric: The troubling situations caused by the lack of pertinent legislation that arose on January 14, 2008, when the Constitutional Court handed down Decision No. 1 ruling that the ten-year extension of the concessions for large-scale diversions of water for hydroelectric power plants introduced into the Italian legal system by the 2006 Budget Law (Law No. 266/2005) is unconstitutional.
In November 2009, the Technical Work Table that was established within the Unified Conference began meeting again to analyze and resolve the issues entailed by the renewal of the concessions. However, it began by reviewing a regulatory proposal put forth by the regional administrations that is potentially detrimental to the operators because it increases the cost burden and does not call at this point for any change in the expiration dates of the concessions.
The need for a primary legislative framework that restructures the national statutes governing these issues cannot be emphasized enough.

Early cancellation of CIP 6/92 contracts: 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 cancellation of CIP 6/92 contracts, which producers can accept voluntarily.
Following a proposal by the AEEG (PAS No. 22/09 of December 1), the Minister of Economic Development signed a special decree for the voluntary early cancellation of CIP 6/92 contracts (Decree of December 2, 2009).
The CIP 6/92 contracts for which the voluntary cancellation options specified in the Decree could potentially apply are those covering electric power production facilities fueled with:
- process or recycled fuels or recovered energy;
- fossil fuels (e.g., natural gas).

The Decree entrusts to the Electrical Services Manager (or GSE, its abbreviation in Italian) the task of implementing the early cancellation of CIP 6/92 contracts in accordance with criteria defined by the Ministry of Economic Development. Specifically, pursuant to the Decree:
- By December 21, 2009, producers interested in an early cancellation were supposed to file with the GSE a non-binding cancellation application for each contract (Edison filed its indication of interest for all the facilities included in the abovementioned categories);
- By December 31, the GSE was supposed to submit to the Ministry of Economic Development and the AEEG a list of the facilities to which the early cancellation would apply.

For each individual contract, based on information gathered by the GSE, the Ministry of Economic Development will define in a decree:
- The parameters needed to determine the specific consideration owed to producers for early cancellation;

- The criteria to define the payment methods and timing of the abovementioned consideration;
- For facilities powered with process or recycled fuels or recovered energy, the consideration payable for early cancellation, determined based on the avoided startup cost, any incentivizing component, the number of hours of operation and compensation for CO_2 costs;
- For facilities powered with fossil fuels, the consideration owed for early cancellation, determined based on the avoided startup cost, any incentivizing component and the capacity payment amount.

The computation of the consideration amount is based on several parameters, including the projected rate of inflation and the discount rate provided in the Decree. The value representing the differential (positive or negative) between the Single National Price (PUN) of electric power and the market price for the specific area where a production facility affected by early cancellation is located, which will be determined by the AEEG, is also applied to compute the consideration amount. Therefore, at the moment, is not possible to compute the consideration amount with certainty.

Lastly, pursuant to the Ministry's Decree, if a power plant affected by early cancellation uses process fuels or recovered energy originating from an industrial facility operated by a third party, the producer of electric power must first reach an agreement with the third party who operates the industrial facility concerning the use of the abovementioned fuels during the period remaining between the date of the early cancellation and the original expiration date.

Environment

Reimbursement of green certificate costs for CIP 6/92 power plants: On March 18, 2009, the AEEG published Resolution ARG/elt No. 30/09 by which it determined the Vm value for each green certificate for the purpose of reimbursing green certificate costs incurred by CIP 6/92 power plants. Consistent with the findings of the relevant survey, the AEEG set the Vm value at €53.40/MWh, €36.06/MWh and €38.17€/MWh for 2005, 2006 and 2007, respectively.

Payment of the costs incurred to comply with green certificate requirements in 2005, 2006 and 2007 was received from the Electric Power Industry Adjustment Payments Fund (or CCSE, its abbreviation in Italian) on July 31, 2009.

Refunds for the costs incurred in 2008 may be disbursed only pursuant to a specific resolution, which should be approved in the first quarter of 2010. However, in Consultation Document No. 40/09 of December 22, 2009 the AEEG provided guidelines for the computation method applicable to 2008, which made it possible to update to €60.10/MWh (significantly better than previous valuations) the estimate of the reimbursement amount per unit applicable to the 2008 compliance obligation costs.

Reimbursement of CO_2 costs for CIP 6/92 power plants: On November 2, 2009, the National Committee to Manage and Implement the ETS Directive issued attestations of CIP 6/92 eligibility for facilities with contracts that expired in 2008 (Marghera Azotati and Sesto San Giovanni). Applications for refunds were sent to the AEEG on December 23, 2009.

Wholesale Market

Reform of the wholesale market: By a decree issued on April 29, 2009, the Ministry of Economic Development defined the guidelines for a reform of the electric power market, as required by Law No. 2 of January 28, 2009 (the "Anti-Crisis Decree"). During the initial implementation phase, this regulation provides for the following:

- The introduction of an intraday market (starting on October 31, 2009);
- The establishment of organized forward markets that will also handle long-term procurement transactions;
- The introduction of new instructions about the frequency with which the Manager of the Electric Power Market and Terna are required to publish relevant data;
- A reform of the dispatching services market, starting on January 1, 2010, designed to lower costs and increase transparency.

The Manager of the Electric Power Market and Terna have developed the technical tools needed to implement these changes to the market's architecture on schedule.

The abovementioned decree also foreshadows subsequent developments, such as a functional integration of the intra-day market and the dispatching services market, as of January 1, 2011, and changes to the rules by which prices are determined on the Power Exchange (Pay as Bid), once the

In 2009, the Group invested about 59 million euros to revamp the Azotati power plant (Porto Marghera) and the Bussi power plant. The new LMS100 turbines are more efficient and flexible, making it easier to adjust to market needs.

reform process is completed and based on considerations that take into account changes in the market and the network infrastructures, starting on April 1, 2012.

Units that are essential for the system's safety: The AEEG published Resolution ARG/elt No. 52/09, by which it amended the rules governing "must-run" units as set forth in its earlier Resolution No. 111/06, implementing the provisions of Article 3, Section 11, Letter a), of Law No. 2/2009 that apply to "must run" units. This resolution defines the basic criteria by which Terna, acting consistent with current laws, identifies "must run" units or clusters of units operated by the same party.
Specifically, the objective pursued by the AEEG with this resolution is to define the following:

- The criteria on the basis of which individual units or clusters of units controlled by the same operator can be classified as "must run" facilities to meet dispatching service requirements;
- The conditions on the basis of which parties who control power plants classified as "must run" facilities (individually or as part of a cluster of units) are required to submit offers in the energy markets;
- As part of the regulations governing must run units, specific mechanisms (i.e., different in each case) designed to minimize the overall cost incurred by the system and provide a fair remuneration for producers.

Moreover, in order to allow compliance with offer obligations, Resolution ARG/elt No. 52/09 provides the owners of units with "must run" status with the option of choosing among alternative types of offers.
Following the receipt by Edipower of a notice in which Terna designated one of its facilities (San Filippo del Mela) as a must run unit, Edipower, with the approval of the Tollers, entered into an agreement with Terna for the supply of capacity, at the asked price, for standard quantities determined by the AEEG.
However, subsequent to the publication of the abovementioned resolution, Edison carried out an in-depth review of statutory and regulatory issues and, having identified several potential profiles of illegality, decided to challenge the validity of the resolution before the Regional Administrative Court of Lombardy.
Lastly, in 2009, the Council of State denied the appeals filed by the AEEG with regard to Resolutions No. 97/08 and No. 106/08 concerning "must run" units in Sicily and Sardinia, upholding the decisions of the lower court judge.
The lower court judge, finding in Edison's favor, voided: a) the portion of Resolution No. 97/08 by which the AEEG ordered Terna to include in the list of units that are essential for the system's safety all qualified units that are connected with the electrical grids of Sicily and Sardinia; and b) the portion of Resolution No. 106/08 by which the AEEG ruled that the implementation procedures of these resolutions communicated by Terna were consistent with earlier regulations. Edison is currently waiting to learn the outcome of the damage quantification process begun by the Council of State concurrently with the publication of the enacting terms of its decision.

Retail Market

In 2009, the benchmark pricing parameters were lowered significantly both for natural gas (Resolutions ARG/gas No. 136/09, No. 82/09, No. 40/09 and No. 192/08) and electric power (Resolutions ARG/elt No. 134/09, No. 78/09No. 35/09 and No. 190/08).

This reduction, which was equal to 22.4% after taxes and 16.4% before taxes for the natural gas sector and to 8% (both after and before taxes) for the electric power sector, was due mainly to the decrease in the price of Brent crude that occurred in 2009 compared with 2008. The AEEG's update for the first quarter of 2010 confirms for the electric power sector (Resolution ARG/elt No. 205/09) that the downward trend of 2009 is continuing, projecting a further decrease of 2.2% compared with the fourth quarter of 2009. On the other hand, the benchmark pricing parameters for the natural gas sector (Resolution ARG/gas No. 207/09) will show an increase of 2.8%, caused by a spike in fuel prices.

The AEEG issued Resolution ARG/com No. 202/09 approving the directive requiring transparent billing documents for low voltage electric power customers and natural gas customers with consumption of up to 200,000 cubic meters a year. The requirements of this resolution will go into effect on January 1, 2011. Also in this area, Edison Energia is currently the target of an official investigation, started pursuant to Resolution VIS NO. 93/09, concerning violations of an earlier directive on transparent billing (Resolution No. 152/06).

Lastly, Edison Energia joined the system for online searches of sales offers (so-called Sales Offer Finder) established by the AEEG with Resolution ARG/com No. 151/08, adding its "EdisonCasa" sales package for the residential market to the system. The online search system was activated on April 8, 2009.

Hydrocarbons

Rates and Market

Structural reforms implemented during the year included the introduction of two uniform codes.
By Resolution ARG/gas No. 64/09, the AEEG approved the Uniform Code Governing Retail Sales of Natural Gas (TIVG). The new code simplifies and collects in an organic presentation the provisions governing sales activities in the retail market for natural gas and introduces some significant innovations. Specifically, the AEEG defines the scope of implementation of the protected status, specifying the types of end customers who can benefit from the sales terms established by the AEEG. Other significant developments include the option provided to condominiums with consumption of less than 200,000 standard cubic meters per year to qualify for protected service status and the gradual elimination of the individual protection status (available to customers who were classified as eligible as of December 31, 2002 but never switched to a supplier in the deregulated market), as of October 1, 2009 for customers with consumption of more than 200,000 standard cubic meters per year and as of October 1, 2010 for customers with consumption of less than 200,000 standard cubic meters per year. In addition, the AEEG defined a specific amount that may be charged anywhere in Italy as compensation for retail sales activities, thereby providing sellers with a compensation that better reflects their distribution costs and guaranteeing equal treatment for all customers, irrespective of size. Lastly, the TIVG simplifies the formula used to update the compensation for wholesale distribution

activities. The new formula, which results in a slight reduction compared with the previous method, is applicable as of October 1, 2009.

By Resolution ARG/elt No. 107/09, the AEEG approved the Uniform Settlement Code (TIS), which contains all the provisions concerning dispatching service settlements, from metering data aggregation to load profiling. A section of the Code deals with the adjustment mechanisms required by revisions of metering data, applied starting with the revision session for 2008.

