2011 ANNUAL REPORT

REPORT ON OPERATIONS

EDISON

EDISON IN ITALY

EDISON IN THE WORLD

CONTENTS

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REPORT ON OPERATIONS

EDISON

A LETTER TO SHAREHOLDERS

Dear Shareholders:

There were two distinct phases in 2011, as hopes of an end to the economic crisis were dashed by the sovereign debt storm that engulfed Europe and a sudden deterioration of economic conditions, which caused growth estimates for developed countries to be curtailed.

The world economy was also forced to contend with weaker growth in the emerging countries, which until then had been the engines of global economic expansion (China and India, above all), with the impact, on an international scale, of the Japan earthquake and, lastly, with the political, social and economic instability spawned by the Arab Spring in North Africa. All of these factors produced a major slowing in the world economy, increasing the risk of a recession in 2012.

In the energy sector, demand continued to remain below the pre-crisis levels of 2008 and an upturn can be expected only over the medium term.

In Italy, the negative effects of weak demand for electric power were magnified by the arrival of new capacity on the market. The result was a compression of power generation margins, which contracted further, falling below the already depressed levels on 2009.

The scenario appears to be more complex in the gas market, where a temporary interruption of deliveries from Libya offset only minimally the impact of a supply overhang of gas at extremely competitive prices. Over the past six years, because of new pipelines and LNG terminals, European gas importing capacity grew by more than 25%. This increase in the availability of natural gas occurred concurrently with an across-the-board contraction in demand, which was particularly pronounced in Italy, due to unusually warm weather during the winter months. The resulting effect was strong competitive pressure on sales prices, accompanied by a wide differential between the price of short-term gas available in the spot market and that of gas tied to long-term contracts, which are indexed to oil prices and contain take-or-pay clauses. Unavoidably, energy operators who relied on such contracts in the past are now faced with a drastic reduction in natural gas distribution margins.

In order to regain its profitability, Edison began the process of renegotiating contract terms with its gas suppliers, filing for arbitration in some cases. In 2011, as a result of this effort, it reached agreements with Eni and Promgas that take into account the changed market conditions affecting the price of natural gas imported from Norway and Russia, respectively. This process, which is now being applied to gas supplied from Algeria, Libya and Qatar, should come to a conclusion starting in the second half of 2012, with a positive impact on the Company's profitability.

In such a complex environment, made even more challenging by the negotiations among its shareholders to restructure the Company, Edison reported positive performances at the industrial level, ending 2011 with EBITDA that exceeded expectations.

With the sole exception of the activities engaged in importing and selling natural gas, all of the Group's businesses performed well. More specifically, growth occurred in exploration and production, as a new platform went on stream at the Abu Qir field, in Egypt; retail sales, with the customer base *reaching the level of 1.4 million users; international electric power generation, due to the commissioning of the Thisvi power plant, in Greece; and renewable sources, which benefited from increases both in installed capacity and production.*

The Company deployed all necessary programs to address the challenges posed by negative economic conditions and support Edison's development and future growth.

This development will achieved by strengthening the Group's international operations, with special emphasis on the Mediterranean Basin and the Balkans.

As for Italy, Edison intends to maintain its position as the challenger of the former electric power monopolists, despite the fact that the current restructuring of the Company's share ownership structure entails the sale of Edison's equity stake in Edipower, which contributed almost 4,000 MW in generating capacity. Edison will continue to grow and develop both at the commercial and industrial level, while carefully assessing any consolidation opportunities in the electric power generation sector.

The February 13 meeting of the Board of Directors marked a decisive step forward toward the achievement of an agreement among Edison's shareholders, which could result in a company with new, significant potential opportunities to relaunch its growth and begin a new phase of development, both in Italy and internationally.

The planned sale of Edipower will improve Edison's financial position by 1.1 billion euros, freeing up resources that will be directed at supporting the Company's growth path.

In 2012, a highly intense commitment will be required of the Company's management and all Edison employees to meet the challenges of another difficult year; however, we are confident that they will not fail to fully deliver the tenacity and professional skills needed to achieve the results that the shareholders are expecting.

Renato Ravanelli
Chairman

Bruno Lescoeur
Chief Executive Officer

EDISON TODAY

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

Photovoltaic panels at the Altomonte (Cosenza) facility.

ELECTRIC POWER

Italian Market in 2011

Total Italian gross demand	332.3	TWh
Edison's gross sales in Italy (*)	**72.1**	TWh
incl.: - Deregulated market (*)	64.1	TWh
- CIP 6/92	4.7	TWh
- Captive	3.3	TWh
Locations served at 12/31/11	847	'000

Facilities and Production Capacity in 2011

Installed capacity Edison Group (**)	**11.5**	'000 MW
capacity contributed by Edipower (50%)	3.8	'000 MW
Net production of electric power - Total Italy	289.2	TWh
Net production of electric power in Italy - Edison Group	**33.2**	TWh
capacity contributed by Edipower (50%)	6.7	TWh
Share of total Italian production	11.5	%

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

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

HYDROCARBONS

Italian Market in 2011

Total Italian demand	77.4	Bill. m^3
Edison's sales in Italy	**15.2**	Bill. m^3
Edison's sales/Total Italian demand	19.6	%
Locations served at 12/31/11	524	'000

Facilities and Production Capacity in 2011

Natural gas production – Total Italy	8.0	Bill. m^3
Natural gas production - Edison (Italy)	**0.5**	Bill. m^3
Share of total production	6.5	%
Number of concessions and permits in Italy	60	n.
Number of storage-center concessions in Italy (*)	3	n.
Natural gas production - Edison (outside Italy)	**1.7**	Bill. m^3
Number of concessions and permits outside Italy	23	n.
Hydrocarbon reserves	49.8	Bill. m^3 eq.
Gas transmission network (low- and medium-pressure pipelines)	3.52	'000/Km
Gas transmission network (high-pressure pipelines)	0.08	'000/Km

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

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

EDISON KEY FIGURES

11.5
GW Installed Generating Capacity*

72
Hydroelectric Power Plants

1
Biomass System

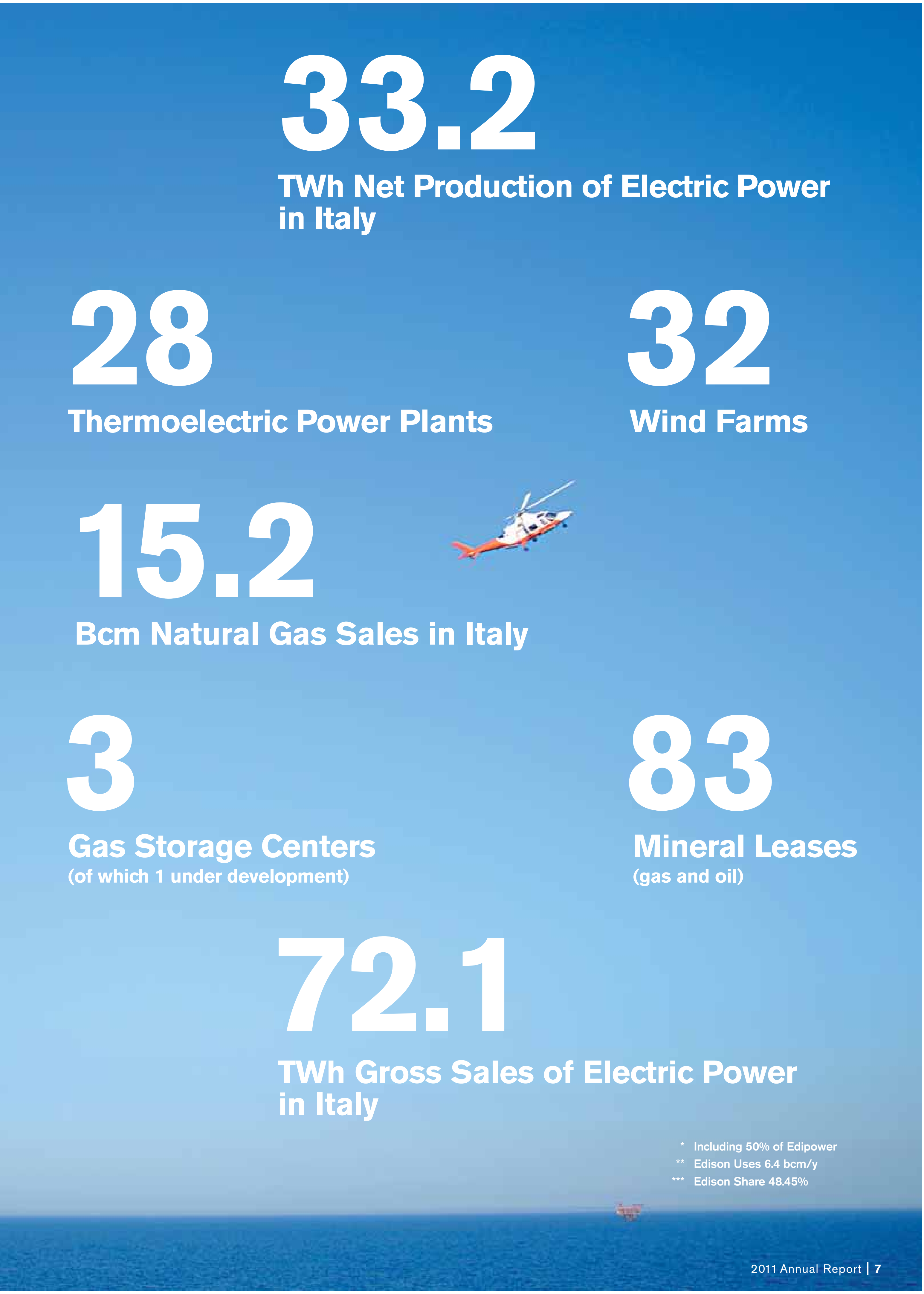
9
Photovoltaic Systems

49.8
Bcme Hydrocarbons Reserves

1
LNG Terminal
(capacity 8 bcm/y)**

1
HV merchant line
(150 MW)***

The Rospo platform in the Adriatic Sea.



33.2

TWh Net Production of Electric Power in Italy

28

Thermoelectric Power Plants

32

Wind Farms

15.2

Bcm Natural Gas Sales in Italy

3

Gas Storage Centers

(of which 1 under development)

83

Mineral Leases

(gas and oil)

72.1

TWh Gross Sales of Electric Power in Italy

* Including 50% of Edipower

** Edison Uses 6.4 bcm/y

*** Edison Share 48.45%

SIMPLIFIED STRUCTURE OF THE GROUP AT DECEMBER 31, 2011

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
- Sistemi di Energia Spa

Energy Management

Dispatching and sales on the Power Exchange and to wholesalers

- Edison Trading Spa

Electric Power Business Unit

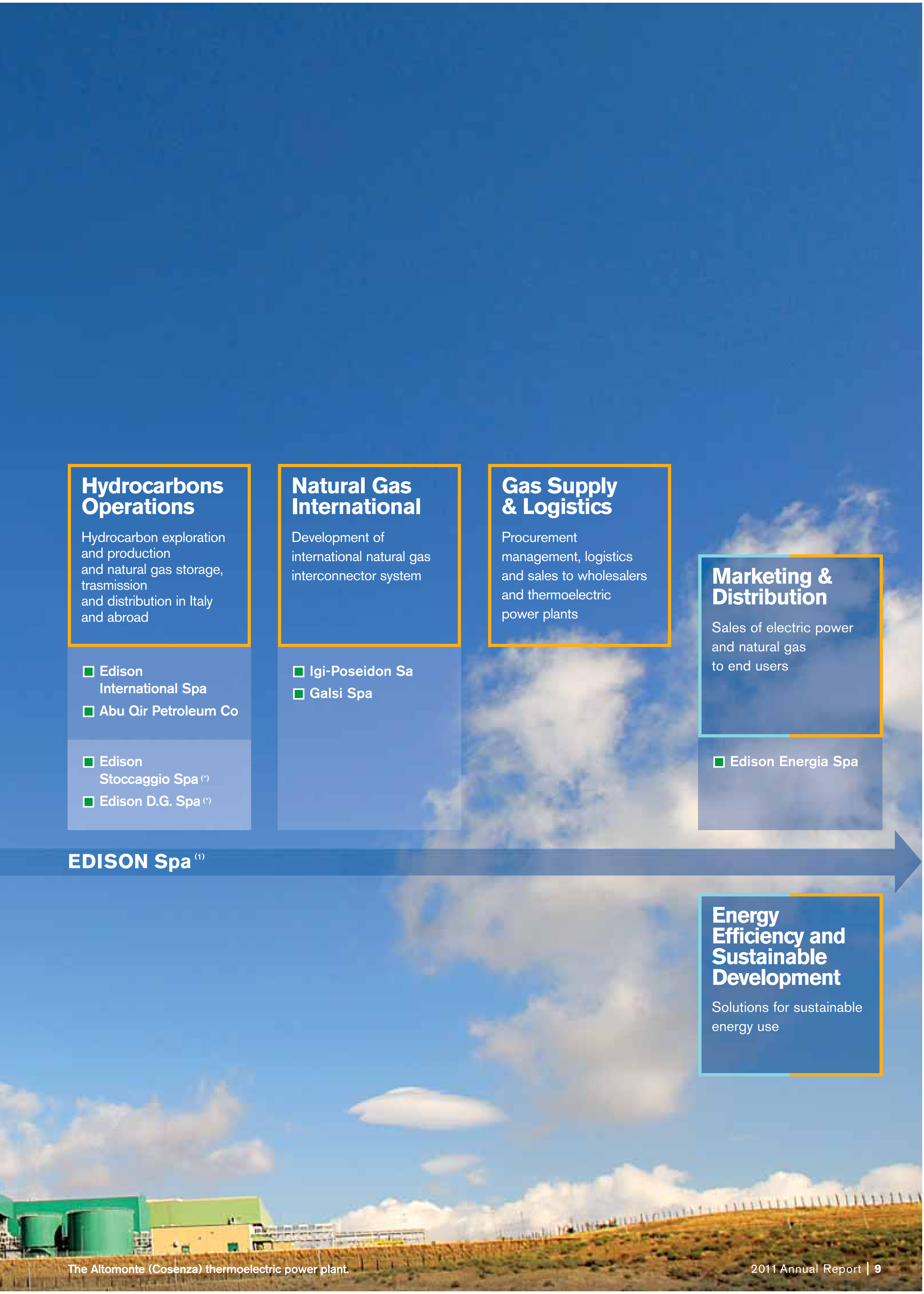
Hydrocarbons Business Unit

Main consolidated companies

(*) Companies subject to functional unbunding requirements.

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

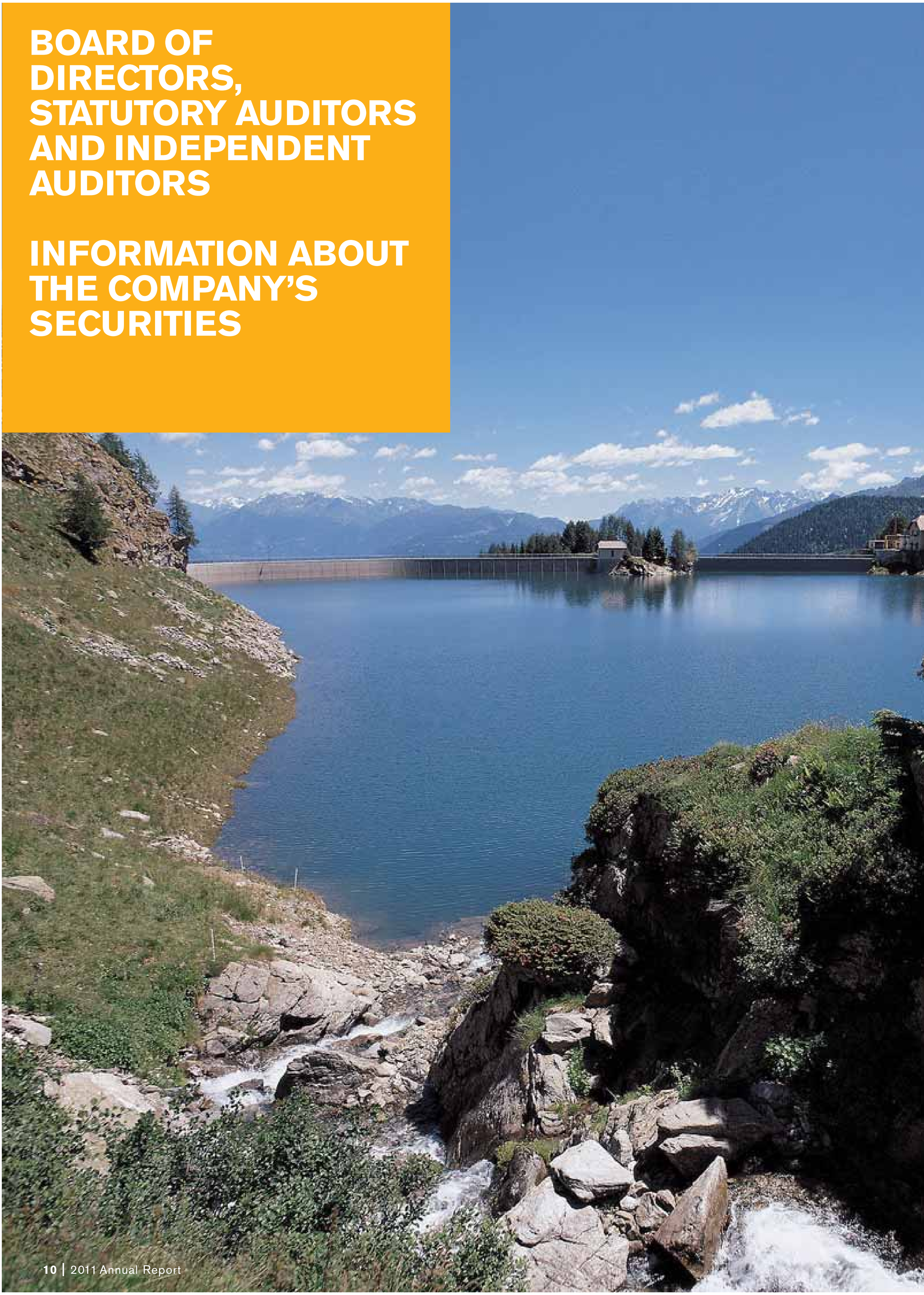
(2) Edipower Spa is consolidated proportionally at 50%. Treated as a "Discontinued Operation" at December 31, 2011.



The Altomonte (Cosenza) thermoelectric power plant.

BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

INFORMATION ABOUT THE COMPANY'S SECURITIES



BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS[*]

Board of Directors[1]

Chairman		Renato Ravanelli [2][3]
Chief Executive Officer		Bruno Lescoeur [3]
Directors	independent Director	Mario Cocchi [4][6]
	independent Director	Gregorio Gitti [4][6][7]
	independent Director	Gian Maria Gros-Pietro [4][5][6][7]
		Jean-Louis Mathias [3][4]
		Mauro Miglio [3][8]
		Thomas Piquemal [5]
		Henri Proglio
		Paolo Rossetti
		Klaus Stocker [5]
		Andrea Viero [5]
		Steven Wolfram [9]
Secretary to the Board of Directors		Lucrezia Geraci

Board of Statutory Auditors[10]

Chairman	Alfredo Fossati
Statutory Auditors	Angelomaria Palma
	Leonello Schinasi

Independent Auditors[11]

Deloitte & Touche Spa

(*) At the date of publication of this Annual Report.
(1) Elected by the Shareholders' Meeting of April 26, 2011 for a one-year period ending with the approval of the 2011 annual financial statements, except as indicated in notes 8) and 9).
(2) Elected by the Board of Directors of March 2, 2012 to replace Giuliano Zuccoli whose term of office ended on February 10, 2012.
(3) Member of the Strategy Committee.
(4) Member of the Compensation Committee.
(5) Member of the Audit Committee.
(6) Member of the Committee of Independent Directors.
(7) Member of the Oversight Board.
(8) Coopted on March 2, 2012 to replace Giuliano Zuccoli, whose term of office ended on February 10, 2012. In office until next Shareholders' Meeting.
(9) Coopted on December 21, 2011 to replace Adrien Jami, whose term of office ended on December 21, 2011. In office until next Shareholders' Meeting.
(10) Elected by the Shareholders' Meeting of April 26, 2011 for a three-year period ending with the approval of the 2013 annual financial statements.
(11) Audit assignment awarded by the Shareholders' Meeting of April 26, 2011 for nine years, from 2011 to 2019.

INFORMATION ABOUT THE COMPANY'S SECURITIES

Number of shares at December 31, 2011

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

Shareholders with Significant Holdings at December 31, 2011

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

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

The S. Stefano lake of the Armisa (Valtellina) hydroelectric power plant.

REPORT ON OPERATIONS

A detail of the Ripabottoni (CB) wind farm.

KEY EVENTS OF 2011

GROWING OUR BUSINESS

Edison is Awarded Three New Hydrocarbon Exploration Licenses in Norway: in the Barents Sea, the Norway Sea and the Southern North Sea

On November 19, 2011, Edison, through its Edison International Spa subsidiary, was awarded three new hydrocarbon exploration licenses in the Norwegian Continental Shelf which had been put out for bids by the Norwegian Oil and Energy Ministry. These new contracts officially sanction Edison's operator status in Norway, particularly under the challenging conditions of the Barents Sea.

The licenses include: blocks 7124/1 and 2 in the Barents Sea with Edison as operator with a 60% stake, through a joint venture with North Energy ASA (40%); block 6407/8 in the Norway Sea with Edison as operator with a 60% stake, through a joint venture with North Energy ASA (40%); blocks 7/1 and 2 and 16/10 in the southern North Sea with Edison having a 10% stake, through a joint venture with Talisman Energy (40%, operator), Det Norske ASA (20%), Skagen (10%) and Petoro AS (20%).

The three contracts call for an exploration period of three years, with the obligation of 3D seismic acquisition and the drilling of one well in the southern North Sea.

Edison Completes Price Renegotiations with ENI for the Supply of Natural Gas from Norway

On February 11, 2011, Edison successfully completed price renegotiations with ENI for the long-term contract to supply natural gas from Norway that expired at the end of the year.

The agreement reached by Edison and ENI settles a dispute on the supply price, thereby obviating further litigation between the parties. Overall, this settlement agreement generates significant cost savings compared with the price previously in effect.

Edison Completes Price Renegotiations with Promgas for the Supply of Natural Gas from Russia

On July 21, 2011, Edison and Promgas signed an agreement renegotiating the procurement price of the long-term contract for the supply of natural gas from Russia, which had an overall impact estimated at about 200 million euros for Edison in the 2011 reporting year.

Negotiations began at the end of 2008, with Edison requesting a reduction of the purchase price. In August 2010, with the parties unable to resolve their differences, Edison filed for arbitration. The abovementioned agreement put an end to the arbitration proceedings.

With the signing of this agreement, Edison, which holds an important portfolio of long-term contracts, begins to resolve a challenge that is being faced by all major gas companies in Europe with similar commitments.

Edison Continues to Grow in Hydrocarbon Exploration and Production and Is Awarded Two New Exploration Licenses in Norway

On April 15, 2011, Edison, through its Edison International Spa subsidiary, was awarded two new hydrocarbon exploration licenses in the Norwegian Continental Shelf which had been put out for bids by the Norwegian Oil and Energy Ministry (21st Exploration Round).

The licenses include Block PL 601 in the Norway Sea, with Edison at 20% in a joint venture with Wintershall (operator at 40%), Rocksource (20%) and North Energy (20%), and Block PL 613 in the Barents Sea, with Edison at 25% in a joint venture with Dong (operator at 40%) and Det Norske (35%). The two agreements call for an exploration period of three years, at the end of which a drill-or-drop decision will have to be made.

Edison and Mapei Inaugurate Two Photovoltaic Facilities

A photovoltaic facility built by Edison at a Mapei factory in Latina was inaugurated on May 21, 2011. This photovoltaic system, which was built on the roof of an industrial building at the Mapei factory, has

The Izabela platform in the Adriatic Sea, in Croatian waters.

an installed capacity of 970 kW and produces 1,100,000 kWh a year. The system supplies 80% of its production to help meet the factory's energy requirements.
The construction of the facility required the installation of 4,708 photovoltaic modules of polycrystalline silicon that, with an initial conversion of sunlight to energy of more than 13%, offer the best performance in terms of maintaining yield over time. The area covered by the solar panels totals over 6,800 square meters.
Subsequently, on May 27, 2011, another photovoltaic facility built by Edison was inaugurated at a factory of the Mapei Group at Robbiano di Mediglia, in the province of Milan.
This photovoltaic system, which was built on the roof of an industrial building at the Mapei factory, has an installed capacity of 865 kW and produces 880,000 kWh a year. The system supplies 95% of its production to help meet the factory's energy requirements.
The construction of the facility required the installation of 3,680 photovoltaic modules of polycrystalline silicon that cover an area of more than 6,000 square meters.

STRENGTHENING OUR FINANCIAL POSITION

Edison Signs an Agreement with ExxonMobil and Qatar Terminal to Reduce Its Stake in Terminale GNL Adriatico

On April 22, 2011, exercising its Tag Along option, Edison sold to ExxonMobil Italiana Gas Srl and Qatar Terminal Ltd a 2.703% stake in Terminale GNL Adriatico Srl for a price of 78.2 million euros. This transaction, which generated a gain of 5.1 million euros for Edison, lowered Edison's equity stake in Terminale GNL Adriatico Srl to 7.297%. However, it will have no impact on the agreements concerning the availability of regasification capacity expiring in 2034, pursuant to which Edison has access to 80% of the regasification capacity, equal to 6.4 billion cubic meters of gas a year. The remaining 20% of the capacity is available to market operators in accordance with the procedures required by the Electric Power and Natural Gas Authority (AEEG). The gas processed at the terminal for Edison originates from the North Field in Qatar, which, with estimated reserves in excess of 25,000 billion cubic meters, is currently the world's largest gas field.

Edison Signs an Agreement for a Bank Facility of 700 million Euros

On June 13, 2011, Edison signed an agreement for a facility of 700 million euros with a pool of banks that includes Banco Bilbao Vizcaya Argentaria Sa, Banco Santander Sa, (Milan Branch), Bank of America Securities Limited, BNP Paribas (Italy Branch), Commerzbank Aktiengesellshaft (Milan Branch), Crédit Agricole Corporate & Investment Bank (Milan Branch), Intesa Sanpaolo Spa, JPMorgan Chase Bank, N.A. (Milan Branch), Mediobanca, Banca di Credito Finanziario Spa, Société Générale Corporate & Investment Banking (Milan Branch), The Royal Bank of Scotland Plc (Milan Branch), UniCredit Spa, in the capacity as Mandated Lead Arrangers, and Banca IMI, in the capacity as Agent Bank.
This financing transaction, which was executed on a club-deal basis, requires no syndication activity. It is an unsecured revolving credit senior facility, indexed to the Euribor, plus a spread in line with current best market terms, and has a duration of 18 months (after the first year, the Company has the option of extending the maturity by six months).
The main purpose of this facility was to fund the Company's operating and financing needs, including the repayment of 500 million euros in bonds that matured in July 2011.

OTHER KEY EVENTS

Moody's Confirms Edison's Rating and Revises the Outlook from Stable to Negative

On June 17, 2011, the Moody's rating agency confirmed Edison's Baa3 long-term credit rating and revised the outlook from stable to negative.
According to the rating agency, this revision reflects a deterioration of the Group's risk profile, caused by persistent weakness in the energy market, the risks entailed by the potential inability to renegotiate long-term gas procurement contracts and the failure by the shareholders to reach an agreement to restructure the Company's stock ownership.

Subsequently, on December 7, 2011, Moody's placed Edison's Baa3 rating under revision for a possible downgrade, due to the uncertainty caused by the mounting delays by Edison's shareholders in reaching an agreement to redefine the Company's governance.

Standard & Poor Revises Edison's Rating

On June 21, 2011, the Standard & Poor's rating agency placed Edison's BBB long-term credit rating on Credit Watch Developing, indicating the possibility that Edison's credit rating could be revised over the near term.
Subsequently, on December 5 2011, the Standard & Poor's rating agency revised Edison's long-term and short-term credit rating, downgrading it from BBB to BBB- and from A-2 to A-3, respectively, with Negative Credit Watch. The rating agency cited a deterioration of Edison's risk profile, caused mainly the persisting phase of weakness in the natural gas market as the reason for the downgrade. The Negative Credit Watch reflects the uncertainty caused by the stalemate in the negotiations among shareholders for the Group's restructuring and doubts about Edison's ability to maintain a liquidity profile that is "adequate" by the criteria used by Standard & Poor's.

Edison Sells Its Taranto Power Plants to ILVA

On October 10, 2011, Edison closed a transaction selling to ILVA (Riva Group) the entire share capital of Taranto Energia Srl, a company to which Edison conveyed the business operations comprised of the CET 2 and CET 3 thermoelectric power plants, located within ILVA's industrial complex in Taranto.
The consideration received by Edison was about 164.4 million euros.

Edison: The Board of Directors Approves the Agreement in Principle to Restructure Edison and Edipower

On January 24, 2012, Edison's Board of Directors, having heard the favorable opinion rendered by the alternative governance body equivalent to the Committee of Independent Directors, comprised of the independent Directors Gregorio Gitti and Gian Maria Gros-Pietro, based on the fairness opinion provided by Rothschild and Goldman Sachs, approved the agreement in principle to restructure Edison and Edipower executed by A2A, Delmi and EDF on December 26, 2011, each company within the scope of its jurisdiction, calling for the sale to Delmi of the equity interest held in Edipower for about 600 million euros and a contract for the sale of natural gas to Edipower
Edison's Board of Directors, comforted by a fairness opinion issued by Lazard, approved the agreement, which it shall implement by the February 15, 2012 deadline for industrial and financial reasons.

The sale and concurrent deconsolidation of the equity investment in Edipower will improve the Edison Group's net financial position by about 1.1 billion euros, with an attendant positive impact on its balance sheet ratios, releasing resources that will be used to develop Edison's operations.
The contract for the supply of gas by Edison to Edipower will enable the Company to maintain unchanged the balance between gas supply sources and uses.

Early Termination of the CIP 6/92 Contract for the CET3 Power Plant in Piombino

At the beginning of 2012, Edison signed an agreement with the Electrical Services Manager (abbreviated as GSE in Italian) for a voluntary early termination of the CIP 6/92 contract for the CET3 power plant in Piombino, in accordance with the terms of the Ministry Decrees of December 2, 2009 and June 23, 2011. The termination will be effective as of January 1, 2013.
With this transaction, Edison completed the process of early termination of the CIP 6/92 contracts that started in 2010.

SIGNIFICANT EVENTS OCCURRING SINCE DECEMBER 31, 2011

Information about events occurring after the end of the year covered by this Report is provided in the section of the Consolidated Financial Statements entitled "Significant Events Occurring Since December 31, 2011."

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 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.

Moreover, further to the agreements for Edison's corporate restructuring, which, inter alia, call for the sale of Edipower Spa once certain conditions precedent are met, and in view of the significance of the assets that are being divested, the Edison Group opted for presenting Edipower's contribution as from discontinued operations, in accordance with IFRS 5, which calls for the reclassification to a separate line item of the net assets and results from assets held for sale; also 2010 amounts have been reclassified accordingly. However, in order to offer a more meaningful presentation of the industrial margins and provide continuity with the interim financial statements published during the year, in the tables that follow the industrial results that are most significant from an operating standpoint (sales revenues, EBITDA and capital expenditures) are shown with Edipower still consolidated proportionally at 50% on a line- by-line basis.

Edison Group

(in millions of euros)	2011	2011 (5)	2010	2010 (5)	% change
Sales revenues	11,381	12,097	9,685	10,446	*17.5%*
EBITDA	887	1,003	1,264	1,369	*(29.8%)*
as a % of sales revenues	*7.8%*	*8.3%*	*13.1%*	*13,1%*	
EBIT	2		307		*(99.3%)*
as a % of sales revenues	*n.m.*		*3.2%*		
Net profit (loss) from continuing operations	(273)		123		*n.m.*
Net profit (loss) from discontinued operations	(605)		(74)		*n.m.*
Group interest in net profit (loss)	(871)		21		*n.m.*
Capital expenditures	482	503	456	505	*5.7%*
Investments in exploration	46	46	52	52	*(11.5%)*
Net invested capital (A + B)	11,030		11,845		*(6.9%)*
Net financial debt (A) (1)	3,884		3,708		*4.7%*
Total shareholders' equity (B)	7,146		8,137		*(12.2%)*
Shareholders' equity attributable to Parent Company shareholders	6,988		7,939		*(12.0%)*
ROI (2)	n.m.		3.08%		
ROE (3)	n.m.		0.26%		
Debt/Equity ratio (A/B)	0.54		0.46		
Gearing (A / A+B)	35%		31%		
Number of employees (4)	3,764		3,939		*(4.5%)*

(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 from continuing operations.
Net invested capital from continuing operations does not include the value of equity investments held as non-current assets and is computed as the arithmetic average of net invested capital at the end of the year and at the end of the previous year.
(3) Group interest in net profit/Shareholders' equity attributable to Parent Company shareholders.
Average shareholders' equity is the arithmetic average of shareholders' equity at the end of the year and at the end of the previous year.
(4) Companies consolidated line by line and Group interest in companies consolidated by the proportional method.
(5) Edipower consolidated proportionally at 50% on a line- by- line basis.

The Toppo Grosso wind farm in Benevento.

Edison Spa

(in millions of euros)	2011	2010	% change
Sales revenues	5,833	5,591	*4.3%*
EBITDA	108	368	*(70.7%)*
as a % of sales revenues	*1.9%*	*6.6%*	
EBIT	(486)	(36)	*n.m.*
as a % of sales revenues	*n.m.*	*n.m.*	
Net profit (loss) from continuing operations	(372)	(64)	*n.m.*
Net profit (loss) from discontinued operations	(524)	(22)	*n.m.*
Net profit (loss)	(896)	(86)	*n.m.*
Capital expenditures	177	201	*(11.9%)*
Net invested capital	7,753	8,534	*(9.2%)*
Net financial debt	1,870	1,670	*12.0%*
Shareholders' equity	5,883	6,864	*(14.3%)*
Debt/equity ratio	0.32	0.24	
Number of employees	1,588	1,740	*(8.7%)*

Sales Revenues and EBITDA by Business Segment

As explained in the preceding section, in in order to offer a more meaningful presentation of the industrial margins and provide continuity with the interim financial statements published during the year, in the tables that follow the industrial results that are most significant from an operating standpoint (sales revenues and EBITDA) are shown with Edipower still consolidated proportionally at 50% by the line-by-line basis.

(in millions of euros)	2011	2011 (**)	2010	2010 (**)	% change
Electric Power Operations (1)					
Sales revenues	7,437	8,153	6,528	7,289	*13.9%*
Reported EBITDA	509	625	950	1,055	*(46.4%)*
Adjusted EBITDA*	702	818	1,025	1,130	*(31.5%)*
Hydrocarbons Operations (2)					
Sales revenues	5,468	5,468	5,040	5,040	*8.5%*
Reported EBITDA	484	484	413	413	*17.2%*
Adjusted EBITDA*	291	291	338	338	*(13.9%)*
Corporate Activities and Other Segments (3)					
Sales revenues	50	50	51	51	*(2.0%)*
EBITDA	(106)	(106)	(99)	(99)	*(7.1%)*
as a % of sales revenues	*n.m.*	*n.m.*	*n.m.*	*n.m.*	
Eliminations					
Sales revenues	(1,574)	(1,574)	(1,934)	(1,934)	*18.6%*
EBITDA	-	-	-	-	-
Edison Group					
Sales revenues	**11,381**	**12,097**	**9,685**	**10,446**	***17.5%***
EBITDA	**887**	**1,003**	**1,264**	**1,369**	***(29.8%)***
as a % of sales revenues	***7.8%***	***8.3%***	***13.1%***	***13.1%***	

(1) Activities carried out by the following Business Units: Electric Power Operations, Power International, Renewable Sources, Energy Efficiency and Sustainable Development, Energy Management and Marketing & Distribution.
(2) Activities carried out by the following Business Units: Hydrocarbons Operations, Gas International, Gas Supply & Logistics and Marketing & Distribution.
(3) Includes those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature and certain holding companies and real estate companies.

(*) Adjusted EBITDA reflect the effect of the reclassification of the results of commodity and foreign exchange hedges executed in connection with contracts to import natural gas. Within the framework of the policies to manage business risks, the purpose of these hedges is to mitigate the risk of fluctuations in the cost of natural gas earmarked for the production and sale of electric power and for direct gas sales. The gains or losses generated by these transactions, which are recognized by the Hydrocarbons Operations, were reclassified under the Electric Power Operations. This reclassification is being made in view of the significant impact of fluctuations in commodity prices and foreign exchange parities that occurred during the year, in order to provide an operational presentation of the Group's industrial results.
The adjusted EBITDA amount is not tested by the Independent Auditors.

(**) Edipower consolidated proportionally at 50% on a line- by- line basis.

PERFORMANCE AND RESULTS OF THE GROUP IN 2011 AND BUSINESS OUTLOOK FOR 2012

Operating Performance

The Group reported sales revenues of 11,381 million euros in 2011, for an increase of 17.5% compared with the previous year. A breakdown by business segment shows gains of 13.9% for the Electric Power Operations and 8.5% for the Hydrocarbon Operations, due mainly to a rise in sales prices driven by the trend in the benchmark scenario.