Moreover, by Resolution ARG/gas No. 69/09, the AEEG enacted urgent provisions concerning the metering of natural gas at transfer locations, which went into effect on July 1, 2009. These provisions officially define when responsibility for the metering service is transferred from the sales company to the distribution company. A significant development was the introduction of a new automatic charge of 30 euros payable by sales companies that fail to use the metering data communicated by the local distributor for billing purposes. With regard to issues related to meter readings provided directly by customers, the AEEG postponed to a later resolution the definition of a single algorithm, used by all operators nationally, to accurately validate in real time the metering data communicated by end customers.

An important development that occurred in 2009 concerning the relationship between sales companies and other market operators was the definition of communication standards between sellers and distributors, which are of fundamental importance for the correct functioning of a competitive retail market. Specifically, the AEEG published Determination No. 4/09 approving the XML structures that may be used to exchange information within the natural gas industry with regard to services provided by the distributor through the seller at the request of an end customer. These systems will go into effect gradually. On July 1, 2009, their use became mandatory only for distributors serving more than 100,000 end transfer points. A similar process currently under way for the electric power sector has produced thus far a consultation document (DCO No. 35/09), which should lead to the publication of a final document shortly.

Several reforms were introduced in the areas of consumer protection. By Resolution ARG/gas No. 88/09, as amended, the AEEG introduced the so-called “bonus gas” (required by the Decree Law of November 29, 2008), regulating the implementation methods of the system to subsidize the cost incurred by economically disadvantaged residential customers to purchase natural gas. Resolution ARG/com No. 170/09 introduced some amendments to the Uniform Code Governing the Quality of Sales Services (TIQV) concerning the assessment of telephone services and the publication of the resulting ranking. Resolution ARG/com No. 185/09 contained provisions concerning rate subsidies for residents of the areas affected by the earthquake that struck L’Aquila and other towns in the Abruzzo region on April 6, 2009. The publication of Resolution GOP No. 42/09 marked the beginning of a process for the implementation of provisions pursuant to which the AEEG will avail itself of the capabilities of Acquirente Unico Spa (as allowed by Article 27.2 of Law No. 99/09), transferring to the latter, as of December 1, 2009, responsibility for operating the “Consumer Desk” in accordance with the Regulations of the Energy Consumer Desk set forth in Resolution GOP No. 28/08, as amended. By Resolution ARG/gas No. 189/09, the AEEG began the process of developing provisions concerning insurance for the benefit of residential natural gas customers.

Downstream of the reforms described above, the AEEG issued Resolutions ARG/gas No. 193/09 and No. 128/09, which introduced a series of amendments to the standard Network Code for the Distribution of Natural Gas. This Code represents the “standard contract” between distribution companies and users of the distribution service (sales companies) and defines the contractual relationship governing the provision of services by the distributor with regard both to the services deemed part of the main service, compensation for which is included in the rate, and the incidental or optional services, compensation for which is not included in the rate.

A similar code (Code of the Activities of the Electric Power Distributor) is being prepared for the electric power sector.

Also worth mentioning is Resolution ARG/gas No. 106/09, which sets forth the implementation methods for the remuneration of costs not otherwise recoverable incurred by sellers of natural gas due to the implementation of Articles 1 and 2 of Resolution ARG/gas No. 192/08 and Resolution ARG/elt No. 191/09 concerning actions taken to prevent end-customer delinquencies (no obligation to deal with customers with past delinquencies that have greater protection status and compensation equal to a month’s supply for traders who loose delinquent customers).

With the approval of Decree Law No. 78 of July 1, 2006, the Italian government took action to lower the cost of energy for businesses and consumers. The main innovations introduced with this decree law include the imposition of a new gas release requirement on parties who, during the 2007/2008 thermal year, released into the national transmission network a share greater than 40% of the total volume of natural gas earmarked for the domestic market; plans to update balancing regulations and access to the storage services by industrial and thermoelectric end users.
As required by the provisions of Decree Law No. 78/09, the AEEG issued Resolution ARG/gas No. 165/09 adopting urgent measures to change balancing regulations that included the introduction of new flexibility tools for market operators (weekly and monthly modulation services, in terms of available space and delivery and injection peaks, and weekly sessions to record transactions for the sale of natural gas lots corresponding to the previous week's gas days).
The approval of Law No. 99/09 resulted in the introduction of new measures for the efficiency of the energy sector. The main innovations introduced by this law include assigning responsibility for managing the economic aspects of the natural gas market to the Manager of the Energy Markets and requiring that the Single Buyer perform the function of supplier of last resort for residential end users with consumption of less than 200,000 standard cubic meters.

Infrastructure

Storage: With regard to the user balancing service, acting in compliance with the provisions of Article 3, Section 3, of Decree Law No. 78/09, pursuant to which the AEEG is required to promote the offers of peak-time services for the natural gas system and access to storage services by industrial and thermoelectric end users, the AEEG issued Resolution ARG/gas No. 165/09, which introduced a new balancing service for transmission users by storage companies.
With this new service, the storage companies and the service users must make available space, delivery and injection capacity initially (starting with the delivery phase of the 2009/2010 thermal year) on a monthly basis and later on a weekly basis as well (the flexibility introduced by this new service derives from the fact that, until now, storage capacity was allocated exclusively on an annual basis). The procedures for transferring/allocating storage capacity are carried out on a competitive basis, with the procedure's allocation consideration equal to the consideration of the last accepted purchase bid (marginal price system). In addition, the differentials between the resulting base auction prices and the proceeds from the procedures are set aside in a special account of the Adjustment Payments Fund.

Transmission: The publication of Resolution ARG/gas No. 184/09 *"Uniform Code Regulating the Quality and Rates of Natural Gas Transmission and Dispatching Services for the 2010-2013 Period"* marked the conclusion of the consultation phase that preceded the adoption of the natural gas transmission rates for the third regulatory period.
The main innovations of this resolution include: a) a reduction of the rate of return on invested capital that transmission companies are allowed to earn for transmission and dispatching activities, which decreases to 6.4%, down from 6.7% in the second period; and b) the adoption of the calendar year, instead of the thermal year, as the reference period for rate purpose, with the thermal year continuing to be the reference period for allocations.
The resolution retains some of the basic elements of the rate-forming mechanism currently in use for natural gas transmission, including the incentive system, recognition of incremental operating costs related to new investments and the use of a correction factor the provides operators with the portion of revenues generated from the rate component tied to capacity.
Other significant innovations include regulations governing the metering service, which apply both to metering (equipment installation and maintenance) and meter reading (data collection, validation and entry) activities. The parties involved in both activities have specific responsibilities: the dominant transmission company is responsible for overseeing and coordinating all activities related to the meter reading service and can use for this purpose any third parties that currently perform this activity. The dominant transmission company is also responsible for metering service at interconnection points with foreign systems, while the other transmission companies are assigned metering responsibility at the interconnection points of

transmission networks and at the delivery points of end customers connected with the transmission network. Metering responsibility at other domestic production injection points, storage sites, LNG regasification terminals and interconnection points with distribution networks is assigned to the owners of metering facilities. The AEEG also provided specific rules for the rates of the transmission metering service, according to which the allowed rate of return on invested capital for this service is 6.9%.

The process that began with the publication of Resolution VIS No. 8/09 came to its conclusion. The purpose of this process was to revise the method used to handle natural gas that is not metered directly, which includes unaccounted for natural gas (i.e. the result of the commercial balance equation of the transmission network, which is computed daily by Snam Rete Gas, so that the amount of gas added to the system is equal to the amount withdrawn), network leaks and linepack gas.
To eliminate uncertainties on the part of operators with regard to the ex post allocation of the portion of unaccounted for natural gas attributable to users, the AEEG issued Resolution ARG/gas No. 192/09 by which it agreed to determine each year the quantity of gas that corresponds to the gas not subject to direct metering projected for the subsequent metering year. The volume thus defined is then allocated to users in proportion to the quantities of gas they withdrew at delivery points (for gas related to line leaks or unaccounted for natural gas) or, alternatively, in proportion to the quantities of gas injected at entry points (for gas related to system usage).
Lastly, by Resolution ARG/gas No. 198/09, the AEEG set at about 0.085% the rate portion covering line losses for 2010 and at about 0.337% the rate portion covering unaccounted for natural gas.

Issues Affecting Multiple Business Segments

Unbundling: The first phase of the preparation of the Compliance Program ended on March 26, 2009. As set forth by the AEEG in Resolution No. 11/07 and, more in detail, in Resolution No. 132/08, a Compliance Program must be prepared by all Independent Operators of regulated activities in the electric power and natural gas sectors for the purpose of managing these activities in an impartial, neutral and arm's length manner.
Accordingly, the Edison Group companies that handle natural gas transmission, storage and distribution, availing themselves of the support of the relevant corporate departments, studied and developed the main initiatives required by the Program in such areas as governance, budget and employee training. The preparation of the document is progressing on schedule (March 26, 2009).
However, the Administrative Court of Lombardy recently ruled that Resolution No. 132/08 is unlawful because it concluded that the AEEG lacks the authority to dictate binding guidelines that Independent Operators would be required to apply to develop and implement a Compliance Program by September 29. At the same time, Resolution No. 11/07, which established the obligation to develop a Compliance Program, remains in effect. Consequently, Independent Operators are still required to develop a Program (potentially different from the one recommended by the AEEG in Resolution No. 132/08) to achieve functional unbundling. Pursuant to Resolution No. 132/08, submission of the Program to the AEEG was originally required by December 22, 2009. The new deadline, which must now be established by means of a new resolution, will probably be in March 2010.

Development Law: On July 31, 2009, Law No. 99 of July 23, 2009, setting forth "Provisions Dealing with the Development and Internationalization of Business Enterprises and with Energy Issues," was published in Issue No. 176 of the *Official Gazette of the Italian Republic.* The new law contains provisions concerning the following:

- Programs benefiting consumers and price transparency: Operators of electric power, natural gas and telecommunication services will be required to provide users with transparent information for the purpose of comparing sales offers (Article 21).
- Delegation of authority to the Government to deal with nuclear issues: On December 22, 2009, the Council of Ministers, exercising the authority delegated to the government, approved on a preliminary basis a legislative decree that provides criteria for the siting of nuclear power plants, the storage of fuel and the storage and deactivation of waste. The decree also sets forth the permit issuance procedures and the qualifications of individual operators, as well as compensatory measures for local communities (concerning the siting both of power plants and of the national

storage facility). This legislative decree is currently being reviewed by Parliament and the Unified Conference for the purpose of obtaining the required input. The legislative process, including the handling of any amendments, should be completed in the first half of 2010.