EBITDA totaled 887 million euros in 2011. The decrease of 377 million euros (-29.8%) compared with 1,264 million euros in 2010 reflects reductions in adjusted EBITDA(1) reported both by the Electric Power Operations (-323 million euros) and the Hydrocarbons Operation (-47 million euros).
More specifically, the negative change in the Adjusted EBITDA(1) of the Electric Power Operations was caused mainly by lower profitability in the CIP 6/92 segment, due to the early termination of some contracts, which resulted in the recognition of non-recurring proceeds of 173 million euros in 2010. As for the Hydrocarbons Operations, the reduction in adjusted EBITDA(1) was the result of a negative performance by the natural gas trading activities, which generated a loss that could be offset only in part by a positive contribution from the exploration and production activities. EBITDA for the year were also boosted by the renegotiations of the long-term contracts for the supply of natural gas from Norway and Russia successfully completed with Eni and Promgas, respectively.
A more detailed description of the developments that characterized 2011 is provided in the section of this Report that reviews the performance of the Group's businesses.
For the sake of a more complete presentation, it is worth mentioning that, had Edipower been consolidated line by line, EBITDA would have amounted to 1,003 million euros, or 366 million euros less (-26.7%) than the 1,369 million euros earned in 2010 and that the decrease is attributable to the same factors mentioned above.

EBIT amounted to 2 million euros, compared with 307 million euros in 2010.
This amount, in addition to reflecting the decline in profitability mentioned in the comment to EBITDA, is also due to the impact of depreciation, amortization and writedowns totaling 885 million euros (957 million euros in 2010).
The decrease in depreciation and amortization, which amounted to 535 million euros (598 million euros in 2010), is attributable mainly to the effect of the expiration of some CIP 6/92 contracts and the writedowns recognized at the end of 2010 and to lower exploration costs, which more than offset the impact of the additional depreciation expense recognized following the commissioning of new production facilities.
Net writedowns of 350 million euros (359 million euros in 2010) reflect mainly the impact of the impairment test on some assets and goodwill, offset in part by a 125 million euro value reinstatement for the Abu Qir concession in Egypt. Writedowns of property, plant and equipment (254 million euros) refer almost exclusively to thermoelectric power plants, including, more specifically, a higher country risk for the power plants located in Greece and, for some facilities in Italy, expectations of reduced margins due to a continuation of low profitability conditions in the Italian electric power market and the decision to opt for early termination of the CIP 6/92 contract for the Piombino power plant as of January 1, 2013. In addition, the goodwill allocated to the electric power operations was written down by 213 million euros, due to a revision of the estimates of the projected profitability of the margins in the electric power area, determined by the strong competitive pressure that continues to characterize the Italian electric power market.

The net loss from continuing operations, which is after net financial expense of 160 million euros and income taxes of 96 million euros, amounted to 273 million euros (net profit of 123 million euros in 2010). In this regard, it is worth mentioning that the liability for current taxes reflects the impact of

(1) See note on page 20.

Law No. 148 of September 14, 2011, which expanded the applicability to companies in the renewable energy and natural gas distribution sector of the corporate income tax (IRES) surcharge and raised the rate from 6.5% to 10.5% for three years, from 2011 to 2013, with a negative effect of 20 million euros, 3 million euros of which included in net profit (loss) from discontinued operations.

The net loss from discontinued operations, amounting to 605 million euros, is attributable for 591 million euros to the classification of Edipower's contribution to assets held for sale (571 million euros of which refers to writedowns of Edipower's assets, including the pro rata share of the undifferentiated goodwill allocated to it, to their presumed sales value). For additional information, please see the detailed analysis about discontinued operations provided in the section of the consolidated financial statements entitled "Disclosure About Disposal Groups (IFRS 5)."

At December 31, 2011, net financial debt amounted to 3,884 million euros, up from 3,708 million euros at the end of 2010. More detailed information about the individual components of this item is provided in the "Net Financial Debt" chapter of the Notes to the Consolidated Financial Statements.

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

(in millions of euros)	2011	2010(*)
A. NET FINANCIAL (DEBT) AT BEGINNING OF THE YEAR	**(3,708)**	**(3,858)**
EBITDA	887	1,264
Change in operating working capital	(494)	148
Income taxes paid (-)	(184)	(292)
Change in other assets (liabilities)	(1)	(153)
B. CASH FLOW FROM OPERATING ACTIVITIES	**208**	**967**
Investments in property, plant and equipment and intangibles (-)	(528)	(508)
Investments in non-current financial assets (-)	(3)	(7)
Acquisition price of business combinations (-)	-	(42)
Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	259	8
Capital distributions from equity investments	11	8
Dividends received	5	1
C. FREE CASH FLOW	**(48)**	**427**
Financial income (expense), net	(160)	(117)
Contributions of share capital and reserves	-	10
Dividends paid (-)	(22)	(259)
D. CASH FLOW AFTER FINANCING ACTIVITIES	**(230)**	**61**
Discontinued operations	54	89
E. NET CASH FLOW FOR THE YEAR	**(176)**	**150**
F. NET FINANCIAL (DEBT) AT END OF THE YEAR	**(3,884)**	**(3,708)**

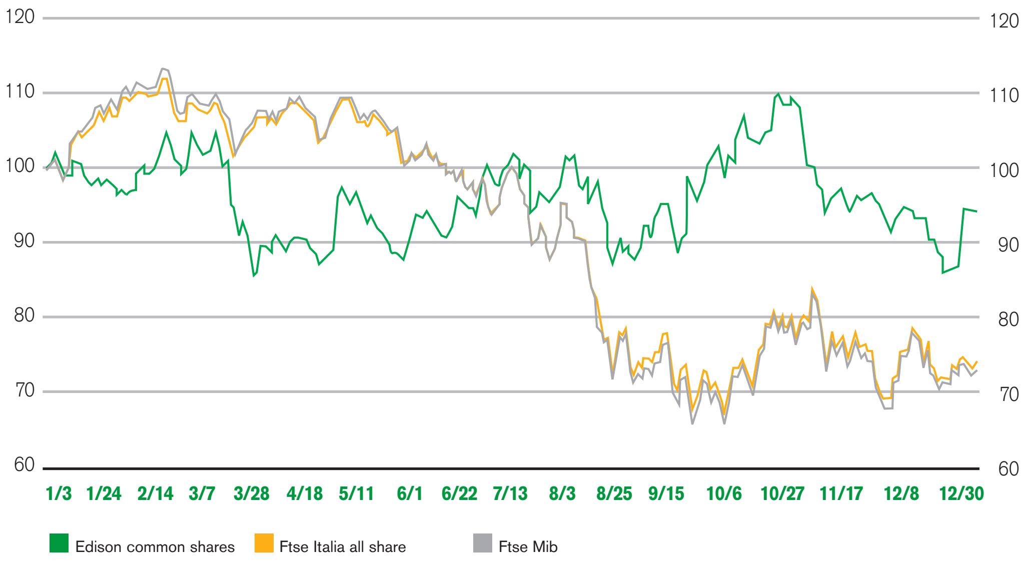
(*) Pursuant to IFRS 5, the data for 2010 were reclassified.

Outlook for 2012

The fully successful renegotiation of the contracts to purchase gas from Libya and Qatar will account for about half of 2012 EBITDA, which will be in line with the amount reported in 2010, net of the contribution provided by Edipower's operations. In 2012, following the planned divestment of Edipower and the concurrent reorganization of the Company's governance, Edison will significantly improve its financial profile and, consequently, its investment and development potential both in Italy and abroad.

EDISON AND THE FINANCIAL MARKETS

Chart of the stock market prices of the Edison shares in 2011.



Stock Market Price and Other Per Share Data

	December 31, 2011	December 31, 2010
Edison Spa		
Stock market price (unit price in euros) [(1)]:		
- common shares	0.7954	0.8660
- savings shares	0.7701	1.2365
Number of shares (at end of the year):		
- common shares	5,181,108,251	5,181,108,251
- savings shares	110,592,420	110,592,420
Total shares	**5,291,700,671**	**5,291,700,671**
Edison Group		
Earnings (Loss) per share:		
basic earnings (loss) per common share [(2)]	(0.1692)	0.0034
basic earnings per savings share [(2)]	0.0500	0.0334
diluted earnings (loss) per common share [(2)]	(0.1692)	0.0034
diluted earnings per savings share [(2)]	0.0500	0.0334
Shareholders' equity per share attributable to the controlling company's shareholders (in euros)	1.321	1.500
Price/Earnings ratio (P/E) [(3)]	n.m.	254.38

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

Other Financial Indicators

Rating

	Current	December 31, 2010
Standard & Poor's		
Medium/Long-term rating	BBB-	BBB
Medium/long-term outlook	Credit Watch Negative	Stable
Short-term rating	A-3	A-2
Moody's		
Rating	Baa3	Baa3
Medium/Long-term outlook	On review for downgrade	Stable

AN EVOLVING SCENARIO. MARKETS AND REGULATIONS

ECONOMIC FRAMEWORK

There were two distinct phases in 2011. During the first part of the year, an ongoing economic recovery fueled expectations that the grave global economic crisis, triggered by the bursting of the real estate and financial bubble in the United States in 2008, had finally ended. However, as the months wore on, 2011 became increasingly problematic, due mainly to two factors: the first factor was a deepening of the sovereign debt crisis in Europe, which gradually extended from the "peripheral" countries to Spain and Italy, even touching France; the second factor was a sudden deterioration of the economic environment, caused primarily by concerns about the financial health of governments and the financial strength of banks, that resulted in a drastic reduction of growth estimates for European countries and the United States. The United States are faced with numerous internal economic problems, including a sharp increase in government debt on top of an already high level of private sector debt, a large trade deficit and a real estate market that is still struggling to regain its footing and begin to recover.

On the other hand, the euro zone showed an evident inability to deal with the sovereign debt crisis as decisively and expeditiously as would have been required. The EU Rescue Fund is struggling to take off; Germany continues to oppose the idea of using Eurobonds to stabilize the debt situation and finance new infrastructural investments; the crisis of the treasury securities of many countries caused a deterioration for the assets of many banks and credit flows to businesses shrank further.

The weakness of the U.S. economy, coupled with a faltering of the European recovery, affected during the year the growth of other important countries that, in recent years, had been the engines driving the expansion of the global economy, China above all. Specifically, while in the first quarter of the year the gross domestic product of the Chinese giant seemed to still be riding the momentum provided by the strong growth of 2010, the pace of expansion began to slacken in the later quarters. The International Monetary Fund attributed this development directly to the uneven performance of the U.S. economy and the worsening crisis of the sovereign debt of many European countries. In addition, the repercussion on the global economy of the devastating Japanese earthquake and an obvious slowing of the Indian economy in the second half of the year are also factors that should be taken into account.

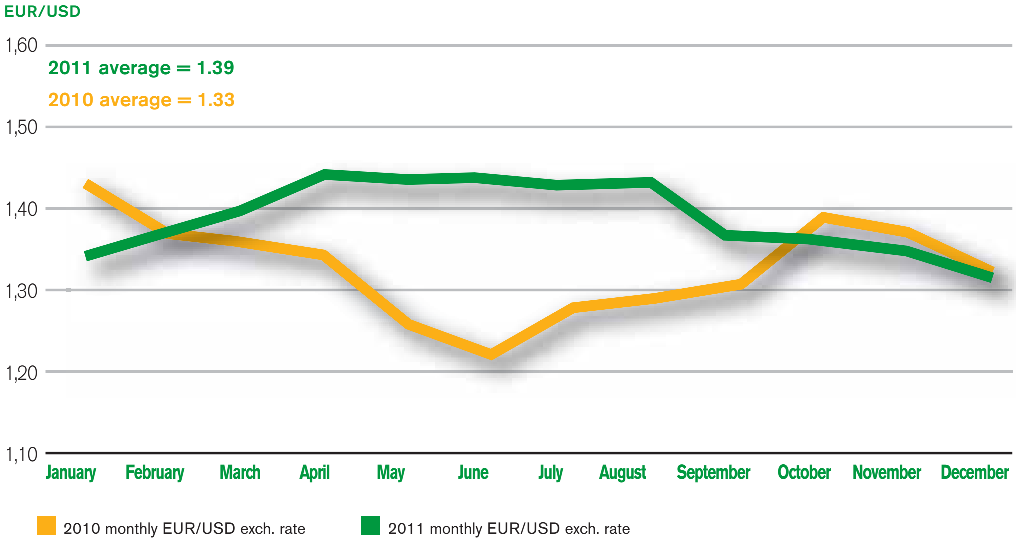
Overall, the global economy slowed considerably in 2011, making the risk of a recession in 2012 more likely, particularly in Europe, where an across-the-board drop in industrial production did not spare even the more dynamic economies of Germany and France.

The weakening of the global economy in 2011 was accompanied and partly influenced by other developments of a political-social and political-economic nature. Major political-social events worth mentioning include the revolts in North Africa that, starting in Tunisia, affected several countries in that region and led to the fall of long established regimes, such as those of Gheddafi in Libya and Mubarak in Egypt.

In Europe, Italy's efforts to follow a strict debt control policy since 2008 were not enough to convince the financial markets that the country was financially sound, due mainly to the high level of long-term government debt and relative political instability that prevented the adoption of immediate and necessary decisions. In the fall, a deepening of the crisis led to the replacement of the Berlusconi government with the Monti government and the launch of the "Save Italy" legislative package, coupled with a major financial effort to reassure the markets and the European Union about Italy's change of direction. However, the spread between the interest rate on Italy's ten-year treasury bonds and the corresponding German Bund remained high, at a level above 500 points and showed no improvement by the end of the year. The result was an increase in the average cost of government debt, higher costs paid by banks for sources of funds and a spike in the rates paid by businesses and households, with an attendant impact on investment projects and purchases of durable goods.

Detail of the Candela (FG) thermoelectric power plant.

Insofar as the euro/U.S. dollar exchange rate is concerned, 2011 was characterized by a general appreciation of the European currency, with the average exchange rate rising to 1.39 U.S. dollars for one euro, up 4.9% compared with the average rate for 2010, which was 1.33 U.S. dollars for one euro. More specifically, the euro appreciated steadily in value until April, when the average exchange rate reached 1.44 U.S. dollars for one euro; from May to August the exchange rate stayed with the range of 1.43-1.44 US dollars for one euro, only to begin declining in September, as the crisis of confidence in the euro zone deepened, due to questions about the solvency of Greece and later other countries, including Italy, reaching a low of 1.32 U.S. dollars for one euros in December.



In the oil market in 2011, crude prices, after rising during the first three months of the year, peaked at USD 123.1 per barrel in April, but followed a slight downward trend in subsequent months. Starting in May, Brent prices showed only modest monthly changes, despite high intraday volatility, falling from USD 114.4 per barrel to USD 107.7 per barrel in December. The lack of stress factors, such as the political crises in Libya and Egypt and the resulting concern about oil supplies in the world markets that caused prices to spike upward, contributed to stabilizing crude prices. Subsequently, the downgrading of U.S. government debt and the growing uncertainty in the world macroeconomic environment caused by the crisis in the euro zone constrained any upward fluctuations in the price of oil, despite persisting instability in the Middle East.

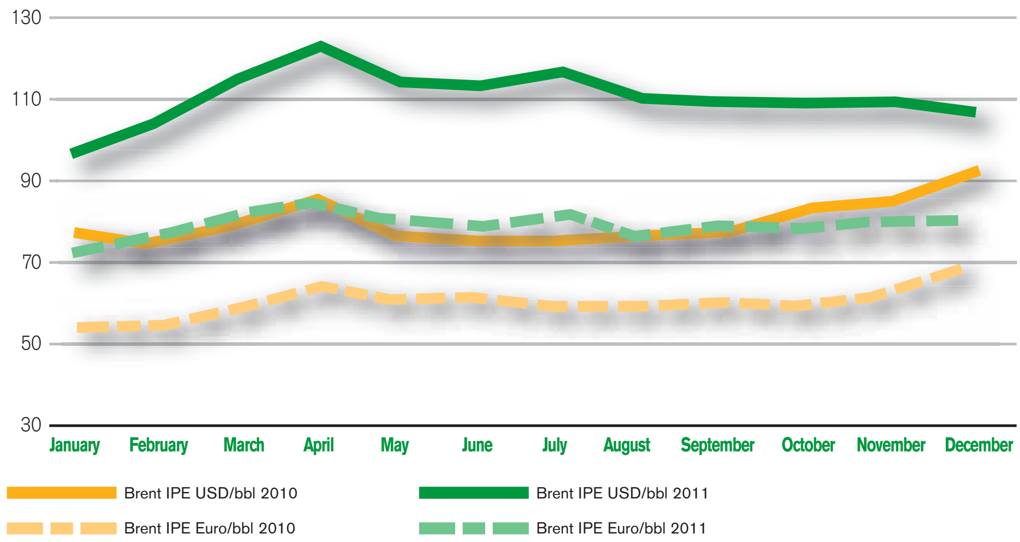
Compared with 2010, the price of oil increased by 38.1% on an average annual basis, to an average price of USD 110.8 per barrel, the highest ever recorded in nominal terms. Even in 2008, when the price of oil rose to the all-time high of almost USD 150 per barrel, the average for the year held below USD 100 per barrel.

Thanks to the appreciation of the European currency versus the greenback, the price of crude oil increased less in euros than in U.S. dollar terms, averaging EUR 79.6 per barrel, or 31.6% more than the average for 2010.

The table and chart provided below show the average annual data and the monthly trends for 2011 and 2010:

	2011	2010	% change
Oil price in USD/bbl [(1)]	110.8	80.3	38.1%
USD/EUR exchange rate	1.39	1.33	4.9%
Oil price in EUR/bbl	79.6	60.5	31.6%

[(1)] Brent IPE



In the macroeconomic scenario, the rise in raw material prices extended to other commodities as well. Specifically, the price of AP12 coal increased by 32% compared with 2010 to a high of USD 121.5 per ton and European gas prices were also up substantially on an annual basis. A good example is the main continental gas hub (TTF), were prices rose by 30% compared with 2010.
The only exception in this environment was the market for CO_2 emissions credits, where prices decreased by about 8%, due to the slowing of the European economies and a surplus of credits.

THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy and Market Environment

TWh	2011	2010	% change
Net production:	289.2	290.7	(0.5%)
- Thermoelectric	217.4	221.0	(1.6%)
- Hydroelectric	47.7	53.8	(11.4%)
- Other renewables [1]	24.1	15.9	51.1%
Net imports	45.6	44.2	3.3%
Pumping consumption	(2.5)	(4.4)	(43.5%)
Total demand	**332.3**	**330.5**	**0.6%**

Source: Analysis of 2010 official and 2011 pre-closing Terna data, before line losses.
[1] Includes production from geothermal, wind power and photovoltaic facilities.

In 2011, gross total demand for electric power from the Italian grid totaled 332.3 TWh (TWh = 1 billion kWh), or 0.6% more than in the previous year. On a seasonally adjusted basis (i.e., eliminating the impact of changes in average temperature and the number of business days), demand was up 0.7% compared with 2010. Most of this increase occurred in the first nine months of the year, as demand in the fourth quarter was lower than in the same period in 2010, due in part to unusually mild weather during the period in question.

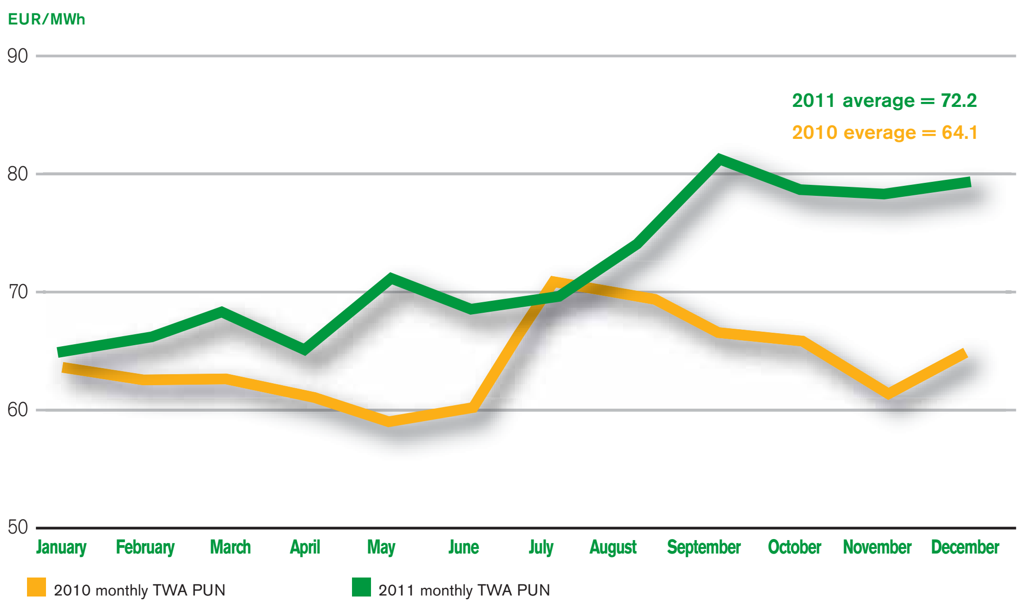
Even though demand for electric power grew by 1.8 TWh, net production of electric power decreased by 1.5 TWh in 2011 as a result of a 1.4 TWh increase in net imports and a 1.9 TWh reduction in pumping consumption.
Net of pumping consumption, domestic production covered 86% of demand in 2011, down slightly compared with 87% in 2010, with net imports covering the remaining 14%. Net imports of electric

power totaled 45.6 TWh, or 3.3% more than in 2010. This gain is the combined result of an increase of about 1.4 TWh in imports and a decrease of about 0.1 TWh in exports. More specifically, net imports from the Northwest (borders with France and Switzerland) increased by 5.2 TWh, while those from the Northeast (borders with Austria and Slovenia) and the South (border with Greece) decreased by 2.9 TWh and 0.8 TWh, respectively.

The decrease of 3.6 TWh in thermoelectric output recorded in 2011 (-1.6% compared with 2010) was due mainly to a sharp increase of 8.2 TWh in production from renewable energy sources (+51.1%), a reduction of about 6.1 TWh in hydroelectric output (-11.4%) and a decrease of 1.5 TWh in net domestic production (-0.5%). Specifically with regard to the main renewable energy sources, in addition to the abovementioned decrease in hydroelectric production caused by a lower availability of water resources, there was an unprecedented increase in production by photovoltaic facilities (+7.4 TWh; +394%) thanks to a surge in installed capacity, which more than tripled in 2011, reaching about 12.5 '000/MW. There were also increases in the output of wind farms (+0.5 TWh; +5.7%) and geothermal power plants (+0.3 TWh; +5.2%).

Insofar as the pricing scenario is concerned, the time-weighted average (TWA) for the Single National Price (abbreviated as PUN in Italian) increased to 72.2 euros per MWh, for a gain of 12.6% compared with 2010 (64.1 euro/MWh). An analysis by groups of hours shows that, compared with the previous year, the increase was more pronounced during off-peak hours (nights and weekends; +16.1%) than during peak hours (day hours on week days; +8.0%).
As shown in the chart below, the PUN level trended higher due mainly to a steady increase in the price of gas, which follows crude oil prices. As may be gleaned by a parallel with the chart for the Gas release 2, with a few exceptions caused by weather rather than calendar dynamics, the PUN for the two periods follows a trend very similar to that of indexed gas. More specifically, on a monthly basis, the impact of weather temperature produced lower prices than in 2010 only in July (when the weather was cooler than usual) and significantly higher prices in September, when the weather was warner than usual. In the fourth quarter of 2011, the average PUN stabilized, as the impact on prices of the higher cost of gas was offset by the abovementioned decrease in demand that characterized the closing months of 2011.

The chart below provides a comparison of the monthly TWA PUN in 2011 and 2010:



Demand for Natural Gas in Italy and Market Environment

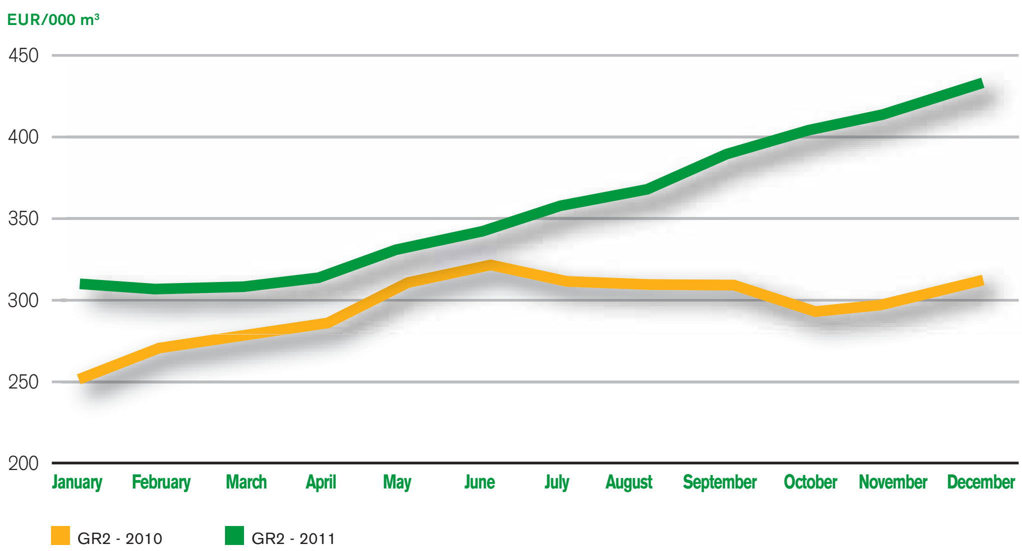
in billions of m³	2011	2010	% change
Services and residential customers	30.5	33.8	(9.9%)
Industrial users	17.9	17.6	1.6%
Thermoelectric power plants	27.7	29.8	(7.1%)
System usage and leaks	1.3	1.4	(6.0%)
Total demand	**77.4**	**82.6**	**(6.4%)**

Source: 2010 data and preliminary 2011 data from Snam Rete Gas and the Ministry of Economic Development.

In 2011, Italian demand for natural gas contracted by 6.4% compared with the previous year to a total of about 77.4 billion cubic meters, for an overall reduction of about 5.2 billion cubic meters.
This decrease is attributable mainly to lower consumption by residential customers, which fell by about 3.3 billion cubic meters (-9.9% compared with 2010), and by thermoelectric users, which contracted by about 2.1 billion cubic meters (-7.1% compared with the previous year).
The decrease in consumption by residential customers was due for the most part to different weather patterns, with warmer weather during the winter months in 2011 than in the winter of 2010.
The drop in demand from thermoelectric power plants is due mainly to a sharp rise in production from renewable sources, higher output from coal-fired facilities and net imports. A modest economic recovery helped boost consumption by industrial users (+0.3 billion cubic meters; +1.6% compared with 2010), but demand remained well below the levels achieved in 2008.
The following developments characterized supply sources in 2011:

- domestic production was down slightly compared with 2010 (-0.1 billion cubic meters; -1.3% compared with 2010);
- significantly lower imports of natural gas (-4.9 billion cubic meters; -6.5% compared with 2010), in line with the decrease in consumption;
- a net increase of about 0.9 billion cubic meters in stored gas, on an annualized basis, reflecting an increase in national storage capacity in 2011 and natural gas price dynamics.

As for the monthly trend of the prices for indexed gas, the chart provided below, which uses the Gas Release 2 formula as a benchmark, shows the impact of a level of Brent prices in euros per barrels that was substantially higher than in 2010, which, given the built-in time lag, pushed prices sharply higher.
A comparison with 2010 thus shows an upward bias in the Gas release 2 formula for all of 2011, for an increase of 21.0%.




Elpedison, a joint venture of Edison and Hellenic Petroleum, inaugurated a new 420-MW, combined-cycle power pant in Thisvi, Greece, in 2011.

The rate component that corresponds to the Wholesale Distribution Charge (abbreviated as CCI in Italian), which is indicative of the prices charged in the residential market, reflects changes in the basket of benchmark fuels with a longer time lag than the Gas Release 2 due to a different indexing mechanism and regulatory provisions introduced by the AEEG. The generalized increase in commodity prices is reflected in the CCI with an increase of about 19.8% compared with the previous year. The different indexing mechanism and the quarterly value of the CCI formula caused the differential between the two formulas to widen. Moreover, in a scenario of rising commodity prices, the differential was affected in part by actions taken by the AEEG to mitigate the effects of higher oil prices on the price charged to residential users.

The table below shows the average prices for the Gas Release 2 and the CCI in 2011 and 2010:

	2011	2010	% change
Gas Release 2 - euros/000 m^3 (1)	357.4	295.4	21.0%
CCI – euros/000 m^3 (2)	323.6	270.0	19.8%

(1) Gas Release 2: Gas sold by ENI to competitors pursuant to a 2007 resolution by the Antitrust Authority. It reflects the trend of natural gas prices under long-term supply contracts. The price is the one quoted on the Virtual Exchange Facility.
(2) Wholesale distribution charge set pursuant to Resolution No. 134/06 and updated pursuant to Resolutions ARG/gas No. 192/08, No. 40/09, No. 64/09, No. 89/10 and No. 77/11.The price is the one quoted at the border.

LEGISLATIVE AND REGULATORY FRAMEWORK

The main legislative and regulatory measures enacted in 2011 that had an impact on the various businesses of the Group are reviewed below.

Electric Power

Production

Early termination of CIP 6/92 contracts: The decree by the Ministry of Economic Development that defines the parameters and methods for early termination of CIP 6/92 contracts for facilities that burn process fuels (the Taranto and Piombino power plants, for Edison) was published in August 2011, in Issue No. 185 of the *Official Gazette of the Italian Republic.* Specifically, the decree governs the following:
- The reimbursement of avoided production facility costs for the projected equivalent production hours until expiration of the contracts.
- The reimbursement of costs incurred to purchase greenhouse gas (CO_2) emissions rights that were not awarded free of charge, until 2012.


Edison agreed voluntarily to early termination of the CIP 6/92 contract for the Taranto power plant, effective October 1, 2011.
Early in 2012, Edison signed an agreement with the GSE for a voluntary early termination of the CIP 6/92 contract for the CET3 power plant in Piombino. The termination will be effective as of January 1, 2013.

Avoided Fuel Cost (AFC): The Council of State ended the dispute concerning Resolution ARG/elt No. 154/08 (by which the AEEG defined the value of the AFC component starting in 2008) voiding it in its entirety. Consequently, the AEEG will have to develop a new method for defining the AFC, which it has not yet published.

Hydroelectric concessions: On July 13, 2011, the Constitutional Court ruled that the five-year extension of hydroelectric concessions and the further extension of seven years provided by Law No. 122/2010 are unconstitutional. In addition, the Regional Administration of Lombardy enacted Law No. 19/2010, which, in lieu of the five-year extension of Law No. 122/2010, provided, only for concessions expiring on or before December 31, 2015, the possibility of a temporary extension, for exiting concession operator, for a period of up to five years. However, the Lombardy Regional Law was challenged by the Italian government for violation of the central government's legislative jurisdiction and by Decision No. 339/2011, published on December 22, 2011, the provisions concerning the modalities for the award of expired concessions were voided. Consequently, at this point, there is gap in the legislation concerning the handling of expired concessions and the criteria and methods of calls for tenders. In this regard, the expected ministry decree dealing with the requirements to qualify for calls for tenders will provide an element of certainty for operators, also in terms of planning new investments and competing in calls for tenders for the renewal of concessions.
Insofar as the obligations of concession holders are concerned, it is worth mentioning that Article 43, Sections 7 to15, of Decree Law No. 201 of December 6, 2011 (the "Save Italy" Decree), converted into Law No. 214/2011, includes a new provision concerning "Large-scale Dams," the purpose of which is to improve the safety of these dams by means of maintenance projects for dams that have exceeded a fifty-year useful life. The Ministry of Infrastructures and Transportation will identify the large-scale dams for which the removal of sediments accumulated in the reservoir is needed and urgent. The concession holders could be burdened with sizable investments during a phase of major uncertainty and regulatory risk, such as the one described above.

Environment

Renewable Sources Decree: In March 2011, Legislative Decree No. 28 of March 3, 2011, concerning the "Implementation of Directive No. 2009/28/EC promoting the use of renewable energy sources, amending and subsequently repealing Directives No. 2001/77/EC and No. 2003/30/EC," was published on March 28, 2011 in issue No. 71 of the *Official Gazette of the Italian Republic.* The new incentive system, which will go into effect on January 1, 2013, will be applied to new facilities, completely rebuilt or repowered facilities (added production capacity), hybrid power plants and facilities that have been partly of completely overhauled. The Decree calls for an ongoing incentive (feed-in incentive) over the entire length of the average standard useful life of each type of facility, starting from the date the facility is commissioned, sufficient to provide a fair return on capital investments and operating costs. The incentive will be provided by means of contracts under private law between the GSE and the party in charge of the facility (the contract will be defined by the AEEG). Specifically:

- for facilities with a capacity yet to be defined (in any case, not less than 5 MW), the incentive will be diversified based on the energy source and capacity level and will be awarded when the facility is commissioned;
- for facilities with a capacity greater than the minimum specified threshold, the incentive will be awarded through a system of low bid auctions managed by the GSE. Future decrees will specify the methods for implementing the incentive system and the auction process.

The Decree also provides incentives for partial or total renovation projects, based on capacity contingents, of amounts equal to 25% and 50%, respectively, of the power generating incentive available for new facilities. For biomass facilities, the incentives for partial or total renovation projects are equal to 80% and 90%, respectively, of the power generating incentive available for new facilities (incentive not available for scheduled maintenance activities and for projects to comply with regulatory requirements). Consequently, Section 10 of Article 23 (renovations by facilities qualified as generators from renewable energy sources) was deleted. Specific rules are also provided for a transitional period. Facilities commissioned by December 31, 2012 will continue to receive incentives under the current system (green certificates and all-inclusive tariff system) until 2015. While the green certificate system is in effect, the mandatory allocation will stay at the level set forth in the 2008 Budget Law (7.55%) until 2012 and then gradually decrease to zero in 2015. For the period from 2011 to 2015, the GSE will buy back each year surplus green certificates, until 2015, at a price equal to 78% of (180 – PUN). All-inclusive tariffs and multipliers will remain constant until 2015, frozen at the current level. The reference amount of 180 euros per MWh will also remain frozen for facilities commissioned before December 31, 2012. Lastly, the GSE will buy back green certificates generated with cogenerating facilities combined with a district heating system at a price equal to the average market price in 2010. For the period after 2015, the Decree provides coverage during the transition from the old to the new incentive mechanism (also for facilities that are not based on renewable energy sources) through the transformation of the right to green certificate into the right to the incentive provided under the Decree (feed in), so as to provide an adequate return on the investments. The cumulative amount invested in plant and equipment for facilities commissioned after January 1, 2013 will be deductible from the amount subject to corporate income tax.
The Ministry is currently defining the detail and implementation regulations, which should be issued in the first quarter of 2012.

Fourth Energy Account: In May 2011, the Ministry Decree of May 5, 2011 setting forth the rules governing the incentives for the production of electric power from photovoltaic facilities and the development of innovative technologies for photovoltaic conversion was published on May 12, 2011 in issue No. 109 of the *Official Gazette of the Italian republic.*
The Fourth energy Account, which will apply to photovoltaic facilities commissioned after May 31, 2011 and up to December 31, 2016, includes the following provisions:

- increase in the target of installed photovoltaic capacity by 2020 from 8 GW to 23 GW with an annual projected expense of 6 - 7 billion euros;
- introduction of the definition of small and large systems: i) small systems installed on buildings, capacity < 1 MW; ii) small buildings installed on the ground, capacity < 200kW and on-site exchange status; iii) large systems all other systems;
- definition of the indicative annual cumulative cost of the incentives as the sum of the amounts

obtained by multiplying the capacity of each system by the incentive provided for the actual annual production (if available) or the estimated production capacity;

- introduction of an annual expense cap for the period from June 1, 2011 to December 31, 2012, only for large systems with indicative capacity objectives;
- from 2013 until 2016, exceeding the indicative expense cap will not limit access to incentivizing rates, but will cause rates to decrease in the period immediately following;
- introduction of an indicative annual expense cap for the years from 2013 to 2016 for photovoltaic systems featuring innovative characteristics (Title III) and for concentration photovoltaic systems (Title IV);
- for the photovoltaic systems covered by Title III and Title IV, in the years from 2013 onward, exceeding the established expense cap in a given period will cause the rates to decrease in the period immediately following. This new incentivizing mechanism is expected to make it possible to achieve grid parity (i.e., technological competitiveness) in 2017.

High yield cogeneration (HYC): The decrees issued by the Ministry of Economic Development on August 4 and September 5, 2011 (published on September 19, 2011, in Issue No. 218 of *Official Gazette of the Italian Republic*) concerning the incentives provided for high-yield cogeneration systems, implement Legislative Decree No. 20/07 and Law No. 99/09, thereby completing the incorporation of Directive No. 2004/8/EC on high-yield cogeneration into the Italian legal system.
This new system defines an incentive based on the award of white certificates to cogenerating facilities commissioned on or after January 1, 2011 that comply with the Primary Energy Saving (PES) index, commensurate with the primary energy savings that the facilities deliver. In addition, a coefficient (K) is applied to the base value of the white certificates, differentiated over five levels of generating capacity, in order to take into account the different average yield, which is higher for smaller facilities and lower for large facilities. Moreover, under the new rules, facilities that were commissioned and operated between March 7, 2007 and December 31, 2010, may be deemed to be operating in cogenerating mode, and thus be awarded white certificates, if they meet the IRE and LT indices, as provided by AEEG Resolution No. 42/02 instead of the PES index.