- Programs concerning the safety and development of the energy sector: The decree lists different types of programs. It redefines the cogeneration incentives, simplifies the permit issuance procedures and broadens the applicability of the so-called “coal unlocking provisions” (Article 5-*bis* of Decree Law No. 5 of February 10, 2009, converted with amendments into Law No. 33 of April 9, 2009). Under this decree, responsibility for reforming the geothermal sector and simplifying the permit issuance process for LNG facilities will be delegated to the government.
- Redefinition of the powers of the AEEG: In order to protect end customers and ensure that markets are truly competitive, the jurisdiction of the AEEG is being expanded to include all activities of the energy sector (Article 28).
- Nuclear Safety Agency: The law sets forth the bylaws and tasks of the Nuclear Safety Agency (Article 29).
- Programs for the efficiency of the energy sector: Management of the economic aspects of the natural gas markets will be entrusted exclusively to the Manager of the Electric Power Market and the government will be empowered to adopt measures that ensure the competitiveness of natural gas market (Article 30).
- Incentives for the establishment of a single market for electric power through the development of interconnectors and the involvement of end customers who use electric power (Article 32).
- Definition of the regulations governing internal user networks (Article 33).
- Establishment of a national agency for new technologies, energy and sustainable economic development (ENEA) as an entity under public law, the purpose of which will be the pursuit of research and technological innovation and the provision of leading-edge services concerning energy, with special emphasis on the nuclear area, and sustainable development (Article 37).
- Designation of the Regional Administrative Court of Latium as the court of venue for energy related disputes concerning the production of electric power from nuclear fuel, regasification facilities, importation natural gas pipelines, thermoelectric power plants with a thermal capacity of more than 400 MW and transmission infrastructures that are part of or will be included in the national transmission grid or the national network of natural gas pipelines (Article 41).
- Increase of the incentives for offshore wind farms for the production of electric power and definition of incentives for the production of electric power using biomasses as fuel (Article 42).
- Introduction of an annual market and competition law with the goal of removing regulatory obstacles (statutory or administrative) to the opening of markets, promoting the development of competition and protecting consumers (Article 47).
- Amendments to the provisions governing class actions lawsuits, with elimination of the retroactivity mechanism (Article 49).
- Increase from 5.5% to 6.5% of the corporate income tax surcharge on energy companies (the so-called Robin Hood Tax) to finance subsidies for the publishing industry (Article 56).

Law No. 102/2009: Decree Law No. 78/09 containing “Anti-crisis programs and an extension of the deadline for Italian participation in international missions” was converted into law and published on August 4, 2009 in Issue No. 179 of the *Official Gazette of the Italian Republic.* The following provisions are particularly noteworthy:

- Reduction of the cost of energy for businesses and households: introduction of a gas release mechanism for ENI, with obligation of to inject at the virtual exchange point 5 billion cubic meters in the 2009/2010 thermal year, adjustable on a monthly basis in accordance with contractual flexibility limits.
- Urgent initiatives for energy networks: This law introduces a preferential treatment for a system of “network freeing up” rules, applicable to initiatives concerning energy production, transmission and distribution, through the simplification of administrative procedures implemented by Extraordinary Commissioners appointed by the Council of Ministers.
- Postponement: The enactment of the class action legislation was postponed by six months beyond the last postponement provided in Law No. 14/2009, into which the “thousand postponements decree” (Decree Law No. 207/2008) had been converted. The class action legislation went into effect on January 1, 2010.

Law No. 166/2009: Decree Law No. 135/2009 concerning compliance with EU obligations, converted into law and published on November 24, 2009 in the Regular Supplement to the *Official Gazette of the Italian Republic,* went into effect on November 25, 2009.
The conversion into law rendered operational the postponement to 2012 of the reform of the green certificate system introduced with Law No. 99/2009. In addition, the deadline for defining the minimum natural gas distribution areas used in calls for tenders was moved to 2012.
Also worth mentioning is Article 15, which sets forth the maximum interest that public entities may hold in companies that are licensed to operate local public services directly (excluding natural gas and electric power): 40% until June 30, 2013 and 30% by the end of 2015.
Lastly, the law responds to EU infraction proceedings concerning excise taxes on regenerated lubricating oils and to EU infraction procedure No. 2007/4915 concerning natural gas meters.

European Energy Policies

Internal Market Package: The Internal Market Package was published in the *Official Journal of the European Union* on August 14, 2009. Pursuant to the Package, each member state has 18 months, counting from September 3, 2009, to implement five statutes: Natural Gas Regulation No. 715/2009, Electric Power Regulation No. 714/2009, Regulation No. 713/2009 Governing the Agency for Cooperation Among National Energy Regulators, and two new Directives concerning electric power (No. 72/2009) and natural gas (No. 73/2009). Changes introduced by these statutes include provisions concerning the separation of the transmission operations from production and/or sales activities in the energy sector, new rules concerning applications for exemptions from the obligation to provide third-party access to transmission capacity, and stronger consumer protection provisions. A series of consultations and discussions were held during the closing months of 2009 to define the staff of the Agency for Cooperation Among National Energy Regulators.

European Economic Recovery Plan: The European Economic Recovery Plan (EERP) was adopted by the EU Council in December 2008 to support the European economy in response to the financial crisis. In the energy sector, 2.365 billion euros were allocated to a series of eligible projects for the development of electric power and natural gas interconnectors, including the ITGI-IGB and GALSI projects. The allocation of funds, which is governed by special rules (Regulation No. 633/2009), is carried out through a call for applications based on the TEN-E model. Applications are reviewed by the European Commission and a Committee on which member countries are represented (TEN Committee). On October 23, this Committee met to review the applications it received (including the ITGI-IGB application and the GALSI application for 100, 45 and 120 million euros, respectively), based on an initial assessment by the Commission.
Insofar as Edison is concerned, a draft of the decision by the European Commission transmitted to the member countries on December 18 confirms the inclusion of all of its projects (ITGI-IGB and GALSI) for the full amounts requested. ITGI received an evaluation that, in terms of scoring, was the same as that of the Nabucco project (60 points for both). The TEN-E Committee, together with the Commission and the member countries, voted unanimously in favor of the projects on the list. This decision will be submitted to the European Parliament, which may exercise its right of review. Thus far (for similar evaluations of CCS and renewable source projects), no objections have been raised by the European Parliament.
The Commission must make final fund allocation decisions for each individual project by February 2010 and the project sponsors will have until December 2010 to submit spending commitments and assign co-financing.

Implementation of the New ETS Directive, CO_2 Auction Regulations: As required by the new ETS Directive, the Commission is expected to present shortly a draft of regulations designed to implement and govern auctions held to allocate for consideration emissions permits in the third phase of the European Emissions Trading Scheme (ETS). The abovementioned regulations must establish uniform, transparent and non-discriminatory procedures for organizing and holding auctions; means of accessing the market and relevant information; and the calendar, frequency and volumes of market offerings. The auctions will be held by the member countries and a portion of the proceeds must be used to finance low carbon technologies and mitigation and adjustment initiatives.

Carbon Leakage/Dedicated Facilities and Benchmarking: The member countries and the European Parliament approved the list of 164 industries exposed to the risk of delocalization prepared by the European Commission. These industries can benefit from the provisions of the European Emissions Trading Scheme (new Directive No. 29/2009/CE), receiving free emissions permits for up to 100% of their requirements, so that they are not penalized when competing in the international markets against companies from countries without environmental compliance obligations. Article 10 a) of the Directive also provides the possibility of free allocations to power plants that generate electric power using process gases from facilities in the abovementioned industries. Currently, the list includes the steel and paper industries and, in principle, the corresponding captive power plants (for the Edison Group this issue refers to the plants in Taranto, Piombino and Verzuolo). The list will be valid until 2014 and excluded industries may be included subsequently. A new list is expected to be adopted for the 2015-2019 period. The quantity of permits allocated free of charge to these industries will be decided in 2011, based on benchmarks that must be determined in 2010 on the average for 10% of the most efficient facilities in each industry. However, only about 5% of the most efficient facilities in a given industry will receive free of charge 100% of the required allocations. The methods for computing the benchmarks were developed in a study that the Commission asked Ecofys to carry out. This study also sets forth some principles for the allocation of free emissions rights among industrial facilities and captive power plants fueled with process gases to facilitate the implementation phase by the member countries.

PPC - RECAST Directive: The revision of the existing legislation on industrial emissions currently under way is designed to combine into a single statute the applicable regulations currently in effect: 78/176/EEC, 82/883/EEC, 92/112/EEC, 96/61/EC, 1999/13/EC, 2000/76/EC and 2001/80/EC (large combustion facilities). The legislation being proposed strengthens some provisions and introduces new ones to improve the implementation of the regulations by the relevant authorities and achieve a higher level of environmental protection, while simplifying the legislation and reducing administrative costs.
The Directive imposes limits on emissions of SO_2, NO_x and particulate matter by large combustion facilities.
On June 25, 2009, meeting in Brussels, the European Environmental Council reached a political agreement on the IPPC Directive. The new version retains the system of exceptions to the BAR-AELs (Best Available Techniques Associated Emission Levels) provided under Article 16.4 and the adoption at the committee level of the conclusions of the BREFs. The agreement extends for another year the transition period provided in national plans to allow large combustion facilities to adjust to the new emissions limits (end of 2020 instead of end of 2019) and confirms the exclusion of the turn-on and turn-off periods from the operating load considered for opt-out criteria. The European Parliament is expected to rule on this new version after a second review, which is not expected to occur before February 2010.

Reliability of natural gas supplies: On July 16, 2009, in response to the natural gas crisis that involved Russia and the Ukraine in January 2009, the European Commission presented a draft of regulations designed to speed up the revision of EU regulations concerning the reliability of natural gas supplies (up to now provided by Directive No. 67/2004/CE). The goal of the draft is to redefine the roles and responsibilities of member countries, transmission systems operators, market operators, national regulators and EU entities (European Commission, GCG, ACER) in emergency situations affecting energy supplies.

CDC - Caspian Development Corporation: A study entrusted to CERA (Cambridge Energy Research Associates) under the guidance of a Steering Committee comprised of the European Commission (through Unit C.1 - Supply Reliability), the World Bank, the European Investment Bank and the regulators (through ERGEG) is currently under way. The energy industry is represented by OGP and Eurogas, which established a task force headed by Edison that includes representatives of the main European gas companies. On September 30, 2009, CERA published an Interim Report presenting potential supply sources and the structural models of the future entity, with specific mention of the single buyer option.

OVERVIEW OF THE YEAR
BUSINESS PERFORMANCE

Edison completed EMAS certification for all of its hydroelectric power plants.
In the photo, the Gioveretto reservoir of the Lasa plant (BZ).

ELECTRIC POWER OPERATIONS

Quantitative Data

Sources

GWh (*)	2009	2008	% change
Net production of the Edison Group:	**41,601**	**50,151**	**(17.0%)**
- Thermoelectric power plants	35,646	44,606	(20.1%)
- Hydroelectric power plants	5,397	5,021	7.5%
- Wind farms and other renewables	558	524	6.4%
Other purchases [1]	**18,771**	**15,040**	**24.8%**
Total sources	**60,372**	**65,191**	**(7.4%)**

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

Uses

GWh (*)	2009	2008	% change
CIP 6/92 dedicated	**11,050**	**13,137**	**(15.9%)**
Captive and other customers	**2,464**	**4,472**	**(44.9%)**
Deregulated market	**46,858**	**47,582**	**(1,5%)**
End customers [1]	24,978	20,054	24.6%
IPEX and mandates	2,452	9,541	(74.3%)
Wholesalers and industrial portfolio	8,837	6,075	45.5%
Other sales [2]	10,591	11,912	(11.1%)
Total uses	**60,372**	**65,191**	**(7.4%)**

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

Financial Highlights

(in millions of euros)	2009 (*)	2008 (*)	% change
Sales revenues	**6,463**	**7,687**	(15.9%)
EBITDA	1,227	1,326	(7.5%)
as a % of sales revenues	*19.0%*	*17.2%*	
Capital expenditures	372	311	19.6%
INumber of employees [1]	1,946	1,849	5.3%

(1) End-of-period data.
(*) Sales revenues reflect a new presentation of trading activities that recognizes only the resulting "trading margin" (net presentation).