Wholesale Market

Third energy package - pumping facilities: In June 2011, Legislative Decree No. 93 of June 1, 2011, concerning the "Implementation of Directives No. 2009/72/EC, No. 2009/73/EC and No. 2008/92/EC setting forth common rules for the domestic markets for electric power and natural gas and a EU procedure on the transparency of prices charged to end industrial consumers of natural gas and electric power, and repeal of Directives No. 2003/54/EC and No. 2003/55/EC," was published on June 28, 2011 in issue No. 148 of the *Official Gazette of the Italian republic.* In the wholesale market, Terna may not engage in the production of electric power and operate generating facilities, even on a temporary basis. However, Terna may install storage systems based on batteries. In the fall of 2011, Terna published an addendum to the 2011-2013 Three-Year Development Plan concerning the installation of batteries for a total of 130 MW and launched a special call for tenders for the procurement of these devices. In the meantime, the AEEG published Resolution No. 34/11, by which it defined the remuneration method for the storage systems installed by the Operator: an increased WACC will be guaranteed only for systems included in pilot projects approved by an independent commission.

Facilities that are essential for the electrical system's safety: In 2011, only Edipower's San Filippo del Mela power plant was required to comply with the rules applicable to must run facilities. In addition, consistent with the commitments undertaken with the antitrust authorities, an application was filed to declare this power plant eligible for cost reimbursement (granted by the AEEG with Resolution ARG/elt No. 247/10 of December 28, 2010), limited to 2011 for units connected at 220 kV and through 2013 for units connected at 150 kV.
In the fourth quarter of 2011, Terna published the list of must run facilities for 2012, which, in addition to San Filippo del Mela, included the former CIP 6/92 power plants of San Quirico, Porcari and Milazzo. Edison agreed to the alternative modalities for San Quirico (increasable reserve offered on the Dispatching Services Market at administrated prices, with payment of a bonus by Terna), but chose the

regular status (reimbursement of variable costs only for the must run hours) for Porcari and Milazzo.
In December 2011, the European Court of Justice rendered the opinion requested by the Regional Administrative Court of Lombardy, ruling that the provisions governing must run facilities are compatible with EU rules on competition.

Reform of the electric power market: In July 2011, the AEEG published Resolution ARG/elt No. 98/11 defining the criteria of the new mechanism for the remuneration of generating capacity; it also introduced a competitive bidding system, the details of which will be developed by Terna in 2012, that is tentatively scheduled to be fully operational in 2017. Lastly, Resolution ARG/elt No. 160/11, published in November 2011, launched a process for the revision of the criteria governing the provision of dispatching services, the completion of which is expected to occur in the first half of 2012.

Internal User Networks (IUN): The concept of Internal User Network (IUN) was defined in Law No. 99/09, by which the AEEG was tasked with identifying IUN locations in Italy and preparing the applicable regulations concerning the delivery of connection, sale, dispatching, transmission, distribution and metering services for electric power. The Edison Group is present at several locations either in the capacity as owner of the network or in the capacity as producer or supplier of energy. The AEEG has not yet published the detailed regulations governing IUNs: in 2011, it published an initial consultation document on this issue and a final resolution is expected early in 2012. Lastly, in July 2011, the AEEG issued Resolution VIS No. 82/11, by which it ended the investigative process concerning conditions at the Terni chemical hub, confirming the right of Edison Energia Spa to be reimbursed for general system costs and rate overcharges paid from 2005 to 2009.

Connection to the electrical grid - new system of guarantees: At the end of 2011, the AEEG published Resolution ARG/elt No. 187/11, by which it revised the system of guarantees for grid capacity reservation for the connection of new production facilities in critical areas: the new system resolves the problems that characterized the previous mechanism, introduced with Resolution ARG/elt No. 125/10, which was challenged by several operators before the Administrative Regional Court.

Retail Market

Delinquencies: The AEEG, in order to encourage the development of natural gas retail sales, published the Integrated Gas Delinquency Document as an annex to Resolution ARG/gas No. 99/11, by which it intended to complete the regulations governing delinquencies by natural gas customers and those applicable to services provided to protected users and to usage responsibilities.
The Natural Gas Delinquency Document, which went into effect on January 1, 2012, governs in detail delinquency situations in which an insolvent customer is found to be in default and the resulting interruption of supply, switching with reservation and administrative termination modalities, with the resulting default service.
Specifically, the switching with reservation system makes it possible to void a request to switch supplier when service to a redelivery point has been suspended due to delinquency, while the administrative termination, with the attendant default service, occurs when a seller extinguishes its responsibility with regard to deliveries to a customer at a redelivery point due to the cancellation of a contract by the seller, for which access had been requested for the switching/activation of the supply relationship.
With a view to a gradual alignment of these regulations in both sectors, the resolution sets forth several amendments and additions to the provisions of the corresponding resolution in the electric power sector. In response to a challenge filed by some operators with regard to the gas default service, the Regional Administrative Court suspended the implementation of the Integrated Gas Delinquency Document until a merit hearing can be held. On December 30, 2011, the AEEG issued Resolution ARG/gas No. 207/11, by which it postponed to May 1, 2012 the effective date of the rules governing the default service and the other provisions concerning administrative termination and cancellation of the distribution contract, which presuppose the activation of the default service, as described in the Integrated Gas Delinquency Document.

Indemnification system: At the end of June, the AEEG issued resolution ARG/elt No. 89/11, by which it postponed the effective date of the Indemnification System in its current final form, originally scheduled for January 1, 2012, thereby extending the effectiveness of the simplified system. The effective date of the final version of the Indemnification System will depend on the completion of the Integrated Information System (IIS), which will be operated by the Single Buyer and through which distributors and retailers of electric power and natural gas will interface to manage, in addition to the issues of receivables owed by end customers who are switching supplier, also the supplier switching process and, ultimately, the management of metering data.
Edison is challenging Resolution ARG/elt No. 219/10 (Provisions Governing the Implementation of the Indemnification System) in an appeal filed with the Regional Administrative Court of Lombardy on February 7, 2011. At the first hearing in these proceedings, held on March 16, 2011, Edison withdrew its motion to stay the implementation of the abovementioned resolution, asking instead that the Court set short-term a date for a merit hearing, which will be held on April 12, 2012. In any event, following a meeting with the AEEG, Edison is looking forward to the publication of a resolution that will mitigate the adverse effects of the indemnification system before the date of the abovementioned merit hearing.

Contract transparency: In response to a significant increase in the deregulated market of offers to supply electric power produced from renewable sources, the AEEG issued Resolution ARG/elt No. 104/11, setting forth conditions to promote transparency in the corresponding sales contracts to end customers.
Basically, the AEEG, by establishing that offers of electric power produced from renewable sources can be only offers to sell “green” energy that is certified by sourcing assurance (certificates proving production from the renewable sources approved by Directive No. 2009/28/EC), intends to protect consumers by ensuring that the same energy produced from renewable sources is not used for multiple sales contracts. This resolution introduced stringent contractual obligations and deadlines for contracts executed as of October 1, 2011 and for electric power sold as of January 1, 2012.
Sales companies are subject to fines should they fail to comply with the abovementioned provisions and sell more “green energy” than their certified quantity.

Code of Commercial Conduct: With regard to the new rules of the Code of Commercial Conduct for electric power and natural gas (Resolution ARG/com No. 104/10, as amended), which Edison, other large operators and industry associations challenged in a complaint filed with the Regional Administrative Court of Lombardy, a hearing for oral arguments was held on May 26, 2011 in connection with a motion to preventively stay the Code’s implementation and the court’s decision was published at the beginning of August. However, because the judge upheld the challenges filed only with regard to one of the contested items, Edison filed an appeal with the Council of State on December 13, 2011.

Alignment of customer databases: With the aim of fostering a correct startup of the Integrated Information System (IIS), the AEEG issued Resolution ARG/com No. 146/11 requiring the alignment of the customer databases of distributors and sellers. However, this resolution, which operators also view as useful for a correct implementation of the IIS, entails huge operational and financial efforts and presents some interpretation questions. Operators, through their industry associations, requested and were granted by the AEEG a temporary suspension of the resolution’s implementation. Following a technical meeting with operators, the AEEG announced the publication of a document that will be submitted to seller and distributor companies for their comments, in preparation for the publication of the final resolution tentatively scheduled for the end of February 2012.

Market monitoring: Subsequent to a consultation phase that lasted about a year, the AEEG published the Integrated Retail Monitoring Document (annexed to Resolution ARG/com No. 151/11), which requires ongoing monitoring of retail markets for sales of electric power and gas. The document’s provision are designed to ensure monitoring, on a regular basis and systematically, of activities involving the sale of electric power and gas to residential customers and other small users, the degree of openness, the market's competitiveness and transparency, and the level of participation and satisfaction of end customers. The required data must be communicated by sellers and distributors with more than 50,000 delivery points. The information collected with the retail monitoring system will be published by the AEEG in an Annual Report.

Unfair commercial practices: The AEEG published Resolution VIS No. 76/11, by which it launched an information gathering process aimed at obtaining information and arguments about the matter of electric power or gas supply contracts that were not issued at the customer's request, which basically occurs when sales agencies acquire new customers without the customers having made an explicit request to that effect.
As part of the information gathering process the AEEG met with the different sales companies to analyze, during discussions lasting three-quarters of an hour for each operator, the seller's position with regard both to the quantity of unfair practices identified and the solutions adopted to prevent such situations.
Edison explained how it manages these practices and, at AEEG's request, submitted its solution proposals. Recently, the AEEG launched a procedure to develop regulations concerning unsolicited contracts and activations for the supply of electric power and natural gas. With this aim, it published DCO No. 46/11 setting forth "Preventive and rectifying measures for unsolicited contracts and activations for the supply of electric power and natural gas." Edison concurs with the proposals of DCO No. 46/11, which, in fact, mirror its modus operandi.

Complaints ranking: As required by EU Directives No. 2009/72/EC and No. 2009/73/EC, the AEEG is tasked with overseeing the market to ensure that it achieved a good level of competition. The AEEG performs this function by overseeing the activities of sales companies, which includes monitoring the number of customer complaints. Consequently, at the beginning of the year, the AEEG began a consultation process aimed at defining the parameters that should be used for the publication of comparative data measuring how sellers performed in addressing complaints. During the consultation process, both sellers and consumer groups identified several problems in the ranking system developed by the AEEG, claiming that the ranking system developed by the AEEG failed to represent accurately the performance of operators. The AEEG then established a joint work group that includes industry associations and consumer groups, with the aim of developing an optimum solution that would allow customers to consult easily and with clarity a ranking of sales companies that is as realistic as possible. Edison participates to the work group through Federestrattiva (the work group's activities are currently on hold and are expected to resume early in 2012).

Commercial Quality Standards: Resolution ARG/com No. 147/10 introduced, as of July 1, 2011, two new commercial quality standards for sellers:
- A general standard, which requires scheduling an appointment with the customer within one business day from the customer's request.
- A specific standard (i.e., a standard for individual services provided to customers and tied to the payment of compensation), which requires forwarding to the distributor a request for service by an end customer within two business days from receipt of the request. An automatic compensation is payable to the customer for delays of one or more days.

Objective communication difficulties between distributors and sellers make complying with these standards difficult. Following challenges to this resolution filed by several operators, including Edison, with the Regional Administrative Court of Lombardy, the AEEG decided to postpone by one year (to July 1, 2012) the implementation of the specific standard, but the obligation to schedule an appointment within one business day remains in effect.
Awaiting the decision of the court, operators are preparing a memorandum for the AEEG pointing out some interpretation doubts concerning both standards and requesting a postponement of the effective date or a suspension of the current effectiveness until December 31, 2012.

Rates: The rules governing the definition of electric power and gas rates for customers with protected status will be updated and revised by the regulator, specifically with regard to the Distribution and

Sales Price of electric power (abbreviated as PCV in Italian) rate component and the component related to the distribution and sales of natural gas to retail customers (abbreviated as QVD in Italian), both of which cover costs incurred for sales to retail customers, as well as the Wholesale Distribution Charge (abbreviated as CCI in Italian) component for natural gas, which covers procurement and distribution costs at the wholesale level. With regard to the QVD, at the end of 2011, the AEEG published Resolution ARG/gas No. 200/11, by which it updated the QVD component for two years, starting on January 1, 2012, introducing different values for residential and non-residential customers. A similar consultation process will be carried out for the PCV component. Lastly, with regard to the CCI component, the AEEG published a consultation document (DCO No. 47/11), by which it plans to revise the component's computation and updating methods, starting on October 1, 2012, due to the startup of the balancing market on December 1, 2011.

Hydrocarbons

Rates and Market

Recently, the AEEG took action with regard to natural gas customer with protected status by:

- redefining, consistent with the provisions of Legislative Decree No. 93/2011, the scope of end customers for natural gas entitled to protected status, to include non-residential customers with consumption of up to 50,000 standard cubic meters a year, as well as public or private service entities that perform an activity recognized as providing assistance, including, by way of non-exhaustive example, hospitals, nursing homes and rest homes, jails and schools (Resolution ARG/gas No. 71/11);
- defining new criteria to determine the sellers' CCI component for the October 1, 2011 to September 30, 2012 thermal year and calling for the start of a process to define a program aimed at reforming the economic terms for the supply of natural gas to customers with protected status and, specifically, the CCI component, starting on October 1, 2012, taking also into account potential market changes caused by the upcoming implementation of economic merit balancing (Resolution ARG/gas No. 77/11);
- updating the economic terms applied to the market for gas customers with protected status for the July-September quarter and raising them by 4.2% compared with the previous quarter, due to an increase in international crude oil prices in the past nine months (Resolution ARG/gas No. 84/11).

Launch of the Balancing Market: By Resolution ARG/gas No. 45/11, the AEEG defined the rules of the economic merit balancing market, setting the launch of its operating activity on July 1, 2011. The AEEG itself then postponed this deadline to December 1, 2011, due to a delay in updating and completing the information systems of Snam Rete Gas, the company responsible for the balancing process.

Infrastructures

Natural gas distribution: The signing by the relevant Ministers of the decree defining the criteria for participation in calls for tenders and the assessment of bids in the natural gas distribution sector (also referred to as the Regulation), which occurred on November 15, 2011, marked the completion of the long-awaited reform of the rules that will govern competition in this sector for the next 10-15 years. The sector's organizational model, the framework of which was established by Legislative Decree No. 164/00, was given its final structure with Legislative Decree No. 93 of June 1, 2011 implementing the so-called "Third Energy Package," which requires municipal administrations to award service concessions exclusively in "associated" form on the basis of Minimum Territorial Districts (abbreviated as ATEM in Italian) and with a single call for tenders, but grandfathers calls for tenders launched under the old rules until the publication of the Decree.
The number of ATEMs for which calls for tenders may be issued in the gas distribution area was defined by an inter-ministerial decree dated January 11, 2011, which lists 177 districts. This decree was followed on October 18, 2011 by a related decree listing the municipalities included in the ATEMs, while another decree, dated April 21, 2011, specified the modalities for handling the social

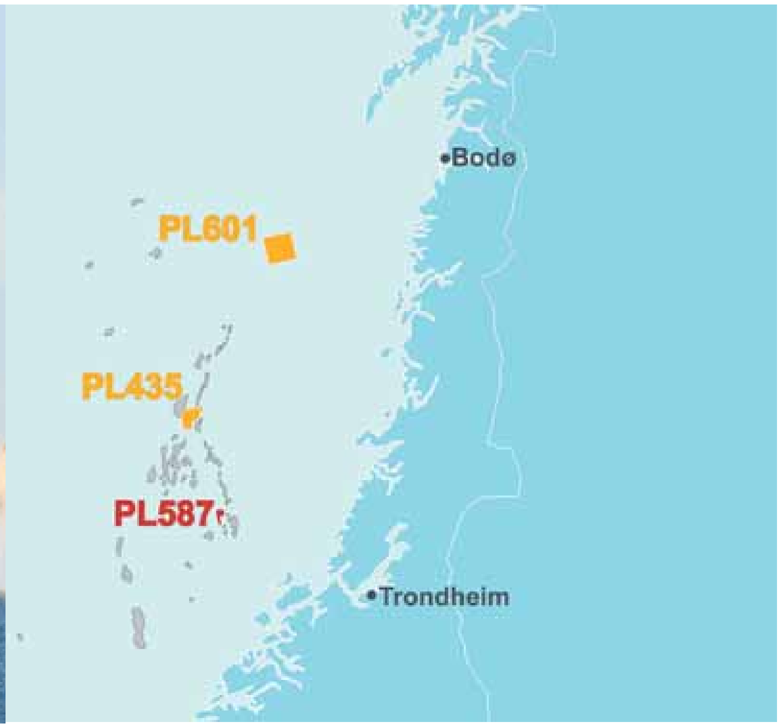
Edison was awarded three new hydrocarbon exploration licenses on Norway's continental shelf. These new contracts officially sanction Edison's operator status in Norway.

impact resulting from new concession awards (so-called Social Clause Decree). However, the dates when calls for tenders for the various ATEMs will begin to be launched with the new procedure have not been set. An annex to the abovementioned Regulation will define the timing of the calls for tenders in accordance with a block-by-block system, based on the weighted average of the statutory expiration dates of existing concessions in the municipalities included in each ATEM.

Gas Storage: Legislative Decree No. 93/2011 introduced important new developments with regard to strategic storage and modulation storage. Responsibility for strategic storage no longer rests exclusively with importers of natural gas from countries outside the European Union ad is now the responsibility of all importers.
In addition, both the method by which the Ministry of Economic Development computes the annual total volume of the strategic reserve and the rules governing the mandatory contributions of individual importers to the total volume were amended.
With regard to modulation storage, the roster of end customers (so-called "vulnerable customers"), whose consumption determines the quota of the modulation storage assigned on a priority basis (pro rated) to the companies that supply consumption by these customers was amended. Specifically, as of October 1, 2011, the category of vulnerable customers will include, in addition to residential customers, users who provide a public service, including hospitals, nursing homes and rest homes, jails and schools and other public or private entities who perform an activity recognized as providing assistance, but will no longer include residential and non-residential customers with consumption of less than 200,000 cubic meters a year, but rather those with consumption of up to 50,000 cubic meters a year. The remaining modulation storage capacity will be allocated to wholesalers through competitive bidding procedures defined by the AEEG
Differently from the indications provided in the outlines circulated during its approval process, the Decree confirms the adoption of a regulated system for storage services.