Production and Procurement

The Group's net production decreased to 41,601 GWh, or 17.0% less than in 2008, reflecting a significant shortfall in thermoelectric production (-20.1%), offset in part by an increase in hydroelectric output. The overall decrease in production was due in part to the change in the scope of consolidation that resulted from the divestment of seven CIP 6/92 thermoelectric power plants in April 2008 (about 0.9 TWh) and, for the balance, to Italy's negative economic environment, which had a significant dampening effect on domestic consumption of electric power and, consequently, on the thermoelectric output of industry operators.

Other purchases carried out to round out the sources portfolio were up by about 25% compared with 2008, reflecting the impact of a strategy of optimizing the average cost of source energy, which enables the Group to benefit from outside purchases whenever a margin advantage over production costs justifies it.

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 low unit margins.

Sales and Marketing

Sales of electric power totaled 60,372 GWh in 2009, for a decrease of 7.4% compared with the previous year (65,191 GWh). In the CIP 6/92 and Captive segments, sales were down due to the expiration of some CIP 6/92 contracts, the abovementioned change in scope of consolidation and lower deliveries by captive power plants that serve steel mills.

Sales in the deregulated market, which decreased by 1.5% overall, were characterized by contrasting sales 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 (+24.6%) and wholesalers (+45.5%), while reducing the volumes it offered on the Power Exchange. Other sales in the deregulated market decreased by 11.1%. However, as mentioned above in the section on procurement, the unit margins earned in these business segments are relatively low.

Operating Performance

Sales revenues totaled 6,463 million euros in 2009, or 15.9% less than in 2008, reflecting the impact of a reduction in unit sales and lower benchmarks in the electric power scenario that affected the prices charged to customers both in the regulated and deregulated segments of the market.

As a result of the developments discussed when commenting sales results, EBITDA decreased to 1,227 million euros in 2009, for a reduction of 7.5% compared with the 1,326 million euros earned in 2008

In the case of sales in the deregulated market (Merchant Segment), the increase in volumes sold to end customers and wholesalers and the higher margins earned on fixed-price sales (generated during a sales campaign at the end of 2008), which occurred for the most part during the second half of the year, made it possible to offset the effect of a significant reduction of the margins available on the Power Exchange and in the dispatching services market.

It is important to keep in mind that, since the early months of 2009, the effect of transactions executed to hedge the abovementioned fixed-price sales is recognized by the hydrocarbons operations, because they are associated with contracts for the natural gas used to generate electric power.

In addition to the developments commented above, profitability was also affected by a reduction in the EBITDA contributed by the CIP 6/92 segment due to the expiration of incentives and of some contracts, the absence of nonrecurring events that had a positive effect on last year's performance (reimbursement of CO_2 and green certificate costs incurred before 2008) and the change in the scope of consolidation that resulted from the divestment of seven CIP 6/92 thermoelectric power plants.

Among the positive and non recurring effects included in 2008 we have to remark the gain of 79 million euros on the sale of a 60% interest in Hydros.

Capital Investments

Capital expenditures by the electric power operations, which increased by 19.6% to 372 million euros in 2009, were allocated as follows: about 94 million euros to develop wind power operations in Italy; including the Melissa/Strongoli and Mistretta wind farms; about 81 million euros for the development of the Thisvi power plant, in Greece; about 59 million euros to revamp the Marghera Azotati and Bussi thermoelectric power plants; about 57 million euros for hydroelectric plants of which about 47 million euros to streamline and renovate the portfolio of hydroelectric facilities; about 40 million euros for Edipower facilities and about 41 million euros for sundry projects and upgrades.

HYDROCARBONS OPERATIONS

Quantitative Data

Sources of Natural Gas

(in millions of m³ of natural gas)	2009	2008	% changes
Production in Italy	604	662	(8.8%)
Pipeline imports	8,678	7,554	14.9%
LNG imports	1,682	-	n.m.
Domestic purchases and other [1]	2,246	5,281	(57.5%)
Total Italy sources	**13,210**	**13,497**	**(2.1%)**
Production outside Italy [2]	**1,231**	**352**	**n.m.**

(1) Includes inventory changes and pipeline leaks.
(2) Counting volumes withheld as production tax.

Uses of Natural Gas

(in millions of m³ of natural gas)	2009	2008	% changes
Residential use	3,043	2,598	17.1%
Industrial use	1,378	1,336	3.1%
Thermoelectric fuel use	8,151	8,669	(6.0%)
Other sales	638	894	(28.6%)
Total Italy uses	**13,210**	**13,497**	**(2.1%)**
Sales of production outside Italy	**1,231**	**352**	**n.m.**

Crude Oil Production

(in thousands of barrels)	2009	2008	% changes
Production in Italy	1,703	1,729	(1.5%)
Production outside Italy [1]	957	-	n.m.
Total production	**2,660**	**1,729**	**53.8%**

(1) Counting volumes withheld as production tax.

Financial Highlights

(in millions of euros)	2009	2008	% changes
Sales revenues	**4,158**	**5,093**	**(18.4%)**
EBITDA	347	405	(14.3%)
as a % of sales revenues	8.3%	8.0%	
Capital expenditures	1,296	250	n.m.
Investments in exploration	66	62	6.5%
Number of employees [1]	1,357	507	n.m.

(1) End-of-period data. The data for 2009 include 785 employees of the Abu Qir concession.

Production and Procurement

Net production of natural gas rose to 1,835 million cubic meters in 2009, almost double the previous year's volume, thanks to an increase in production outside Italy made possible by the contribution of the Abu Qir concession (800 million cubic meters) and of six new wells that went into production at the Rosetta concession, in Egypt. In Italy, production decreased, due to the natural depletion of existing fields. Production of crude oil totaled 2,660,000 barrels, up from 1,729,000 barrels in 2008. As was the case for natural gas, oil production was down in Italy (-1.5%), due to the normal depletion of the fields, but increased outside Italy, boosted by the output of the Abu Qir concession (937,000 barrels).

In response to a widespread decrease in demand for natural gas at the national level, the Group reduced considerably the use of short-term purchases to meet its procurement needs. The opposite was true for pipeline imports of natural gas under long-term contracts, which grew to 8,678 million cubic meters, up from 7,554 million cubic meters in 2008 (+14.9%.). This increase reflects the impact of the natural gas imported from Algeria through the TTPC pipeline under a supply contract signed with Sonatrach that went into effect in October 2008, and of the 1,682 million cubic meters of natural gas imported as LNG from Qatar and regasified at the Rovigo offshore LNG terminal.

Sales and Marketing

The volumes sold on the Italian market, 13.210 million meters cubes, are 2,1% less than in 2008 (13.497 million meters cubes) because of the decrease (-6%) of the sales for thermoelectric uses induced by the lower demand of electricity in the Country, partly compensated by the increase of the sales for civil uses and for industrial uses (respectively +17,1% and 3,1%).

Sales to wholesalers and volumes traded on the virtual exchange facility totaled 638 million cubic meters (894 million cubic meters in 2008).

Operating Performance

In 2009, sales revenues amounted to 4,158 million euros, or 18.4% less than in 2008 despite the perimeter due to the AbuQir sales. This decrease is the direct result of the slump in Italian traded volumes described above and of lower average unit price of natural gas and crude oil due to the scenario already commented in the chapter "Demand for Natural Gas in Italy and Market Environment".

At 347 million euros, EBITDA were down 14.3% compared with the 405 million euros earned in 2008. As explained above, a reduction in volumes produced and sold by the E&P operations in Italy and a decrease in the price charged for the oil and natural gas that they produced , due to lower benchmark prices than in 2008, account for this decrease, the effect of which was offset in part by the incremental EBITDA amount generated by the Abu Qir investment.

As for the procurement and distribution of natural gas, the combined positive effect of an increase in unit margin and a significant decrease in gas procurement costs due to a larger quantity of directly managed purchases contracts portfolio, was contrasted by the higher costs of transactions executed to hedge fixed-price sales of electric power, which, as mentioned earlier in this Report, is recognized by the hydrocarbons operations because it relates to contracts for the natural gas needed to produce the hedged electric power.

The largest investments made in Italy in the hydrocarbon area included the development of new gas storage fields in S. Potito and Cotignola (RA) and expansion of the existing fields in Collalto (TV) and Cellino (TE), with the goal of providing Italy with significant reserves of natural gas.

Capital Investments

Capital investments, which totaled about 1,296 million euros in 2009, include 1,011 million euros used to acquire the Abu Qir concession in Egypt.

The main investment in Italy included: 38 million euros to overhaul the Vega ship, 29 million euros for the development of new storage fields in S. Potito and Cotignola (RA), 8.5 million euros for 2 work-over of the Giovanna field in the Adriatic Sea, 15 million euros to expand the Collato and Cellino field, 4 million euros for the hookup of the Accettura 2 (MT) well and 3 million euros for the development of a new field in Capparuccia (AP).

Investment projects in Egypt focused on the Rosetta concession (32 million euros), where six new wells were put into production, and on the Abu Qir concession (46 million euros), where two new wells called NAQ PII-2 and NAQ-8 were drilled and successfully tested and the work over activities of the wells AQ7 and WAQ3 were performed. The preparatory activities required to connect the wells with the WAQ_P1 platform were also started and are currently under way.

In Algeria, 23 million euros were used to develop and bring into production the Reggane and Azrafil fields. In Croazia, the Izabela South and Izabela North offshore platforms have been installed and work has started on test drilling projects and on connecting the platform, as a cost of 62 million euros.

Exploration Activities

In 2009, the Group invested about 66 million euros in exploration. Virtually the entire amount was allocated to projects outside Italy, which included completing five wells in the Reggane block in Algeria (21 million euros), drilling activity in the WWER and SAER blocks and development of a 3D seismic map of the SAER block, in Egypt (20 million euros), and drilling the AQB4-1 and AQB4-2 wells in Block 4 in Qatar (13 million euros).

Hydrocarbon Reserves

Hydrocarbon reserves totaled 56,1 billion cubic meters of natural gas equivalents, up from 35.5 billion cubic meters of natural gas equivalents in 2008. The increase of 20.6 billion cubic meters, net of 2009 production of about 2.3 billion cubic meters of natural gas equivalents, is due mainly to the acquisition of the Abu Qir Egyptian concession (included from January 15th) and to a reduction, based on the findings of an independent appraiser, of the estimated reserves in particular of the Reggane exploration permit located in Algeria.

CORPORATE ACTIVITIES AND OTHER OPERATIONS

Financial Highlights

(in millions of euros)	2009	2008	% change
Sales revenues	**53**	**77**	**(31.2%)**
EBITDA	(103)	(88)	(17.0%)
as a % of sales revenues	n.m.	n.m.	
Capital expenditures	11	21	(47.6%)
Number of employees [1]	620	605	2.5%

[1] End-of-period data.

Corporate Activities and Other Operations 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. In 2008, this sector included IWH's water distribution and treatment operations, which were divested in November 2008.

Therefore, the 2008 data benefited from the positive contribution of those operations.

Revenues totaled 53 million euros in 2009 and EBITDA were negative by 103 million euros.

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

Pursuant to Consob Communication of July 28, 2006, the schedules that follows provide reconciliations of the net profit for 2009 and the shareholders' equity at December 31, 2009 of the Group (amounts attributable to the Group) 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)	2009	2008
Net profit of Edison Spa	**423**	**374**
Intra-Group dividends eliminated in the consolidated financial statements	(322)	(269)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	138	261
Different valuation of the result of discontinued, acquisitions and divested operations	(2)	(16)
Other consolidation adjustments	3	(4)
Group interest in net profit	**240**	**346**

Reconciliation of the Shareholders' Equity of Edison Spa to the Group Interest in Shareholders' Equity

(in millions of euros)	12/31/2009	12/31/2008
Shareholders' equity of Edison Spa	**7,129**	**6,769**
Carrying value 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	(1,983)	(1,875)
- Recognitions of the shareholders' equities of consolidated companies	2,902	2,994
Valuation of investments in associates valued by the equity method	5	6
Other consolidation adjustments	24	15
Group interest in shareholders' equity	**8,077**	**7,909**

SOCIAL RESPONSIBILITY
OUR ACTIONS

In 2009, Edison completed the installation of an experimental photovoltaic facility at the Altomonte power plant (cover photo), where systems based on different technologies can be field tested. In the photo, a photovoltaic system on the roof of the Edipower power plant, in Brindisi.

INNOVATION, RESEARCH AND DEVELOPMENT

The activities carried out in 2009 covered a broad range of issues, all related to environmental sustainability, such as renewable sources, energy efficiency, low-impact power generation technologies and development of advanced materials.

Fuel Cells

The main focus of testing activities in the area of fuel cells was to monitor the development levels of the most promising technological solutions. These activities were carried out at the Research Center in collaboration with various entities, including Turin's Politecnico University and the Eifer Institute in Karlsruhe, Germany. In this field, Edison participates in several research projects both at the national and European level.

Advanced Photovoltaic Technologies

Construction of the Altomonte (CS) testing facility was completed in 2009. This facility is being used to field test systems based on different technologies, both commercial and developmental. The systems currently installed at this facility include both conventional silicon-based modules and more innovative thin-film modules, as well as two systems with photovoltaic concentrators. This facility is linked with the Trofarello Research Center, where test data are collected and processed in real time.
Work is continuing on a research project for the development of innovative optics for concentration systems with high efficiency third-generation cells.

Advanced Energy Materials

Activities involving the development of a proprietary Edison technology for the production of a magnesium diboride (MgB_2) superconductor continued at the CNR IENI Institute in Lecco and at the Trofarello Research Center, with the introduction of new superconducting components in the form of inlays on metal substrates.
Edison is currently collaborating with the ENEA superconductivity laboratory in Frascati on the development of electrical application of this material in the field of renewable energy sources.
Lastly, the Group launched, jointly with EDF's R&D organization, a study of materials and the corresponding thin-film deposition techniques for applications in high-temperature fuel cells.

Energy Efficiency

In 2009, in an effort to support the business initiatives of the Energy Efficiency and Sustainable Development Business Unit, the Research and Development Department studied and assessed a number of technologies related to the energy efficiency field.
Some of these technologies included electrical and gas fired heat pumps, small cogeneration facilities and various innovative solutions applicable to lighting and air conditioning.
Many of these technologies, particularly with regard to operation and network integration, together with metering systems, which are an essential component of any energy efficiency solution, are also part of a series of technological solutions collectively referred to as the "smart grid."

Carbon Capture and Storage

This technology has been the subject of intense scrutiny and monitoring. Projects carried out in 2009 included in-depth studies on the application of CO_2 capture techniques to CCGT (Combined Cycle Gas Turbine) systems and a preliminary assessment of the geological CO_2 storage potential in Italy.

HEALTH, SAFETY AND THE ENVIRONMENT

Edison addresses and manages environmental and safety issues taking an integrated system approach. Edison promotes the development and use of integrated 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 achievement of 2009 are reviewed below.

Occupational Safety

In 2009, following the significant gains achieved in previous years, the Group's occupational safety performance, with regard both to Group employees and employees of contractors, continued to be outstanding, when measured against market benchmarks.

Net production from Edison's hydroelectric power plants increased by 7.5 % compared with 2008. The Group invested about 47 million euros in this area to streamline and renovate generating facilities. In the photos, Vacca Dam and Lake, Val Caffaro (BS) and Semenza and Esterle power plant along Adda river.

The 2009 data for Group employees were in line with those reported the previous year: the Injury Incidence Rate and the Lost Workday Incidence Rate were 3.5 and 0.09, respectively. With regard to employees of contractors, the Group's safety performance improved significantly in 2009, with the Injury Incidence Rate falling from 8 to 3.5. The same was true for the Lost Workday Incidence Rate, which decreased to 0.11, down sharply from 0.28 in 2008.

Enactment of Legislative Decree No. 81/2008 - Uniform Occupational Health and Safety Code

The activities carried out to address the requirements introduced by Legislative Decree No. 81 of 2008 are reviewed below:

- The implementation of the process to control risks from interferences during work activities was completed and perfected with the development of the Comprehensive Document for the Assessment of Risks from Interferences. At the same time, a procedure to identify safety costs related to relationships with contractors was implemented, as required by the Decree.
- The Risk Assessment Documents were upgraded to meet the requirements of Legislative Decree No. 81/08, as amended. At the end of 2009, the risk assessment software covered about 80% of the sites.
- The Group adopted a shared safety organizational model, which included the development of an

organization chart for the occupational safety functions of the Edison Group;
- Training was provided to all company officials involved in managing occupational safety (employers, delegated managers, supervisors, prevention and protection service managers, and employee safety representatives) with regard to the requirements of the Uniform Occupational Safety Code (Legislative Decree No. 81/08). This program will end in the first quarter of 2010.
- Measure to prevent and mange emergencies for expatriate employees or employees traveling abroad were defined. Group policies for foreign branches were completed and compliance with statutory requirements was monitored.
- A special plan to prevent and mange the AH1N1 influenza emergency , prepared in accordance with international guidelines and with the support of qualified physicians, was presented.
- During "OSHA week 2009," the European health and safety week (October 21-25), several initiative were carried out to promote risk assessment and increasingly healthy and safe work environments.


- The annual communications about employees under medical supervision and the names of the employee safety representatives were provided.

Electric Power Business Unit
In 2009, having achieved the objective of obtaining 100% environmental and safety certification of its operating Divisions pursuant to the UNI EN ISO 14001 and BS OHSAS 18001 standards and the EMAS Regulations, the Business Unit began and completed the renewal of the EMAS registration for its 1, 2 and 3 Thermoelectric Divisions and the Hydroelectric Division.
Work continued on securing the issuance and renewal of the Integrated Environmental Authorization required by Legislative Decree No. 59/2005 for facilities under Ministry jurisdiction with a thermal capacity in excess of 300 MW. By the end of 2009, 16 Edison facilities had secured the abovementioned authorization or were slated to receive renewals. For three other facilities, the authorization process is in progress.

Hydrocarbons Business Unit
In 2009, in order to carry out the unbundling of the natural gas transmission, storage and production activities, the Business Unit launched and completed the implementation of a process to revise its integrated environmental and safety management systems, which had already been certified in

accordance with the UNI EN ISO 14001 and BS OHSAS 180011 standards.
In addition, the Business Unit completed the certification pursuant to the UNI EN ISO 14001 and BS OHSAS 18001 standards of Edison Stoccaggio's Operational Transmission Unit and for the "Maria a Mare" oil production facility. As a result of these achievements, about 95% of operating sites are certified.

Renewable Sources Business Unit

An audit of the integrated environmental and safety management system of Edison Energie Speciali, which received EMAS environmental registration, was successfully completed.

Marketing and Distribution Business Unit

The first audit of the quality management system established by the Business Unit in accordance with the applicable UNI EN ISO 9001 standard was completed successfully during the first half of 2009.

Engineering Department

The Engineering Department began the process of adopting a Health and Safety Management System certified in accordance with the BSI OHSAS 18001 standard and, by the end of 2009, it completed the first level of the certification path. The safety management system will be integrated with the quality management system, which has already been certified.

Edipower Spa

Work continued on environmental remediation projects concerning areas of soil and aquifer contamination or potential contamination identified in 2009 or started in previous years at some thermoelectric power plants.
Specifically, at the San Filippo del Mela power plant, the facilities included in the second set of remediation activities were tested and put into operation.
At the Brindisi power plant, the company carried out in 2009 the activities needed to finalize Edipower's decision to join the Program Agreement signed on December 18, 2007 by the Ministry of the Environment and the Protection of the Territory and the Sea and the other public administrations with jurisdiction over the Brindisi site of national interest. Specifically, Edipower and the Ministry of the Environment and the Protection of the Territory and the Sea reached an agreement about the details of a financial settlement.
With regard to the Company's environmental performance in 2009, emissions of the main pollutants (sulfur dioxide, nitric oxide, particulate and carbon monoxide), in specific terms, were about the same as in 2008.
The activities required to secure the first Integrated Environmental Permits for Edipower's Piacenza, San Filippo del Mela and Sermide power plants were completed in 2009. The corresponding permit awarding decree went into effect for the Piacenza power plant in 2009, while those for the San Filippo del Mela and Sermide facilities will be published in 2010.
The activities required to adopt a Safety Management System compliant with the BS OHSAS 18001/2007 reference standard continued in 2009. At each Production Unit, the Safety Management System will be integrated with the Environmental Management System to create an Integrated Safety and Environmental Management System.

The occupational safety indices, having improved significantly in past years, appear to be stabilizing at levels that compare favorably with market benchmarks.
The data for Group employees reported in 2009 show that the both the Injury Incidence Rate (3.14,) and the Lost Workday Incidence Rate (0.04.) were substantially in line with the levels achieved in recent years.
The positive trend of previous years continued also for employees of contractors providing maintenance services: Injury Incidence Rate = 5.70; Lost Workday Incidence Rate = 0.26.
A total of six accidents, the same number as in 2008, occurred at the construction sites subject to the requirements of Title IV of Legislative Decree No. 81/2008

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Human Resources

At December 31, 2009, counting the staff of companies consolidated on a proportional basis, the Edison Group had 3,923 employees, or 962 more than at December 31, 2008, when 2.961 employees were on its payroll.

The main developments that occurred in 2009 include the following:

- Expansion of the organization of the hydrocarbons operations following the acquisition of Abu Qir Petroleum Co. in Egypt, coupled with an increase of the technical staff at the headquarters and at foreign branches (808 employees in total, including 785 employees just from the Abu Qir acquisition).
- Strengthening of the Renewable Sources organization with the acquisitions of Sistemi di Energia Spa and Compagnia Energetica Bellunese Spa (for a total of 35 employees).
- Expansion of the Distribution organization following the Company's entry into the residential market segment and the acquisition of AMG Gas Srl (for a total of 58 employees).
- Growth of the Group's international power generation activities through the Power International Business Unit, mainly in Greece (13 employees).
- Establishment of the new Energy Efficiency and Sustainable Development Business Unit (19 employees).
- Expansion of the Staff Functions to provide support to the Group's businesses, particularly in the area of international development.

Total labor costs for the year amounted to 240 million euros in 2009, or about 7.6% more than in the previous year, due to the addition of the Abu Qir employees.

Industrial Relations

In June, the Group and the labor unions signed agreements allowing the utilization of resources available in the "bilateral" funds, the purpose of which is the development of funded training programs for eligible companies.