Gas Transmission: Noteworthy provisions of Legislative Decree No. 93/2011 include those requiring segregation of the operators of natural gas transmission systems from the other activities of vertically integrated business entities. The decree introduces three models that could be adopted by a vertically integrated business entity (Edison Spa) by March 3, 2012 to comply with the obligation to segregate Edison Stoccaggio - Transmission Operations.
The three alternative solutions that could be adopted by the Company include the following:

- make Edison Stoccaggio - transmission operations conform with the model of an independent transmission operator (ITO), maintaining the ownership and management of the transmission infrastructure;



- designate an independent system operators (ISO), which could be the main transmission business entity (Snam Rete Gas), and maintain only the ownership of the transmission infrastructure;
- implement the ownership separation (OU) of the operator of the transmission system, transferring to a third party the ownership and management of the transmission infrastructure.

The ITO model includes the requirement of securing a certification of the status of independent operator of the natural gas transmission system.

Late in 2011, Edison Stoccaggio - Transmission Operations informed the AEEG that it opted for the ITO model and, consequently, forwarded to the AEEG the documents required to start the certification process.

Issues Affecting Multiple Business Segments

Nuclear: The referendum held in June 2011 resulted in the repeal of provisions concerning new power plants for the production of energy from nuclear sources (Article 5, Sections 1 to 8, of Decree Law No. 34 of March 31, 2011). In addition, the “Save Italy” Decree, converted into Law No. 214 of December 22, 2011 containing “Urgent provisions for the growth, fairness and consolidation of government finances,” eliminated the Nuclear Safety Agency, whose tasks will be performed by the Ministry of Economic Development in concert with the Ministry of the Environment and the Protection of the Territory and the Sea. However, the tasks formerly assigned to the Nuclear Safety Agency will be performed on a temporary basis by ISPRA (Istituto Superiore per la Protezione e la Ricerca Ambientale), pending the enactment of a decree concerning the transfer of the operating resources of the defunct agency.

Corporate Income Tax Surcharge (Robin Hood Tax): In September 2011, Law No. 148 of September 14, 2011 (conversion into law, with amendments, of Decree Law No. 138 of August 13, 2011), setting forth additional urgent financial stabilization and development measures, was published on September 16, 2011, in Issue No. 216 of the *Official Gazette of the Italian Republic.* This law introduces new rules concerning the rate of the corporate income tax surcharge levied pursuant to Article 81, Sections 16-18, of Decree Law No. 112/2008.

Specifically, pursuant to the abovementioned law:

- the rate is increased from 6.5% to 10.5% for the tax years from 2011 to 2013;
- the applicability of the surcharge is broadened to include parties that carry out regulated activities in the electric power and natural gas sectors (transmission, dispatching and distribution) and parties that generate electric power from biomasses, photovoltaic sources or wind power;
- the threshold for surcharge applicability is lowered from 25 million euros to 10 million euros in revenues and a new minimum taxable income of 1 million euros is required for applicability.

European Energy Policies

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

- **ETS Auctions for 2013 - 2020:** Starting in 2013, the emissions rights for Phase III of the E.U. Emissions Trading System for the thermoelectric sector will no longer be allocated through the National Allocation Plans and will have to be acquired for consideration through an auction system. The auctions and the market will be organized in accordance with criteria harmonized at the E.U. level that will be set forth in Regulations governing the implementation of the new ETS Directive. The Commission announced an earlier start (in 2012) for auction sales of EUA permits for 120 million tons of CO_2 and indicated that 1.4 billion tons equivalents in emissions permits will be deducted from the amount of the rights at auction to mitigate the impact of the economic crisis (decrease in emissions) and of the long market position of phase II. This should help make the system more efficient in conveying to the market price signals for investments in carbon reduction measures.
- **ETS Registers:** On June 17, 2011, representatives of governments from EU countries approved an EU Regulation that introduces additional security measures to protect the operations of ETS Registers, following cyber-attacks and the resulting closing of these registers in January 2011. Even considering the possibility of using "trusted accounts" and other measures to protect operators in the event of theft of access credentials, the Regulations still contain provisions to maintain the anonymity of the serial numbers of the acquired securities. This measure puts at risk credits returnable for compliance purposes to the extent that the list of fraudulent EUAs can be updated at any time, making credits purchased in the market "in good faith" useless.
- **Clean Development Mechanism (CDM) market:** The governments of the E.U. countries, acting upon a proposal by the Commission, adopted a European Decision that bans the use of credits (CERs) generated by CDM projects involving industrial gases (HFC23 and N_2O) starting on May 1, 2013. In addition, on the occasion of the Environmental Council meeting of June 21, 2011, sixteen E.U. governments (Germany, UK, France, Austria, Belgium, Estonia. Greece, Sweden, Slovenia, Czech Republic, Malta, Bulgaria, Latvia, Luxembourg and Slovakia, but not Italy) signed a declaration by the Danish government agreeing not to use HFC credits in the third ETS period for Effort Sharing compliance purposes.

European Regulations

ACER (Agency for the Cooperation of Energy Regulators) Framework Guidelines

Network Code for Electricity Grid Connections - On July 20, 2011, by Decision No. 1/2011, ACER adopted the final version of the Framework Guidelines concerning Electric Grid Connection. On July 29, 2011, subsequent to the publication of the guidelines, the European Commission sent an official request to the European Network of Transmission System Operator for Electricity (ENTSO-E), asking it to draft the relevant European Network Code within eight months. The guidelines call for the definition of minimum standards and requirements for connecting to the electric power network concerning:

- standards and minimum requirements applicable to connections to the electric power transmission network for all relevant network users (generating and consumption units and Distribution System Operators - DSOs);
- procedures and requirements for coordination in the exchange of information between the parties involved (Transmission System Operators - TSOs, DSOs, major generating and consumption units).

The adoption of uniform rules for connecting to the electric power network was identified as a fundamental measure for the harmonization at the European level of the technical regulations governing the electric power market. Once the Network Code is in effect, the national Transmission System Operators will be required to amend their national codes accordingly.

Network Code for Capacity Allocation and Congestion Management in the Electricity Grid - On July 29, 2011, ACER adopted the final version of the Framework Guidelines for Capacity Allocation and Congestion Management for the electric power network. Subsequent to the publication of the guidelines, the European Commission sent an official request to ENTSO-E (September 19, 2011), asking it to draft the European Network Code within 12 months. The guidelines published by ACER,

which reflect the Target Model for the electric power market defined at the European level, cover the following areas: computation of capacity and definition of market zones, allocation of capacity in the forward market, allocation of capacity in the day-ahead markets, allocation of capacity in the intraday market and provisions governing the continuity of capacity products and compensation mechanisms in the event of capacity interruption.
The definition of common rules for capacity allocation and congestion management on cross-border connectors is viewed as a fundamental step forward for the integration of domestic electric power markets. Once the Network Code goes into effect, national Transmission System Operators will be required to amend their national codes accordingly.

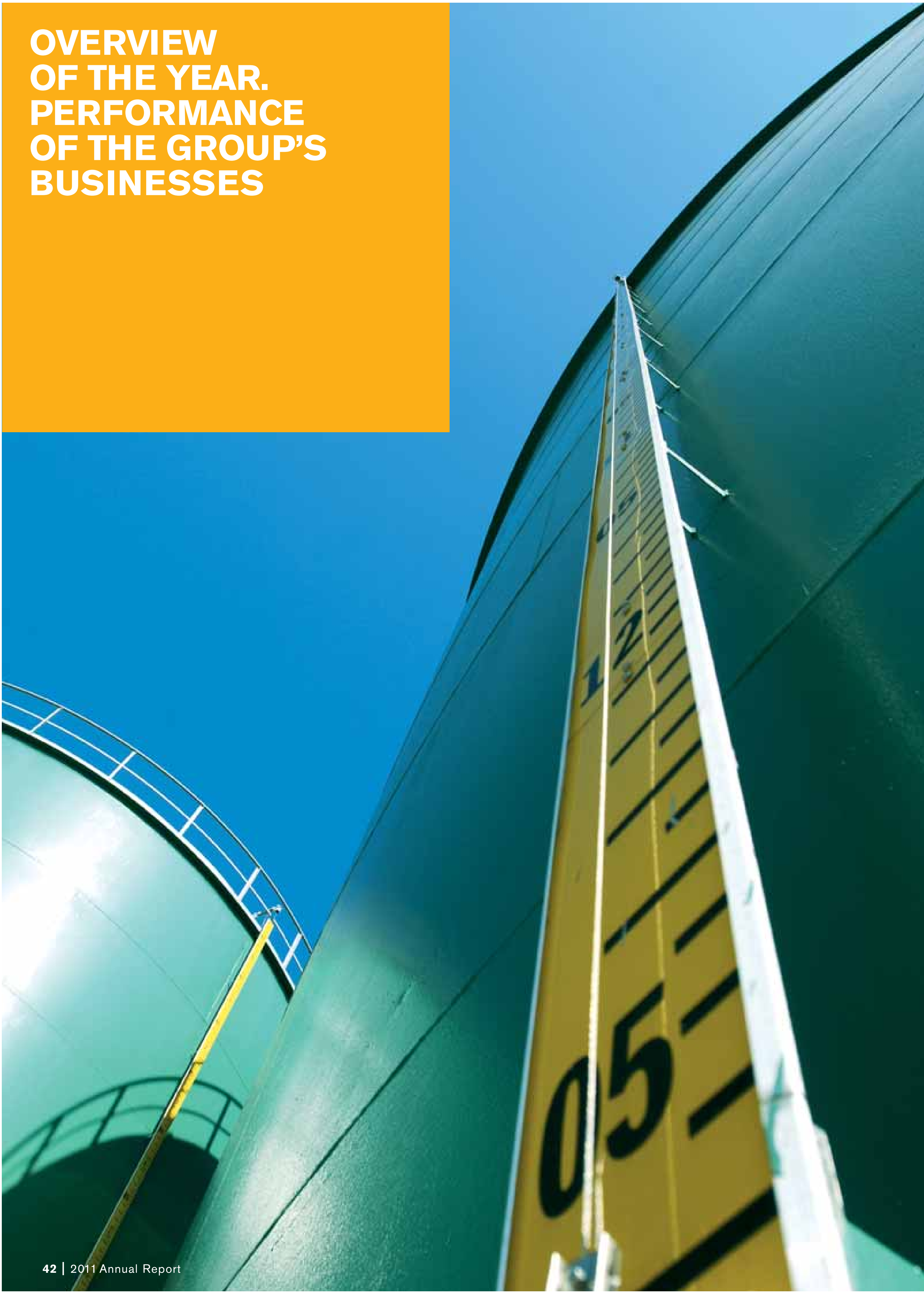
Network Code for Electricity System Operation: On December 2, 2011, ACER adopted the final version of the Framework Guidelines for Electricity System Operation. The guidelines cover all issues regarding the electricity system operation within synchronous areas, particularly with regard to interconnections and interoperability between interconnected European grids.
The purpose of the Framework Guidelines and the related European Network Code is to harmonize grid safety requirements, define and harmonize the system management role of transmission system operators and ensure an adequate exchange of information. The requirements defined in the Network Code will apply transmission system operators and large-scale grid users.

Network Code for Capacity Allocation on the European Gas Transmission Network - ACER published Decision No. 3/2011 adopting the final version of the Framework Guidelines for transmission capacity allocation on European interconnectors and the European Network of Transmission System Operator for Gas (ENTSO-G) began the process of preparing a European Network Code, which must be submitted for approval to ACER and the European Commission by March 9, 2012. The main new rules introduced by the Framework Guidelines include the obligation to allocate the entire existing transmission capacity through competitive bidding in a bundled product format (i.e., offering in combination as a single product, at each interconnection point, both exit and entry capacity) and offer at least 10% of the capacity on a short-term basis. Once applied, the new rules will produce a significant change in the management of the European transmission capacity, particularly with regard to the system in Italy, where cross-border capacity is allocated on a pro rata basis, giving precedence to the holders of long-term procurement contracts.

Network Code for Gas Balancing Mechanisms: On October 18, 2011, ACER adopted the final version of the Framework Guidelines for balancing mechanisms in gas transmission systems and ENTOG immediately began the process of preparing a European Network Code, which must be submitted for approval to ACER and the European Commission by November 5, 2012, together with a study on the impact that the implementation of the proposed rules will have on European gas systems. The Framework Guidelines require each country to introduce a market-based daily balancing mechanism, in which shippers will be primarily responsible for keeping the gas system in balance by means of future buy and sell transactions in the wholesale market (the use of special balancing platforms will be allowed on a temporary basis).

European Union REMIT Regulation - New Rules for Insider Trading and market Abuse: The new Regulation No. 1227/2011 (REMIT) published by the European Commission on December 8, 2011 introduces new provisions concerning the transparency and integrity of the wholesale energy markets, effective as of December 28, 2011. The new Regulation prohibits the use of insider information and the practice of market abuse. It also introduces for market operators new obligations to disclose transaction data. Responsibility for implementing this Regulation rests with the national regulatory authorities, which also have authority to levy fines, over whom ACER has coordination responsibility with monitoring and reporting powers.
The European regulators are in the process of drafting non-binding guidelines, particularly with regard to the definition of “insider information” and compliance with the prohibition to engage in market abuse.

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



ELECTRIC POWER OPERATIONS

Quantitative Data

Sources

GWh (*)	2011	2010	% change
Production in Italy:	**33,163**	**41,824**	**(20.7%)**
- *Thermoelectric power plants*	27,146	35,361	(23.2%)
- *Hydroelectric power plants*	5,307	5,734	(7.4%)
- *Wind farms and other renewables*	710	729	(2.7%)
Other purchases (1)	**38,990**	**30,070**	**29.7%**
Total sources in Italy	**72,153**	**71,894**	**0.4%**
Production outside Italy	**2,172**	**943**	**n.m.**

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

Uses

GWh (*)	2011	2010	% change
CIP 6/92 dedicated	**4,738**	**10,733**	**(55.9%)**
Captive and other customers	**3,321**	**3,641**	**(8.8%)**
Deregulated market:	**64,094**	**57,520**	**11.4%**
- *End customers* (1)	23,522	27,276	(13.8%)
- *IPEX and mandates*	2,807	1,327	n.m.
- *Wholesalers and industrial portfolio*	28,204	15,422	82.9%
- *Other sales* (2)	9,561	13,495	(29.2%)
Total uses in Italy	**72,153**	**71,894**	**0.4%**
Sales of production outside Italy	**2,172**	**943**	**n.m.**

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

Financial Highlights

(in millions of euros)	2011	2011 (*)	2010	2010 (*)	% change
Sales revenues	**7,437**	**8,153**	**6,528**	**7,289**	**13.9%**
Reported EBITDA	509	625	950	1,055	(46.4%)
Adjusted EBITDA (1)	702	818	1,025	1,130	(31.5%)
Capital expenditures	168	189	193	242	(13.0%)
Number of employees (2)	1,275		1,830		(30.3%)

(1) See note on page 20.
(2) Year-end data.
(*) Edipower consolidated proportionally at 50% on a line-by-line basis.

Production and Procurement

The Group's production in Italy decreased to 33,163 GWh, or 20.7% less than in 2010, as thermoelectric production declined by 23.2%, the output of hydroelectric power plants was down 7.4%, in line with national dynamics, and production from wind farms and other renewable-source facilities contracted slightly (-2.7%). The performance of other renewable-source facilities reflects the impact of a reduced availability of wind power, offset in part by the contribution provided by the San Francesco wind farm purchased in July 2010, the full-capacity utilization of the Mistretta wind farm,

The reservoir of the Altomonte (Cosenza) thermoelectric power plant.

the availability of new capacity following the commissioning of the Foiano and San Giorgio wind farms in the last quarter of the year and the investments made in the photovoltaic area.
Other purchases carried out to round out the sources portfolio increased by 29.7% compared with the previous year. However, it is important to keep in mind that this category includes purchases that occur when facilities operate in bidding mode and other volumes with relatively low unit margins.
Production outside Italy more than doubled, thanks to the contribution provided by the new power plant in Thisvi, in Greece, operated by Elpedison Power Sa, which is being consolidated as of December 2010.

Sales and Marketing

In 2011, sales of electric power totaled 72,153 GWh, for a gain of 0.4% compared with the previous year (71,894 GWh); sales in the CIP 6/92 segment were down sharply (-55.9%), due to the early termination and contractually scheduled expiration of some contracts.
Sales to captive customers decreased by 8.8%, due mainly to the sale of Taranto Energia Srl, which owned the dedicated thermoelectric power plants that powered ILVA's manufacturing complex in Taranto. In the deregulated market, volumes sold to end customers decreased by 3,754 GWh (-13.8%), offset by a gain in unit sales to wholesalers, which grew by 12,782 GWh (+82.9%). These trends are also explained by a change in the way power is being supplied to some business customers (high energy users who are no longer served directly) who, in 2011, availed themselves of the "Interconnector" option, introduced at the end of 2009 by the Electric Power and Gas Authority with Resolution No. 179/09, as amended, which was enacted to implement Law No. 99/2009.
This option enables customers in this market segment to purchase power on the wholesale market, with a virtual importation mechanism, thereby benefiting from energy prices typically available on European markets, provided they agreed to participate in investment projects for new importation infrastructures.
Also in connection with the "Interconnector" option, Edison offered a service for the physical delivery of electric power to customers in Italy through some subsidiaries that, as wholesalers, were bidders at auctions for shipping energy to customers who use the "Interconnector" option.
Lastly, given the scenario volatility and the deteriorating profitability of the spot market, the Group continued to pursue in 2011 a strategy of minimizing its exposure to the risk of fluctuations in commodity prices, limiting the volumes it offered on the Power Exchange.
As mentioned earlier in this Report, other sales in the deregulated market include volumes generated when production facilities operate in bidding mode.

Operating Performance

In 2011, sales revenues grew to 7,437 million euros, or 13.9% more than in 2010, due mainly to higher sales prices, driven by favorable conditions in the benchmark scenario.
Adjusted EBITDA totaled 702 million euros at December 31, 2011. The decrease of about 323 million euros (-31.5%) compared with 2010 is due for the most part to a reduction in the EBITDA contribution provided by the CIP 6/92 operations, which, in 2010, benefited for the full year from the guaranteed margins provided under the CIP 6/92 contracts and included a benefit of 173 million euros derived from the consideration received for the early termination of those contracts. The EBITDA decrease also reflects the impact of activities in the deregulated market in Italy, where the positive effect of sharply higher sales volumes was offset by continued pressure on sales margins. Outside Italy, the positive EBITDA contribution of the new thermoelectric production activities in Greece is also worth mentioning.
As explained earlier in this Report, the abovementioned amounts reflect the reclassification of Edipower's contribution to discontinued operations; if the accounting treatment applied had been consistent with the one used for the interim financial statements published earlier in the year, EBITDA would have amounted to 818 million euros (1,130 million euros in 2010), down 312 million euros for the reasons commented above.