Thanks to the agreement reached with the national representatives of the labor unions (FilcemCgil - FlaeiCisl - UilcemUil) the Group, with the financial support of *Fondimpresa - Fondo Paritetico Interprofessionale Nazionale*, will be able to develop training programs designed for newly hired young college graduates, professionals and young managers.

The ability to access the resources available from *Fondirigenti - Fondo per la Formazione Professionale Continua dei Dirigenti delle Aziende Produttrici di Beni e Servizi,* made possible by an agreement reached with the local company representatives of Edison Group executives, will be used to ensure full continuity of training programs for Group executives, consistent with the Group's management model.

In July 2009, the Company began to meet with the labor unions for the renewal of the National Collective Bargaining Agreement for the Electrical Industry, which expired on June 30, 2009.

Negotiations are also ongoing with the labor unions for the renewal of National Collective Bargaining Agreement for the Energy and Oil Industry, which expired on December 31, 2009.

As for Edipower, industrial relations at the company level were characterized by an intense activity required to manage the problems resulting from the decrease in production caused by the general economic crisis.

More specifically, at the Brindisi power plant, where both units were shut down in September and October when production became unprofitable, the company and the unions reached an agreement designed to preserve employment levels through the adoption of several operational tools, such as asking all employees to take vacation days at the same time, temporarily performing internally some maintenance activities and seconding maintenance employees at other company locations.

Organization

Organization projects carried out in 2009 included the following:

- Completion of the technical, economic and market study, definition of a business model and establishment of the Energy Efficiency and Sustainable Development Business Unit, which reports directly to the Chief Operating Officer. Its mission is to contribute to the growth of Edison's profitability and increase customer loyalty to the Edison brand by offering energy solutions that are economically, environmentally and socially sustainable.
- Establishment of an Operations Coordination and Performance Department, which reports directly to the Chief Operating Officer. Its primary mission is to provide support in connection with the conception, definition, implementation, monitoring and consolidation of operations performance indicators and targets concerning activities handled by Departments and Business Units that report directly to the Chief Operating Officer.

To contribute to the success of the Group's business by recruiting highly professional resources with significant achievement potential, promoting their development with training and stimulating career paths, and protecting and developing key competencies for the achievement of Company objectives: this is Edison's mission in Human Resources.

- Within the Hydrocarbons Business Unit, establishment of a Department for the Coordination of North African and Middle Eastern Operations and a Department for the Coordination of European and West African Operations, both of which report directly to the Business Unit's manager. The fundamental responsibility of these Departments, carried out by supervising the joint ventures and the branches of Edison International, is to ensure that the Business Units' international operations achieve their growth and profitability targets.
- For the companies required to operate in compliance with functional unbundling requirements, redefinition of the organizational structure of the natural gas storage and natural gas transmission operations. The independent operators of these companies have developed formal operating procedures, particularly with regard to the Budget/Plan preparation process, consistent with the requirements of the applicable legislation.
- In October 2009, completion of the transactions required to make the Elpedison Power joint venture fully operational. This company was established on July 3, 2008 by Edison, Hellenic Petroleum and the minority shareholders of Thisvi Sa (Hed SA and Halcor Sa).

  Elpedison Power is the owner of a 420-MW CCGT power plant that Edison is planning to build in

Thisvi, in Greece, and of a 390-MW CCGT power plant in Thessaloniki. In addition, Edison and Hellenic Petroleum established Elpedison Trading, a trading company that will engage in the sale of electric power and the provision of services.
- Responding to changes in the Group's organization and in the applicable legislative framework, revision of the organizational and management model adopted in 2004 to shield the Company from administrative liability, pursuant to Legislative Decree 231/2001, which required the appointment of "Operating Unit Officers for the implementation of the Organizational and Management Model pursuant to Legislative Decree No. 231/2001" (231 Operating Unit Officers) and the officers in charge at the various Group Departments and Business Units.

Edipower completed projects that introduced important innovations in its organization in 2009.
It completed a revision at the organizational level of the procurement and supplier qualification process

within the framework of a company-wide project designed to seize available savings opportunities in the main merchandise categories and optimize the supplier base with respect to the more strategic merchandise categories, with the goal of lowering total purchasing costs.
In addition, as part of the effort to update the organizational model required by Legislative Decree No. 231/2001, a total of 11 company procedures were updated or newly created.

Training

In 2009, the Company provided to 2,166 employees training programs totaling 86,464 hours, a significant portion of which (29,222 hours) was devoted to topic related to occupational safety. Training provided by Company instructors accounted for about 32% of total training hours. The total teaching costs of the training programs amounted to about 1.5 million euros.

The training activities pursued by Edipower in 2009 covered a total of about 63,000 hours and included programs that were offered both at company headquarters and at individual locations, and initiatives designed to meet specific needs or address entire professional group.

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, 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 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.

A map of the corporate risks identified by the ERM process is annexed to the budget and industrial plan document which guidelines have been approved by the Parent Company's Board of Directors.

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.

In recent years, the growing volatility of these commodities produced an increase in the risk of fluctuations in the financial results reported by companies in these industries.

Taken as a whole, the Group's risk management activities pursue the specific goals of minimizing bottom-line volatility, protecting the value of the Group's assets and managing its strategic objectives and operating performances with a balanced risk/reward approach.

More specifically, the market risks that arise from fluctuations in the prices of energy commodities and foreign exchange rates is managed at the central level by a process of netting out the total exposure of the Group's portfolio, which is monitored against a risk limit, stated in terms of economic capital, that the Board of Directors approves annually based on the expected level of profitability.

The Risk Committee reviews the Group's exposure on a monthly basis, making reference to the approved risk limit. If the limit is exceeded, it decides on the appropriate hedging strategy that should be adopted, consistent with the Energy Risk Policies. In accordance with this document, the Group pursues the objective of minimizing the use of the financial markets for hedging purposes, preferring to maximize the benefits of the vertical and horizontal integration of its different types of business activities.

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 public institutions, both when it is required to interact with them and when it seeks to comply promptly with new requirements, while always seeking to minimize the resulting economic impact.
The main changes in the legislative framework, deeply described in the specific chapter, are reminded shortly below:

- **Reform of the Wholesale Electric Power Market.**
  Decree Law No. 185 of November 29, 2008 (converted into Law No. 2 of January 28, 2009) includes a series of provisions designed to reform important operating mechanisms of the wholesale electric power market.
  Insofar as the effects of this reform on the Edison Group are concerned, it seems reasonable to say that, except for the impact of the reform rules governing “must run” units, the changes made thus far to the structure of the market cannot be qualified as material.

- **Hydroelectric Concessions**
  Even though two years have passed, no adequate legislative solution has been provided with regard to the status of concessions for large-scale diversions of water for hydroelectric power plants after the 10-year extension option was cancelled in accordance with Constitutional Court Decision No. 1 of January 14, 2008.
  The resulting risk, which is significant for Edison and other holders of hydroelectric concessions, is related specifically to the failure to renew the concessions when they expire and the possibility of losing them altogether.
  Legislative action, which market operators and industry association have urged repeatedly, is particularly urgent because many concessions, including some held by Edison, will expire at the end of 2010.

- **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. Additional information about this issue is provided in the Regulatory Framework section of this Report on Operations.
  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 cancellation 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 cancellation mechanism proposed by the Ministry of Economic Development.

- **Environmental Costs: CO_2 Emissions Rights**
  With regard to the reduction of CO_2 emissions, the current E.U. regulations governing the trading of CO_2 emissions rights (EU ETS) imposes on the electric power industry costs related to the generation or purchase of these rights that could be increasingly burdensome in the future.
  Specifically, the allocation of permits for consideration by means of auctions, starting in 2013,

coupled with a still undefined legislative framework and the potential volatility of the market for CO_2 rights, could have an impact on the energy sector.

- **Changes to the Green Certificate Requirement**
  Article 27, Section 18, of Law No. 99/09 transferred the green certificate requirement referred to in Article 11, Sections 1 and 2, of Legislative Decree No. 79 of March 16, 1999 from producers to parties who enter into one or more contracts with Terna Spa for the dispatching of supplied electric power (the transfer scheduled for 2011 under Law No. 99/09 has been postponed to 2012, pursuant to Article 7, Section 2-*bis,* of Law No. 166/09).
  Therefore, starting in 2012, green certificate costs will no longer be a component of variable production costs, which could cause a decrease in the wholesale price tied to the value of the green certificates, currently reflected in the Single National Price (PUN). The effects of this change could be offset by other Ministry provisions currently under discussion.

Price/Foreign Exchange Rate 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.
From an organizational standpoint, the governance model adopted by the Group requires (with some minor exceptions for Edipower Spa) the separation of the risk control and management functions, which are handled centrally by Edison Spa under the direct supervision of the Chief Financial Officer, from the trading activity, which is handled by Edison Trading Spa for commodity market transactions and by the Finance Department of Edison Spa for foreign exchange transactions.

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, relative to market risks and the use of financial derivatives that are commonly available in the market for the purpose of containing the risk exposure within the preset limits. In the case of the Group's Industrial Portfolio, the absorption of economic capital is measured in terms of Profit at Risk (PaR), which is quantified monthly based on the Group's net exposure. For IFRS 7 compliance purposes, the notes to the consolidated financial statements, which should be consulted for more detailed information, include a PaR simulation carried out only on the financial derivatives outstanding at December 31, 2009, to determine the expected volatility in terms of the fair value recognized in the financial statements.

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 on a daily basis by means of preset risk limits, measured in terms of daily Value-at-Risk (VaR) with a 95% probability and monthly and annual stop loss. A more detailed analysis of the risk limits of the trading portfolio is provided in the disclosure included in the notes to the consolidated financial statements to comply with IFRS 7.

Foreign Exchange Risk Not Related to the Commodity Risk

Except for the issues mentioned above in connection with the commodity risk, the Group has no significant exposure to the foreign exchange risk, the remaining portion of which arises mainly from the translation of the financial statements of certain foreign subsidiaries and cash flows in foreign currencies of limited amount concerning purchases of equipment. As a rule, foreign subsidiaries use the same currencies in the invoices they issue and the invoices they pay.
A more detailed analysis of this risk is provided in the disclosure included in the notes to the consolidated financial statements to comply with IFRS 7.

Interest Rate Risk

The Edison Group is exposed to fluctuations in interest rates specifically with regard to the measurement of debt service costs. The Group's main interest rate exposure is to the Euribor.
The interest rate hedging policy is based on the following approach: the Group does not execute derivative contracts for speculative purposes. On the contrary, the main objective is to minimize any volatility affecting debt service costs. This objective is achieved by using hedges to establish an optimum mix of fixed and variable rates in the composition of the Group's indebtedness. A more detailed analysis of this risk is provided in the disclosure included in the notes to the consolidated financial statements to comply with IFRS 7.

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. In the case of the Edison Group, its exposure to the credit risk is predominantly related to its growing sales activity in the deregulated market for electric power and natural gas.
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 notes to the consolidated financial statements to comply with IFRS 7.