Capital Investments

Capital expenditures by the electric power operations, which totaled 168 million euros in 2011, were allocated as follows: about 48 million euros for thermoelectric operations, used mainly to revamp the Bussi power plant; about 25 million euros to streamline and modernize hydroelectric power plants; and about 95 million euros for other renewable-source facilities. Other renewable-source projects included repowering the San Giorgio wind farm and expanding the Foiano (BN) wind farm (about 71 million euros) and construction of new photovoltaic systems (21 million euros), including those located in Termoli (CB), Oviglio and Cascine Bianche (AL).

HYDROCARBONS OPERATIONS

Quantitative Data

Sources of Natural Gas

in millions of cubic meters	2011	2010	% change
Production in Italy [1]	520	509	2.1%
Imports (pipeline + LNG)	11,812	13,484	(12.4%)
Domestic purchases	2,749	1,873	46.7%
Change in stored gas inventory [2]	124	(27)	n.m.
Total sources in Italy	**15,205**	**15,839**	**(4.0%)**
Production outside Italy [3]	**1,726**	**1,458**	**18.4%**

(1) Net of self-consumption and stated at Standard Calorific Power.
(2) Includes pipeline leaks. A negative change reflects an addition to the stored inventory.
(3) Counting volumes withheld as production tax.

Uses of Natural Gas

in millions of cubic meters	2011	2010	% change
Residential use	2,152	2,975	(27.7%)
Industrial use	1,484	1,460	1.6%
Thermoelectric fuel use	9,117	10,294	(11.4%)
Other sales	2,452	1,110	n.m.
Total uses in Italy	**15,205**	**15,839**	**(4.0%)**
Sales of production outside Italy [1]	**1,726**	**1,458**	**18.4%**

(1) Counting volumes withheld as production tax.

Crude Oil Production

in thousands of barrels	2011	2010	% change
Production in Italy	2,142	2,331	(8.1%)
Production outside Italy [1]	1,366	1,159	17.8%
Total Production	**3,508**	**3,490**	**0.5%**

(1) Counting volumes withheld as production tax.

Financial Highlights

(in millions of euros)	2011	2010	% change
Sales revenues	**5,468**	**5,040**	**8.5%**
Reported EBITDA	484	413	17.2%
Adjusted EBITDA [1]	291	338	(13.9%)
Capital expenditures	311	193	61.1%
Investments in exploration	46	52	(11.5%)
Number of employees [2]	1,319	1,357	(2.8%)

(1) See note on page 20.
(2) Year-end data.

"Zero Surprises" is Edison's new light and gas sales offer that allows customers to choose a bill that fits their lifestyle and keep it constant throughout the year.
Gerry Scotti says so.

Production and Procurement

In 2011, production of natural gas, counting the output both of Italian and international operations, grew from 1,967 million cubic meters to 2,246 million cubic meters, for an increase of 14.2%, thanks mainly to production from the Abu Qir concession in Egypt. The Group's production of crude oil held relatively steady, as an increase in production outside Italy (+17.8%), mainly from the Abu Qir concession, more than offset a decrease in Italian production (-8.1%) caused by the natural depletion of existing fields.

Total natural gas imports were down (-12.4%), reflecting a reduction in demand by residential and thermoelectric users. A noteworthy development in this area was the interruption of the supply of natural gas from Libya through the Green Stream pipeline since February 2011. The resulting shortfall was made up by stepping up imports under other contracts in the procurement portfolio, consistent with contractual flexibility options.

Sales and Marketing

Unit sales of natural gas to customers in Italy totaled 15,205 million cubic meters in 2011, for a decrease of 4% compared with 2010.
Specifically, sales to residential users were down by 27.7%, due in part to weather dynamics, as the weather in the winter months was much milder than the previous year. This decrease also reflects a loss of market share caused by falling gas prices, depressed to the point of being lower than procurement costs, while the shortfall in deliveries to thermoelectric users (-11.4%) is the result of lower gas consumption by the Group's thermoelectric power plants, offset only in part by higher sales to thermoelectric facilities of external customers. Sales to industrial users were substantially the same as in 2010.
Sales to other wholesalers and volumes traded on the Virtual Exchange Facility totaled 2,452 million cubic meters (1,110 million cubic meters in 2010).

Operating Performance

Sales revenues grew to 5,468 million euros in 2011, for a gain of 8.5% compared with 2010, as the effect of rising benchmark prices more than offset the impact of lower unit sales.
Adjusted EBITDA totaled 291 million euros in 2011, down 13.9% compared with the previous year. This reduction is attributable exclusively to the activities that engage in buying and selling natural gas, which generated a loss in 2011. It is worth mentioning that, to this date, unit sales margins have remained negative in this business segment, due to strong competitive pressure that has driven market prices lower than the procurement costs paid under long-term importation contracts. The decline in market prices is

the combined result of excess supply and the availability of large quantities of spot gas, offered at prices sharply lower than those paid under conventional long-term gas procurement contracts, magnified by a slump in Italian demand for natural gas compared with pre-crisis levels.
For this reason, as stated earlier in this Report, Edison began the process of renegotiating long-term contracts for the importation of natural gas, consistent with its commitment to restore reasonable levels of profitability to its portfolio of multi-year contracts. In this regard, it is worth mentioning that 2011 EBITDA were boosted by the successful renegotiation of the long-term contracts for the supply of natural gas from Norway and Russia completed with ENI and Promgas, respectively.
The reduction in profitability described above was offset in part by a significant increase in the EBITDA of the exploration and production activities, which benefited from rapidly rising oil prices and the positive effect of an increase in natural gas production from the Abu Qir concession.

Capital Investments

Capital expenditures, which totaled 311 million euros in 2011, focused on the exploration and production and storage segments.
The main E&P investments in Italy included: 57 million euros for sidetrack drilling of wells 5, 7, 10, 11 and 14 at the Daria field, 29 million euros for sidetrack drilling of wells 4, 6 and 8 at the Clara field; 9 million euros to develop the Argo and Panda offshore fields; 9 million euros to drill two new wells in the Tresauro field; and 1 million euros to develop the new Capparuccia (AP) field.
Investment projects in Egypt focused on the Abu Qir concession (118 million euros), where work continued on the construction of the new NAQ PII platform and the renovation and expansion of the existing NAQ PI platforms, and the West Wadi el Rayan concession, where 7 million euros were invested to drill wells 3, 4 and 5.
The NAQ PII-3 NAQ PII-1 wells went into production in July.
The investments made in 2011 in the storage area included 42 million euros to increase the capacity of the San Potito and Cotignola fields and 8 million euros to complete the Collalto field, where a compressor and treatment station was commissioned in July.

Exploration Activities

In 2011, the Group invested about 46 million euros in exploration. Virtually the entire amount was allocated to projects outside Italy, focusing on Egypt and Norway. In Egypt, 3D seismic data acquisition activities are continuing at the Abu Qir concession (24 million euros), while the Rayan-3X exploratory well was drilled with positive mineral results at the West Wadi el Rayan permit (3 million euros). In Norway, seismic mapping and campaigns are continuing in connection with newly awarded exploration licenses (18 million euros).

Hydrocarbon Reserves

The Group's hydrocarbon reserves (proven reserves plus 50% of probable reserves) totaled 49.8 billion cubic meter equivalent, compared with 52.8 billion cubic meter equivalent at the end of 2010. Therefore, net of the volumes produced in 2011 (2.8 billion cubic meter equivalent), hydrocarbon reserves were substantially in line with the previous year. More detailed information is available in the section of the consolidated financial statements entitled "Additional Disclosure About Natural Gas and Oil."

CORPORATE ACTIVITIES AND OTHER SEGMENTS

Financial Highlights

(in millions of euros)	2011	2010	% change
Sales revenues	**50**	**51**	*(2.0%)*
EBITDA	(106)	(99)	*(7.1%)*
as a % of sales revenues	n.m.	n.m.	
Capital expenditures	3	70	*(95.7%)*
Number of employees (1)	642	633	*1.4%*

(1) Year-end data.

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

In 2011, sales revenues were substantially in line with the previous year, but EBITDA were negative by 106 million euros, for a negative change of 7.1% compared with 2010.

In 2010, investments in property, plant and equipment included 62 million euros to purchase a building at 35 Foro Buonaparte, in Milan.

DISCONTINUED OPERATIONS

Financial Highlights

(in millions of euros)	2011	2010	% change
Net profit (loss) from discontinued operations	**(605)**	**(74)**	**n.m.**
Capital expenditures	21	49	(57.1%)
Number of employees (1)	528	119	n.m.

(1) Year-end data.

The net loss from discontinued operations, amounting to 605 million euros, is attributable for 591 million euros to the classification of Edipower's contribution to assets held for sale (571 million euros of which refers to writedowns of Edipower's assets, including the pro rata share of the undifferentiated goodwill allocated to it, to their presumed sales value), for about 6 million euros to a writedown of the Taranto thermoelectric power plants sold to the Riva Group and for about 7 million euros to the effects of a decision handed down by the Council of State on May 31, 2011, pursuant to which Edison Spa was denied certain rate benefits for a thermoelectric power plant divested in 2008.

Capital expenditures refer to Edipower and the year-over-year change reflects the completion in 2010 of the repowering program for the Turbigo thermoelectric power plant.

The number of employees refers to the employees of Edipower, in 2011, and the staff of the Taranto thermoelectric power plants, in 2010.

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

Pursuant to Consob Communication No. DEM/6064293 of July 28, 2006, the schedules that follow provide reconciliations of the Group's interest in net profit and the shareholders' equity attributable to Parent Company shareholders at December 31, 2011 to the corresponding data for Edison Spa, the Group's Parent Company.

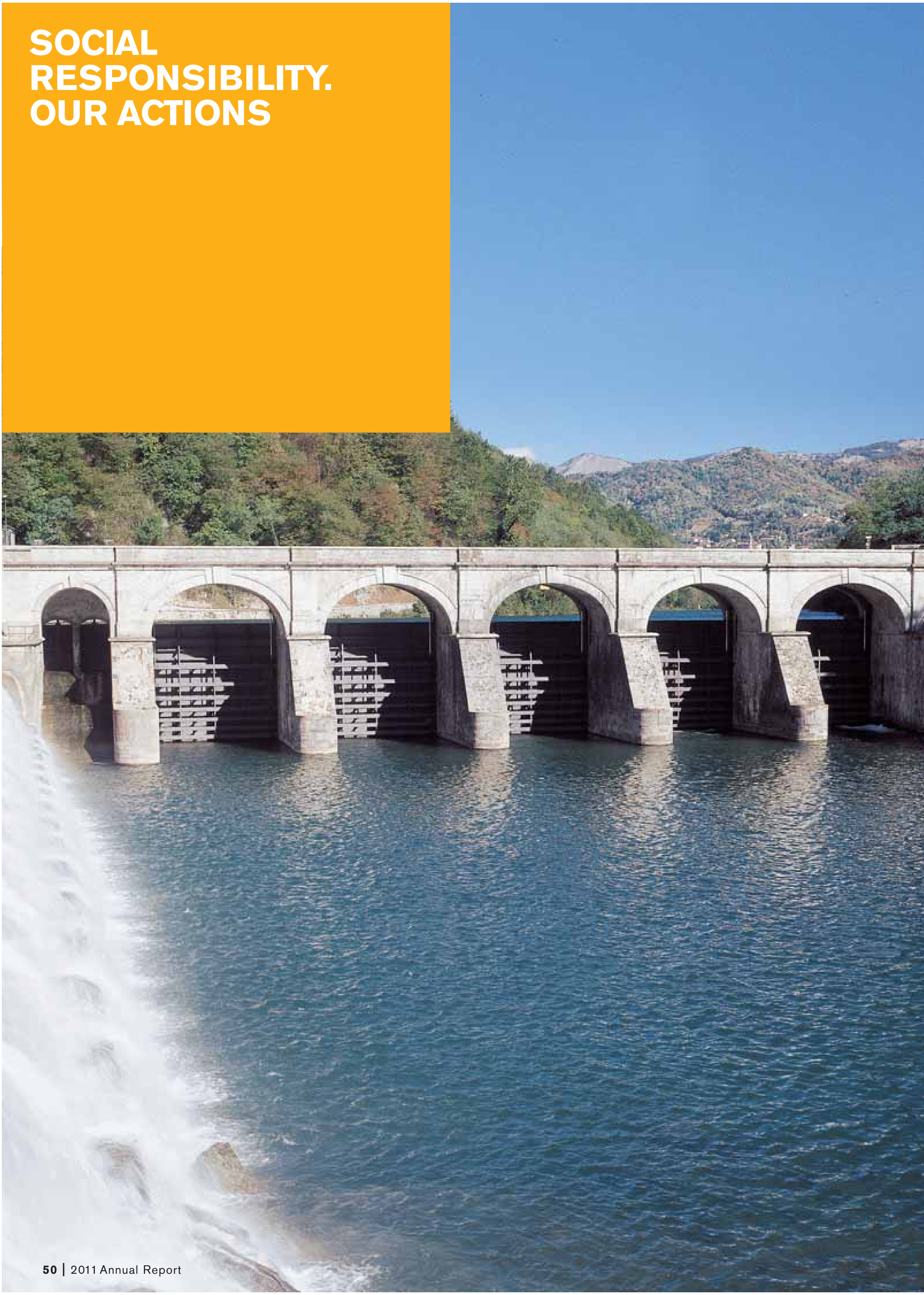
Reconciliation of the Net Profit of Edison Spa to the Group's Interest in Net Profit

(in millions of euros)	2011	2010
Net profit (loss) of Edison Spa	**(896)**	**(86)**
Intra-Group dividends eliminated in the consolidated financial statements	(97)	(325)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	214	446
Higher writedown of discontinued operations	(40)	-
Higher writedown of goodwill	(53)	-
Other consolidation adjustments	1	(14)
Group interest in net profit (loss)	**(871)**	**21**

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

(in millions of euros)	12.31.2011	12.31.2010
Shareholders' equity of Edison Spa	**5,883**	**6,864**
Carrying amount of investments in associates eliminated against the corresponding interests in the shareholders' equities of the investee companies, including:		
- Elimination of the carrying values of the consolidated investments in associates	(1,839)	(2,273)
- Recognition of the shareholders' equities of consolidated companies	2,973	3,326
Valuation of investments in associates measured by the equity method	10	8
Other consolidation adjustments	(39)	14
Shareholders' equity attributable to Controlling Company shareholders	**6,988**	**7,939**

SOCIAL RESPONSIBILITY. OUR ACTIONS



INNOVATION, RESEARCH AND DEVELOPMENT

In 2011, the Group's innovation, research and development activities covered a broad spectrum of topics, consistent with the highly dynamic and innovative phase that currently characterizes the energy sector.
This dynamism, driven by strong competitiveness coupled with the pursuit of efficiency and emission reduction goals, translates in concrete terms into the proposal of new technological solutions that often leverage technologies and infrastructures from the telecommunications and information technology sectors.
While continuing to generally monitor this broad spectrum of topics, research and development activities focused on some areas, specifically studying and testing some solutions and technologies in the areas of power generation (renewables or high efficiency) and energy efficiency.

In the area of power generation systems, important efforts were devoted to fuel cells and photovoltaic systems. Work in the fuel cell area consisted mainly of tests of systems and components performed by a dedicated laboratory at the Edison Research Center in Trofarello and in collaboration with the Chemistry and Energetics Departments of Turin's Politecnico University and with the EIFER Institute in Karlsruhe, Germany.
Activities concerning advanced, high-efficiency photovoltaic systems, which involved mainly system characterization projects, were carried out both in the lab and in the field at a test facility built at the Altomonte power plant, which is equipped with several photovoltaic systems and concentration cells. Activities in this area included an ongoing study carried out in cooperation with ECTL-Università Ca' Foscari, in Venice, concerning certain basic operating aspects of innovative solar cells.
Another area indirectly related to power generation is that of Carbon Capture and Sequestration (CCS), which was actively monitored with regard both to technological and regulatory developments and major test projects carried out in Europe.

The topic of energy efficiency, in its various manifestations, was the dominant issue pursued in 2011. The Group studied and participated in the development of customized solutions of some technologies that could help deliver new efficiency enhancement services to customers, particularly in the residential and service sectors. Activities in these areas, carried out in close coordination with the business units, included the performance of preliminary tests that will be followed in 2012 by pilot and demonstration projects.
These initiatives represent initial steps on the highly theorized but minimally practiced path toward smart-grid solutions, downstream of the distribution grid, consistent with a feasible medium-term scenario that calls for a significant development of such technologies as heat pumps, photovoltaic systems integrated into buildings, small-scale energy storage and electric vehicles. Additional activities in this area included work on storage systems, which were tested both in the lab and theoretically.

The Semenza hydroelectric
power plant on the Adda River.

HEALTH, SAFETY AND THE ENVIRONMENT

Contributing to the fight against climate change and the development of an energy system with a reduced environmental impact, while supporting the development of our employees and providing them with healthy and safe workplaces are two of the challenges inherent in Edison's responsibility.
With this in mind, Edison addresses and manages environmental and safety issues taking an integrated system approach. Accordingly, the Company promotes the development and use of integrated management systems as essential drivers of prevention and the continuous improvement of management activities, within a context of respect for and continuous dialog with its host communities, consistent with best international practices.
The main achievements of 2011 are reviewed below.

Occupational Safety

Edison has been implementing for some time programs to promote occupational safety. As a result, it has been able to achieve outstanding results and bring its occupational safety indices to levels that place it among the most virtuous companies with respect both to its own employees and the employees of contractors.
In 2011, the occupational safety performance for Group employees showed a highly significant improvement compared with the data reported the previous year, with an Injury Incidence Rate of 1.9 (3.8 at the end of 2010) and a Lost Workday Incidence Rate of 0.05 (0.16 at the end of 2010). The number of accidents was cut in half compared with 2010 (8 vs. 16) even though the number of hours worked was virtually identical to the previous year. With regard to employees of contractors, 2011 ended with a higher Injury Incidence Rate, which increased to 6.4 (3.8 at the end of 2010), due both to a higher number of accidents (17 vs. 13 in 2010) and a decrease in hours worked (-20% compared with 2010). Nevertheless, the Lost Workday Incidence Rate for contractor employees was still a low 0.13 (0.12 at the end of 2010).

As for Edipower's occupational safety performance with regard to company employees, there were 3 accidents in 2011, which produced a sharp improvement in the indices compared with previous years. At 1.69 and 0.03, respectively, the Injury Incidence Rate and the Lost Workday Incidence Rate reached extremely competitive levels compared with the market.
Employees of external maintenance companies suffered 12 on-the-job accidents in 2011, causing the occupational safety indices to deteriorate compared with previous years, with an Injury Incidence Rate of 10.92 and Lost Workday Incidence Rate 6.06.
The high Lost Workday Incidence Rate was due mainly to an accident resulting in the death of an employee (for causes not yet identified but, in all likelihood unrelated to work activity) at the Sermide power plant. Following this spike in the indices, the company implemented corrective actions for employees of contractors.