Competition

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 that could result in an erosion of natural gas sales margins. Moreover, Legislative Decree No. 164/2000 gave the AEEG regulatory powers with regard to setting prices for sales to residential customers and determining the rates charged to access infrastructures. Consequently, the decisions adopted by the AEEG could limit the Group's sales capabilities and margin policies. 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.
In the areas of exploration and production, Edison competes with government-owned companies and international companies for the award of exploration and development permits, mainly outside Italy.
Among the various actions taken to minimize the competition risk in the hydrocarbon area, the following are worth mentioning: the exercise of clauses allowing the renegotiation of prices, based on changes in the benchmark energy scenario and market conditions, that are included in long-term natural gas supply contracts; a strategy of integration along the entire value chain through the development of proprietary reserves; and geographic and logistical diversification of supply source implemented by developing major transportation infrastructures on an international scale, such as the construction of the new Rovigo regasification terminal and participation in the GALSI and ITGI gas pipeline projects.

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 Innovation, Research and Development section of this Report on Operations.

Demand for Electric Power and Natural Gas

As a rule, demand for electric power and natural gas is tied to changes in GDP. Starting in the last quarter of 2008, as a reflection of the current global economic crisis, the positive trend that characterized Italian demand for electric power reversed itself for the first time since the crisis of 1981 and continued to show negative growth throughout 2009, compared with the corresponding months in 2008. The same has been true for natural gas demand, which, however, reversed its negative trend in October 2009, compared with the same month the previous year, owing in part to colder weather.
A continuation 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.
In this area, 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. Specifically, in 2009, an increase in sales to end customers and wholesalers (with a concurrent reduction in sales on the Power Exchange) and an increased penetration of the residential segment made it possible to contain the reduction of sales volumes, while, at the same, optimizing profitability, and avoid the impact of a drastic reduction in Power Exchange margins.

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 damaging events.
Additional information about the management of environmental and occupational safety risks is provided in the Innovation, Research and Development section of this Report on Operations.

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 and implementing on a timely basis negotiations for the funding of maturing financing facilities.

A more detailed analysis of this risk is provided in the disclosure included in the notes to the financial statements to comply with IFRS 7.

Strategy and Planning Risks

Investments in Development and Acquisitions

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, in recent years, the Edison Group implemented an ambitious program to expand electric power generating capacity, adding 7,000 MW, and is constantly engaged in programs to upgrade older facilities in order to increase their yield, efficiency and operating flexibility.

In addition, the Adriatic LNG offshore regasification terminal (Edison 10%; ExxonMobil Italiana Gas 45%; Qatar Terminal Limited 45%) is commercially operational since October 2009. At full capacity, the terminal will make it possible to import from Qatar more than 8 billion cubic meters of natural gas a year, a quantity equal to about 10% of Italy's total supply needs. 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.

In January, also in the hydrocarbon area, Edison signed a contract obtaining the exploration, production and development rights for the Abu Qir offshore concession, against payment of a signing bonus to the Egyptian General Petroleum Corporation. The concession has a duration of 20 year and may be extended for an additional 10 years at Edison's request. This agreement represents a major investment in the Egyptian oil and gas market by Edison and significantly increases the Group's hydrocarbon reserves.

Additional investment and some carefully selected divestment, 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. 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 formal procedures, these processes require the use of due diligence activities, binding contracts, multilevel internal authorization processes 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 EBITDA 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 Industrial Plan by means of an annual Risk Self Assessment process, the results of which are presented annually when the Budget is approved and updated on the occasion of Audit Committee meetings. 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 impact, probability of occurrence and level of control.

The overall results for 2009 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, 2009."

OTHER INFORMATION

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

- At December 31, 2009, 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 2009, 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 also 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, 2009 show a net profit of 423,257,535.46 euros, rounded to 423,257,535 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, 2009, 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 Board of Statutory Auditors, which is required under Article 153 of Legislative Decree No. 58/1998 (Uniform Financial Code);
- being cognizant of the Reports of the Independent Auditors on the separate and consolidated financial statements at December 31, 2009;
- considering the provisions of Article 2430 of the Italian Civil Code that govern the handling of the statutory reserve and those of Article 24 of the Company Bylaws concerning the dividends payable to the savings shareholders;
- considering that, as a result of the transition to and adoption of the IFRS principles, the shareholders' equity at December 31, 2009 includes reserves that are unavailable pursuant to Articles 6 and 7 of Legislative Decree No. 38/2005;
- considering the provisions of Article 109, Section 4, of Presidential Decree No. 917/1986, in the formulation in effect until December 31, 2007 and insofar as still applicable;
- considering that the share capital amounts to 5,291,700,671.00 euros, divided into 5,181,108,251 common shares and 110,592,420 savings shares;

resolves to:

(i) approve the Report on Operations in 2009 submitted by the Board of Directors;

(ii) approve the Company's separate financial statements for the year ended December 31, 2009, and the individual items contained therein;

(iii) set aside 5% of the year's net profit of 423,257,535.46 euros to the statutory reserve in the amount of	**21,162,876.77 euros**
(iv) appropriate the 402,094,658.69 euros in net profit that remains after the partial appropriation made to the statutory reserve referred to in item (iii) above as follows:	
a) to the 110,592,420 savings shares, a dividend as follows:	
- 5% of the shares' par value, i.e., 0.05 euros per share, as a preferred dividend for the 2009 fiscal year, for a total of	5,529,621.00 euros
- 2.25% of the shares' par value, i.e., 0.0225 euros per share, as a preferred dividend premium for the 2009 fiscal year, as required as a consequence of the motion set forth in item b) below	2,488,329.45 euros
for an aggregate amount of 0.0725 euros per savings share which is equal to a total of	**8,017,950.45 euros**

b) to the 5,181,108,251 common shares, a dividend as follows:
   - 0.0425 euros for share, equal to 4.25% of each common shares' par value

for a total of	**220,197,100.67 euros**

c) to bring forward the balance as retained earnings, which after deducting the amounts referred in item (iii) and letters a) and b) above, amounts to	**173,879,607.57 euros**

The dividend will be payable on April 15, 2010 (record date April 12, 2010)."

Moreover,

- considering that the completion of the project to upgrade the Candela/lean-gas field (Project No. 25107/12) had the effect of eliminating the existing restriction on the availability of a capital contributions reserve of 15,055,000 euros, originally established in connection with a grant received pursuant to Law No. 488/92;
- in view of the fact that when the abovementioned restricted reserve was established with funds drawn in part from "additional paid-in capital," it was agreed that "until the Statutory reserve reaches an amount equal to one-fifth of the Company's share capital, the restricted reserve thus reclassified shall be reversed into "additional paid-in capital," if and when the restriction is eliminated;"

the Shareholders' Meeting

resolves to

(v) make the abovementioned reserve available, transferring 1,240,635 to "additional paid-in capital" and the balance of 13,814, 365 euros to the Statutory Reserve.

Milan, February 8, 2010

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, 2009, the Board of Statutory Auditors of Edison Spa 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 Bookkeepers 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 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 have met their disclosure obligations toward the Consob and the public. A list of the posts currently held by the Statutory Auditors in companies of the types referred to in Book V, Title V, Chapters V, VI and VII, of the Italian Civil Code is annexed to this Report.
Insofar as the task of auditing the financial statements is concerned, pursuant to Legislative Decree No. 58/1998, it was assigned to the Independent Auditors PricewaterhouseCoopers Spa 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 Annual Report.
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 January 15,2009, having been ratified by the Egyptian Parliament, the agreement signed by the Edison International Spa subsidiary, the Egyptian Oil Minister in his capacity as representative of the Arab Republic of Egypt and the Egyptian General Petroleum Corporation awarding to Edison the Abu Qir offshore concession for 20 years, extendable for an additional 10 years at Edison's request, went into effect. Edison paid to the Egyptian General Petroleum Corporation the amount of US$1,405 million (equal to 1,011 million euros) as a signing bonus. Subsequently, at the end of March 2009, Edison made a new hydrocarbon discovery in the Abu Qir concession after drilling the NAQ PII-2 well, which tested at 1.85 million cubic meters of natural gas and 850 barrels of condensate a day.
- On March 10, 2009, Edison closed the purchase of an 80% equity interest in AMG Gas Srl at a price of 25.1 million euros. AMG Gas Srl is a natural gas distributors in the Palermo area.
- On March 12, 2009, Edison completed a joint venture transaction with Hellenic Petroleum establishing Elpedison Bv, a company to which Hellenic Petroleum conveyed a 50% interest in Energiaki Thessalonikis Sa, owner of the first combined-cycle power plant built in Greece by a private-sector operator, and Edison International Holding N.v. conveyed a 65% interest in Thisvi Sa, a company that is completing the construction of a 420-MW combined-cycle facility in Greece, plus 55 million euros in cash. Elpedison then purchased the remaining 50% of Energiaki Thessalonikis Sa, which, in turn, absorbed Thisvi Sa and changed its name to Elpedison Power Sa.
- On May 27, 2009, Edison executed a loan agreement for a three-year 600-million-euro facility provided by a pool of international banks on a Club Deal basis.
- On June 25, 2009, Edison's Board of Directors approved the launch of a new Euro Medium-Term

Note Program, setting forth the general terms and conditions of future Edison Eurobond issues for amounts totaling up to 2 billion euros. On July 16 , 2009, Edison Spa completed the placement of an initial tranche of 700 million euros sold exclusively to qualified investors. These five-year bonds, which were offered at a 99.841 issue price, pay interest at a fixed rate of 4.25%.

- On July 14, 2009, BEH (Bulgarian Energy Holding), DEPA (the Greek Public Gas Corporation) and Edison signed a Memorandum of Understanding concerning the construction of the IGB (Greece-Bulgaria Interconnector) natural gas pipeline. The new pipeline, which will have an annual capacity of 3 to 5 billion cubic meters of natural gas, will be built by a company owned in equal shares by BEX and IGI Poseidon, which is a 50-50 joint venture of Edison and DEPA. This agreement strengthens the regional significance of the ITGI (Turkey-Greece-Italy Interconnector) project in which Edison is already involved.
- On October 5, 2009, Edison inaugurated a new electric power infrastructure, linking Italy and Switzerland, operated by EL.IT.E. Spa, a company owned by Edison (48.45%), Raetia Energie (46.55%) and the Tirano Municipal Administration (5%). The new line increased transmission capacity between Italy and Switzerland by 150 MW.
- On October 20, 2009, Edison's new route for natural gas imports was officially inaugurated. When at full capacity, the Adriatic LNG Terminal, located near Rovigo, will make it possible to import from Qatar over 8 billion cubic meters of natural gas a year, a volume equal to about 10% of Italy's natural gas needs. Edison will have exclusive access to 80% of the terminal's capacity for 25 years, which it will use to regasify LNG imported from the North Field in Qatar.

As part of the work carried out consistent with its function, the Board of Statutory Auditors performed the following activities:

- It met on a regular basis and drew up 11 minutes of the meetings recording its activities.
- It attended all meetings of the Board of Directors (eight), 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 (five), the Compensation Committee (seven) and the Oversight Board (five).
- It attended the Shareholders' Meeting held on March 31, 2009.
- It reviewed issues under its jurisdiction through interviews, direct observation, information obtained from managers of Company departments and senior executives, and meetings with the Internal Control Officer.
- It reviewed transactions among Group companies and with related parties to ensure that they were fair and carried out in the Company's interest. The characteristics of these transactions, the parties involved and their financial effects are adequately explained in the section of the Consolidated Financial Statements entitled "Transactions Among Group Companies and with Related Parties," which is cited here by reference.
- In the course of its work, it did not uncover any atypical and/or unusual transactions.
- It met on a regular basis with representatives of the Independent Auditors hired to review the Company's accounting records and audit its statutory and consolidated financial statements, with whom it exchanged data and information.
- It found no qualifications or disclosure requirements in the reports issued by PricewaterhouseCoopers Spa on February 18, 2010, pursuant to Article 156 of Legislative Decree No. 58/98, certifying that the Statutory Financial Statements and the Consolidated Financial Statements at December 31, 2009 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.
- It noted that, in 2009, Edison Spa asked the Independent Auditors PricewaterhouseCoopers Spa to perform the following assignments related to the audit engagement:

- 40,000.00 euros for additional review work concerning the Report on Operations and compliance with tax regulations;
- 40,000.00 euros for first-time adoption of the new rules on unbundling;
- 22,000.00 euros for work concerning purchase price allocation for Elpedison Bv, AMG Gas Spa and Sistemi di Energia Spa;
- 12,000.00 euros for reviewing and rendering an opinion on the Corporate Governance Report.

• It noted that, in 2009, the Independent Auditors PricewaterhouseCoopers Spa performed the following additional assignments that were not related to the audit engagement:
  - 220,000.00 euros for reviews performed in connection with the issuance of bonds;
  - 24,767.00 euros for reviewing the Pay Schedule for Gas JV Employees in Italy;
  - 24,767.00 euros for reviewing the Pay Schedule for Gas JV Employees abroad;
  - 22,000.00 euros for reviewing commodity activities;
  - 15,000.00 euros for reviewing “operating excellence” schedules;
  - 8,615.00 euros for reviewing the Pay Schedule for Expatriates in Egypt;
  - 6,046.00 euros for activities related to Sel-Edison’s 2009 Reporting Package;
  - 3,000.00 for reviewing the statement of research costs for IRAP deductibility purposes.
• It monitored the independence of the Independent Auditors, ascertaining that they were in compliance with the provisions of the relevant statutes in providing Edison Spa and its subsidiaries with services other than accounting audits, and determined that no assignments were granted in 2009 to members of the same network to which the Independent Auditors belong.
• In 2009, it received no complaints filed pursuant to Article 2408 of the Italian Civil Code or memoranda submitted by third parties.
• It 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.
• It met with the members of the Boards of Statutory Auditors of the main subsidiaries to exchange information about the activities of Group and coordinate control and oversight activities.

As part of the work carried out consistent with its function, the Board of Statutory Auditors monitored:

• Compliance with the law and the Bylaws 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 it specified will include transactions with Transalpina di Energia (“TdE”), the Company’s controlling shareholder, TdE’s shareholders, the shareholders of TdE’s shareholders and group companies owned by these parties, all of which have been classified as “Significant Parties.”

  The Board of Directors adopted a Group procedure (revised 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.

  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.

- The adequacy of the organizational structure of the Company and the Group, which it accomplished by gaining an understanding of the organizational structure and through meetings with managers of various Company functions, the manager of the Internal Control Systems Department and the Independent Auditors, with who it exchanged data and information.
  The organizational structure of the Company and the Group can be defined as a system of organizational communications, by which the Chief Executive Officer designates the executives in charge 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.
- The adequacy of the system of internal controls, relying in particular on regularly scheduled meetings with managers of the Internal Control Systems Department and other Company departments and on the information obtained by the Chairman of the Board of Statutory Auditors by attending meetings of the Audit Committee and the Oversight Board.
  Edison's System of Internal Controls is a structured and organic set of rules, procedures and organizational structures designed to prevent or minimize the impact of unexpected results and allow the achievement of the Company's objectives in terms of its operations (effectiveness and efficiency in conducting its operations and protecting 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, defines the guidelines of the System of Internal Controls; 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 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, 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.
  In 2009, the Group's internal auditing activities were the subject of an independently performed Quality Assessment Review, which found general compliance with professional standards and best practices.
  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.
  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 (five in 2009). In 2009, the Board of Directors approved a protocol for the management of occupational safety risks.
  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.
  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.

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 principles, and the accounting control model required by Law No. 262/2005 in the area of financial disclosures.

- The adequacy of the Company's accounting system and its reliability in presenting fairly the results from operations, 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 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"). The Corporate Governance Report 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 Sa and its WGRM Holding 4 Spa subsidiary and A2A Spa and its Delmi Spa 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 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 2009, 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 February 8, 2010, provided an overall positive assessment of the activities of the Board of Directors and its Committees.

- 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 are providing the information needed to comply with statutory disclosure requirements.
- Compliance with the provisions of the statutes governing the preparation of the draft Separate Financial Statements and Consolidated Financial Statements at December 31, 2009, 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 Statutory Financial Statements and Consolidated Financial Statements of Edison Spa at December 31, 2009 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 2009, the Board of Statutory Auditors has no remarks, as would be required pursuant to Article 153.1 of Legislative Decree No. 58/1998, with regard to issues under its jurisdiction concerning the Statutory Financial Statements, the Consolidated Financial Statements, the accompanying notes and the Report on Operations, and concur with the motion submitted to the Shareholders' Meeting by the Board of Directors for the appropriation of net income, after satisfying the rights of the holders of savings shares.

Following the resignation of the Directors Daniel Camus, effective April 30, 2009, and Pierre Gadonneix, effective December 11, 2009, the Board of Directors, at meetings held on April 30, 2009 and February 8, 2010, respectively, coopted the Director Didier Calvez (to replace Director Camus) and Director Henri Proglio (to replace Director Gadonneix). The terms of office of both Directors end with the approval of the financial statements at December 31, 2009. The Board of Statutory Auditors therefore recommends that the shareholders take appropriate action with regard to this issue.

Lastly, in view of the current economic crisis, the Board of Directors asked the Compensation Committee to review the compensation of Directors who perform special functions (the Chairman and the Chief Executive Officer) and of the Board of Directors as a whole, based on a select sample of publicly traded companies in similar industries or companies of comparable size, with shares listed on an Italian or a foreign securities market.

At a meeting held on October 30, 2009, the Board of Directors, acting upon a proposal by the Compensation Committee and with the consent of the Board of Statutory Auditors, agreed to reduce the compensation of the Chairman and the Chief Executive Officer. At the same meeting, also acting upon a proposal by the Compensation Committee and with the consent of the Board of Statutory Auditors, agreed to submit to the Shareholders' Meeting a motion to reduce the compensation of all Directors by 10%. The Board of Statutory Auditors therefore recommends that the shareholders take appropriate action with regard to this issue.

Milan, February 19, 2010

The Board of Statutory Auditors

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

ANNEX TO THE REPORT OF THE STATUTORY AUDITORS OF EDISON SPA PROVIDED PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/98

List of posts held on the date the Report was issued at companies of the types referred to in Book V, Chapters V, VI and VII, of the Italian Civil Code (Article 144-quinquiesdecies of Consob Regulation No. 11971/99)

No.	Company name	Post held	End of term of office
ALFREDO FOSSATI (Chairman of the Board of Statutory Auditors)			
1.	Edison Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
2.	Benelli Armi Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/09
3.	Castello Srl in liquidation	Chairman Board Stat. Audit.	Annual Report at 12/31/10
4.	CrediOne Società di mediazione creditizia Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
5.	E.C.P.I. Srl	Chairman Board Stat. Audit.	Annual Report at 9/30/10
6.	Energetic Source Spa	Statutory Auditor	Annual Report at 12/31/10
7.	Flyenergia Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/11
8.	Hewlett Packard Italiana Srl	Statutory Auditor	Annual Report at 12/31/11
9.	HP Enterprises Service Italia Srl	Statutory Auditor	Annual Report at 12/31/11
10.	I.G.I.E.R. Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/09
11.	Immobiliare Giardino Otto Srl	Sole Director	Annual Report at 12/31/11
12.	Lavoro 2 Spa	Member of Board of Dir.	Annual Report at 12/31/10
13.	Lavoro 3 Spa	Member of Board of Dir.	Annual Report at 12/31/10
14.	Linara Srl	Chairman Board Stat. Audit.	Annual Report at 12/31/10
15.	Marazzi Group Spa	Statutory Auditor	Annual Report at 12/31/11
16.	Mediterranean Cement Company Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
17.	Metalcam Spa	Member of Board of Dir.	Annual Report at 11/1/10
18.	Mirage Srl	Sole Director	Until revoked
19.	Milival Srl	Sole Director	Annual Report at 12/31/11
20.	Mittel Spa	Statutory Auditor	Annual Report at 9/30/12
21.	Mittel Corporate Finance Spa	Chairman Board Stat. Audit.	Annual Report at 9/30/10
22.	Permira Associati Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/11
23.	Permira SGR Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
24.	Valentino Fashion Group Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
25.	Valentino Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
26.	VFG Distribuzione Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
27.	VFG Italia Srl	Chairman Board Stat. Audit.	Annual Report at 12/31/10
	Number of posts held at companies who are issuers of securities	**2**	
	Total number of posts held	**27**	
ANGELO PALMA (Statutory Auditor)			
1.	Edison Spa	Statutory Auditor	Annual Report at 12/31/10
2.	Acsm - Agam Spa	Statutory Auditor	Annual Report at 12/31/09
3.	Banca Piccolo Credito Valtellinese Scpa	Member of Board of Dir.	Annual Report at 12/31/09
4.	Celleografia Gerosa Spa	Member of Board of Dir.	Annual Report at 12/31/11
5.	Comense Beni Stabili Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
6.	Credito Artigiano Spa	Chairman Board of Directors	Annual Report at 12/31/09
7.	Credito Piemontese Spa	Chairman Board of Directors	Annual Report at 12/31/11
8.	Italplastic Industriale Spa	Member of Board of Dir.	Annual Report at 12/31/11
9.	Lechler Spa	Member of Board of Dir.	Annual Report at 12/31/10
10.	Rigamonti Salumificio Spa	Member of Board of Dir.	Annual Report at 12/31/12
11.	Seco Tools Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/09
12.	Sviluppo Como Spa	Member of Board of Dir.	Annual Report at 12/31/11
13.	Tritone Srl	Sole Director	Until revoked
	Number of posts held at companies who are issuers of securities	**4**	
	Total number of posts held	**13**	
LEONELLO SCHINASI (Statutory Auditor)			
1.	Edison Spa	Statutory Auditor	Annual Report at 12/31/10
2.	A. Raymond Italiana Srl	Chairman Board Stat. Audit.	Annual Report at 12/31/10
3.	Aran World Srl	Chairman Board Stat. Audit.	Annual Report at 12/31/09
4.	Bticino Spa	Statutory Auditor	Annual Report at 12/31/10
5.	Fontex	Chairman Board Stat. Audit.	Annual Report at 12/31/11
6.	Micron Technology Italia Srl	Chairman Board Stat. Audit.	Annual Report at 12/31/10
7.	MNTC Holding Srl	Chairman Board Stat. Audit.	Annual Report at 12/31/11
8.	Transalpina di Energia Srl	Statutory Auditor	Annual Report at 12/31/10
9.	Tyco Electronics Amp Italia Products Srl	Chairman Board Stat. Audit.	Annual Report at 9/30/10
10.	Varian Spa	Chairman Board Stat. Audit.	Annual Report at 9/30/11
11.	WGRM Holding 4 Spa	Chairman Board Stat. Audit.	Annual Report at 12/31/10
	Number of posts held at companies who are issuers of securities	**1**	
	Total number of posts held	**11**	

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