Activities Concerning Prevention an Protection of Occupational Health and Safety

Consistent with its relentless pursuit of a "zero accidents" objective, Edison continued to identify and develop activities that will produce a further improvement in its occupational safety indices. The main activities carried out or launched in 2011 in this area are reviewed below:

- The Risk Assessment Documents were reviewed and, when necessary, updated consistent with operating conditions and organizational changes and to reflect the impact of events that may have altered the assessment of risks or introduced new risks. This work was performed with the risk assessment software, which is now used at virtually all Group locations. The results of the risk assessment processes and the resulting action plans were discussed at the periodic safety meetings required by current regulations (Article 35 of Legislative Decree No. 81/08), during which the implementation progress of training programs and the macro-results of employee health monitoring programs were also presented.
- A preliminary assessment of risk from work-related stress, designed in accordance with the general guidelines of the European Agreement of October 8, 2004, was completed. The assessment process did not shown the presence of any significant situation. The work carried out included defining and

assessing some preventive activities concerning further study of issues in areas that appear to entail greater risk potential, providing information to employees and/or their representatives, providing training for supervisors and implementing structured monitoring programs for some risk indicators with the aim of verifying trends in this area and involving Designated Physicians in the recording of any symptoms potentially related to this risk. Training programs for supervisors and executives in the area of risk from work-related stress were completed in the second half of the year.

- Using as a basis the safety organizational model of the Edison Group, work continued on a project aimed at the adoption of a health and safety management system consistent with the BS OHSAS 18001 standard for use at all administrative facilities and offices. As part of this process, the Trofarello Research Center completed the first stage of the certification process in October. An internal audit of the structure of the health and safety management system at the Foro Buonaparte headquarters in Milan, was carried out in December.
- The annual training program for Prevention and Protection Service Managers, which included issue-specific training sessions for a total of 20 hours a year per person, was completed. In addition, training activities for newly hired employees continued and the development of a new projects to provide online training about the risks related to the tasks performed by Company employees at administrative offices progressed to an advanced stage.
- A total of 113 audits were completed out of the 117 audits planned under the internal auditing program, for a 97% completion rate. The program's implementation progress was reported monthly in the "Environment, Health and Safety" document published on the Company Intranet.
- As was the case in 2010, Edison was an active participant in "OSHA Week 2011," the European health and safety week (October 24-28), implementing several communication and training programs. The topic for 2011 was "Healthy and Safe Work Environments - Safe Maintenance Practices."
- The Company launched at its Foro Buonaparte headquarters in Milan and at its Rome and Bologna offices a project called "Dicci la Tua" (Tell Us About it). This project, which is based on observing and reporting risky behavior and situations of inadequate security and relies on the involvement and participation of all employees at the abovementioned offices, is designed to promote in concrete terms an informal culture of occupational safety and achieve a reduction in the number of accidents over time. This project produced about 100 improvement recommendations which, following an assessment of their technical feasibility, are in the process of being implemented.
- Activities concerning the handling of construction contracts and contractor companies were further strengthened. Specifically, special attention was paid to the qualification process for contractor companies and the assessment of interference risks involving Group employees and employees of contractors, identifying the corresponding safety costs, as required by Legislative Decree No. 81/08.
- A new procedure governing the health monitoring process was issued in 2011. The purpose of the procedure is to define the responsibilities, timing and modalities for a correct management of the Company's health monitoring process, as defined in current regulations, for the protection of all employees and associates of the Edison Group.
- A project to optimize the document collection process for access by employees of contractors (DIMP Project) also got under way using the same software applied to the qualification process. The purpose of this project is to improve the effectiveness of the existing process and simplify the work of the Delegated Project Managers for Operational Activities.

Environmental Activities

In recent years, consistent with a commitment to pursue continuous improvement, Edison's environmental performance reached levels of excellence, thanks to the adoption of virtuous organizational models based on the implementation of certified management systems, the deployment of the best available technologies and the ongoing use of projects to train and educate Company staff and employees of contractors.

The main activities carried out or launched in 2011 in this area are reviewed below:

- The Sustainability Report of the Edison Group, which was published during the first half of 2011 to present the achievement of 2010, lists the main indicators of environmental performance (energy consumption, emissions into the atmosphere, water used and effluents discharged, waste generated, environmental accounting), which, taken as a whole, confirm the effectiveness of the activities implemented by the Company to steadily reduce the environmental impact of its activities through the use of low-impact resources and an increase in the recycling of generated waste.

- All necessary work was completed for the implementation of the online waste traceability control system (known as SISTRI in Italian).
- The process of mapping biodiversity in the areas where the operating facilities of the Edison Group are located was completed using a methodology developed specifically for this project.
- Site characterization, safety assurance and environmental remediation work continued. Most of these activities involve highly significant industrial sites potentially polluted by activities carried out in the past by various businesses sold to parties outside the Group.

The most noteworthy actives carried out by some of the Group's Business Units in the areas of occupational health and safety, the environment and quality are reviewed below:

Electric Power Business Unit

Work was completed on securing the issuance and renewal of the Integrated Environmental Permit (abbreviated as AIA in Italian) required by Legislative Decree No. 59/2005 for facilities under Ministry jurisdiction with a thermal capacity in excess of 300 MW. In 2011, the Altomonte, Torviscosa, Simeri and Candela power plants received the abovementioned permit and the Monitoring and Control Plan for the Sarmato facility was reviewed.

Between June and September 2011, renewal/monitoring audits of the integrated environmental and safety management system of the Thermoelectric Division and the Hydroelectric Division were performed with a positive outcome by the CSQ-IMQ certification entity and an accredited auditor for EMAS registration.

In 2011, the Emilia Romagna Regional Administration issued a permit for the revamping and environmental remediation of the San Quirico (PR) power plant.

In the thermoelectric area, the revamping of the Bussi sul Tirino power plant was completed with the installation of a new LMS100 GE gas turbine, while in the hydroelectric area the revamping of the Cividate, Sonico, Albano and Caffaro 2 power plants was completed and the renovation of the Mortitolo chute in the Valtellina district got under way.

Work continued on the environmental remediation of areas of soil and aquifer contamination identified or started in previous years at some thermoelectric and hydroelectric power plants.

Hydrocarbons Business Unit

The activities required for the certification of the Italian Production Department in accordance with the UNI EN ISO 14001 and BS OHSAS 18001 standards, with the aim of covering 100% of the operating sites, were completed with a certification inspection of the Comiso gas production facility by an independent entity.

In 2011, all monitoring inspections of the Business Unit's integrated environmental and safety management system, which include those of the Italian Production Department, Edison Stoccaggio Spa and Edison D.G. Spa were successfully completed. In addition, the EMAS environmental registration of the Cellino gas storage center and the Garguso gas production facility were renewed.

In 2011, in response to changing conditions in Egypt's political situation, the Company launched and completed a revision of its emergency and country evacuation management plan. In 2012, this process will be implemented at other at-risk countries where the Business Unit operates.

Training activities carried out in 2011 included the successful performance of pollution prevention exercises at the Vega offshore oil field.

Work continued on the activities required to implement the "Seveso II" Directive for gas storage facilities.

Renewable Sources Business Unit

A monitoring inspection of the integrated environmental and safety management system in accordance with the UNI EN ISO 14001 and BS OHSAS 18001 standards, which included a three-year renewal of the EMAS Regulation, was successfully completed by Edison Energie Speciali Spa.

In addition, certification audits of the integrated environmental and safety management system of Sistemi di Energia Spa and Compagnia Elettrica Bellunese CEB Spa (CEB) were successfully completed. Activities concerning CEB will completed in the first quarter of 2012.

Marketing and Distribution Business Unit

A monitoring inspection of the quality management system of the Business Unit's organization, in accordance with the UNI EN ISO 9001 reference standard, was successfully completed in 2011.

Engineering Department

In 2011, work continued on the development of an integrated safety and quality management system, with the issuance of procedures and instructions for the startup phase of production facilities. A review of the Department's quality and safety management systems was performed in May and June and results were presented to the entire organization. In July, the CSQ certification agency successfully performed monitoring inspections, failing to issue non-conformity findings.

Edipower Spa

With regard to the Company's environmental performance, emissions of the main pollutants (sulfur dioxide, nitric oxide, particulates and carbon monoxide), in specific terms, were substantially in line with the levels of previous years.
In 2011, work continued on environmental remediation projects concerning areas of soil and aquifer contamination or potential contamination identified or started in previous years at some thermoelectric power plants.
Specifically with regard to the San Filippo del Mela power plant, a complete Monitoring Plan of the aquifer, soil and vapors was launched in June 2011, with cross-checked controls by the relevant local entities (Provincial Administration and Arpa Messina), while optimizing the functionality of some remediation facilities in some areas of the power plant.
As for the Brindisi power plant, following the signing of a settlement agreement, the Ministry of the Environment issued a directorial decree on October 26, 2011, by which it approved the remediation projects for the contaminated soil and aquifer proposed by Edipower and returned the areas included in the Brindisi Site of National Interest to their appropriate industrial use, which is a prerequisite for the start of any industrial development project for the power plant.
Work completed in 2011 included the activities required to secure an initial Integrated Environmental Permit (AIA) for Edipower's Brindisi power plant. The corresponding AIA Decree will be published in 2012. The AIA Decree for the Chivasso power plant was published and went into effect in January 2011.
In the area of hazardous chemicals, an internal training program on EC Regulation No. 1272/2008 "Classification, Labeling and Packing of CLP Hazardous Substances and Mixtures," on EC Regulation No. 453/2010 "New Safety Data Cards" and chemical risk was provided to headquarters and field employees in 2011.
Activities concerning the Safety Management System carried out in 2011 included completing the process for the adoption of a Safety Management System specifically compliant with the BS OHSAS 18001/2007 reference standard at all pilot production units (Brindisi thermoelectric power plant and Udine hydroelectric hub), which received OHSAS 18001 certification.
The activities required for the maintenance of the abovementioned Management System at the Brindisi and Udine power plants, which were certified in 2010, continued in 2011 and the system's integrated Safety/Environment audit got under way.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Human Resources

At December 31, 2011, counting the employees of companies consolidated on a proportional basis and those of the discontinued operations, the staff of the Edison Group totaled 3,764 employees, or 175 fewer than at December 31, 2010, when 3,939 employees were on its payroll.
This staff reduction is due mainly to the sale of the Taranto thermoelectric power plants, effective as of October 10, 2011, which had 114 employees. Organization efficiency gains in the operational areas concerning the production of electric power and hydrocarbons account for the balance of the decrease.
Total labor costs for the year amounted to 214 million euros, or 1.4% more than in the previous year. This increase is the net result of a staff reduction (48 fewer employees on average for the year) and wage increases resulting from the renewal of national, industry-wide collective bargaining agreements.

The biggest energy is us. This was the slogan chosen for the Christmas party to emphasize the importance that our company attributes to its human capital.

Industrial Relations

In July 2011, the Company and the labor unions representing workers in the electrical industry signed two important agreements: one (on July 13) concerning the Supplemental Company Agreement and another one (on July 29) concerning Corporate Social Responsibility (CSR) Protocol.
The Supplemental Company Agreement, which covers the three-year period from 2011 to 2013, on the one hand called for the renewal of the Result Bonus, which continues to be tied to profitability and productivity factors, and, on the other hand, created the premises for a subsequent agreement concerning CSR. The Company and the labor unions representing workers in the electrical industry confirmed their full support for a corporate development model that can combine the creation of value with the expectations of all internal and external stakeholders, while fully respecting fundamental human rights and complying with the best occupational safety and environmental protection standards.
An agreement renewing the National Collective Bargaining Agreement, which expired on December 31, 2009, was signed on March 10, 2011 with the labor unions representing workers in the gas and water industries. Consistent with the terms of the agreement signed by all unions on April 15, 2009, which implemented a reform of the contractual stipulations that govern the Italian system of industrial

relations, the contract will be in effect for three years (i.e., until December 31, 2012) with regard both to benefits and economic issues.
As for Edipower, industrial relations focused primarily on identifying solutions to increase efficiency and further streamline the company's payroll.
Significant agreements in this areas were reached in 2011 for the Piacenza thermoelectric power plant and the Tusciano hydroelectric hub, which made it possible to make further progress toward the achievement of the reference organizational model, and for the Brindisi and San Filippo del Mela power plants, aimed at identifying organizational and economic management efficiency solutions during plant downtime.

Organization

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

- Sale to ILVA (Riva Group) of the entire share capital of Taranto Energia Srl, a company to which

Edison conveyed the business operations comprised of the CET 2 and CET 3 thermoelectric power plants, located within ILVA's industrial complex in Taranto.
- Placement of assets and resources involved in the operational management of business operations in Italy and abroad under the jurisdiction of the Chief Operating Officer.
- Reconfiguration of the responsibilities of the Central International Department for Renewables and Special Projects, entrusted to Chief Development Officer.

Personnel Training and Development

In a context of increasingly complex macroeconomic and energy scenarios, training and development activities carried out in 2011 were characterized by an investment in professional competencies, both transversal (industry related competencies) and vertical (professional competencies).
Related to the first of these two areas is the "Specialization Course in the Energy Business and Utilities," which is a project developed and implemented with Milan's Politecnico University for professionals with a crossfunctional vocation, who were the beneficiaries of a deep and broad investment in training and development (more than 250 hours per capita).

A project aimed at a broader population but still focused on updating management's competencies with regard to issues relevant to the energy sector is the cycle of seminars carried out in partnership with top research entities and institutions.
Work carried out in the area of professional competencies for specific trades and professional families included completing the first phase of the Market Academy, a programmatic training and development initiative for the entire sales areas; more than 250 employees and associates participated in training projects linked with this program.
Also worth mentioning is the ongoing management training program, which, in 2011, in addition to the annual course for recently appointed supervisors, included a two-year Managerial Program for new executives.

Overall, Edison carried out a training program for a total of about 82,000 hours provided to more than 2,000 employees, for a teaching cost of 1.9 million euros (1.6 million euros in 2010), including more than 400,000 euros funded through the training and development account of the *Fondimpresa* and *Fondirigenti* interprofessional funds.
In 2011, the Group's training and development program was again characterized by a broad and transversal coverage of the different populations within the company; in terms of content, in addition to the initiatives mentioned above, 2011 was characterized by the usual focus on topics related to safety and the environment (more than 20,000 hours, including technical training) and by an investment in the population of newly hired young employees.
Technical training and continuing development for various professional groups at Company headquarters and production facilities, both designed to constantly update professional knowledge and skills, constitute the other two cornerstones of Edison's training and development system (10,000 hours and 6,000 hours, respectively).

As for Edipower, the 2011 training program included projects designed for the various professional families at company headquarters and production facilities, which involved entire professional groups, as well as a series of initiatives aimed at meeting specific requirements.
Training activities for a total of about 56,000 hours were provided to 915 employees. Continuing development programs aimed at constantly updating professional knowledge and skills, particularly with regard to occupational safety and health, the environment (EMAS certifications in particular) and technical and professional development, accounted for 72% of the training hours provided. Specific programs carried out focused on the prevention of the main risks at the company's production facilities (Electrical Risk Prevention, Work in Confined Spaces, Risks in Explosive Environments, Chemical Risk Prevention, etc.).
Training aimed at fostering professional growth, i.e., the development of Edipower's distinctive specialized and managerial competencies, accounted for about 28% of the courses provided. More specifically, several management development programs were offered to a select group of middle managers and executives, focusing on international issues, with the aim of broadening their horizons and encouraging benchmarking against different scenarios, and the development of key management competencies (problem solving, teamwork, communication, negotiations, etc.).

RISKS AND UNCERTAINTIES

Risk Management at the Edison Group

Enterprise Risk Management

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

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

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

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

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

Energy Risk Management

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

The specific objectives and operating procedures of the energy risk management process are discussed in detail in the section of the Consolidated Financial Statements at December 31, 2011 entitled "Group Financial Risk Management," which should be consulted for additional information.

Risk Factors

Risks Related to the External Environment

Legislative and Regulatory Risk

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

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

- **Renewal of Hydroelectric Concessions**

  The five-year extension provided by the government with Law No. 122/2010 and the additional seven-year extension for mixed corporations established jointly with some provincial administrations were voided by the Constitutional Court with Decision No. 205/2011.

  In addition, Law No. 19/2010 enacted subsequently by the Regional Administration of Lombardy, which, in lieu of the five-year extension of Law No. 122/2010, provided, only for concessions expiring on or before December 31, 2015, the possibility of a temporary extension, for exiting concession operator, for a period of up to five years, was challenged by the Italian government and, by Decision No. 339/2011, published on December 22, 2011, the provisions concerning the award of expired concessions, insofar as they applied to temporary extensions, and discretionary authority in setting call for tender criteria, absent those of the central government, were also voided.

  Consequently, at this point, the award of concessions for large-scale diversions of water continues to be governed by the Bersani Decree, insofar as existing concessions are concerned, but there is still a gap in the legislation concerning the handling of expired concessions and the criteria and methods for calls for tenders.

  In this regard, the expected ministry decree dealing with the requirements to qualify for calls for tenders will provide an element of certainty for operators, also in terms of planning new investments and competing in calls for tenders for the renewals of concessions.

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

  With regard to issues related to the Avoided Fuel Cost, the complex related legal disputes currently pending ended with the Council of State voiding Resolution ARG/elt No. 154/08, by which the AEEG defined the Avoided Fuel Cost component starting in 2008.

  Edison continues to monitor the activities of the AEEG, which is expected to identify a new method for defining the Avoided Fuel Cost component, but has not yet done so.

  The future impact of issues related to the Avoided Fuel Cost has been gradually mitigated by the corporate choices made in recent years, resulting in the early termination of most CIP 6/92 contracts outstanding. Moreover, Article 30, Section 20, of Law No. 99 of July 23, 2009 (the so-called Development Law) calls for the introduction by the Ministry of Economic Development of mechanisms for the early termination of CIP 6/92 contracts.

  Subsequently, the Ministry of Economic Development issued a general implementation decree for binomial rate facilities, to which Edison responded by filing a binding application for early termination of CIP 6/92 contracts for the Jesi, Milazzo, Porto Viro and Porcari power plants as of the beginning of 2011. The Ministry subsequently finalized the decree governing the early termination mechanism for mononomial rate facilities. The decree was published at the end of July 2011 and Edison proceeded with early termination of the contract for the Taranto power plant effective October 1, 2011. Early in 2012, Edison signed an agreement with the GSE for a voluntary early termination of the CIP 6/92 contract for the CET3 power plant in Piombino. The termination will be effective as of January 1, 2013.

- **Environmental Costs: CO_2 Emissions Rights**

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

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

  The Italian government issued the decree that implements Directive No. 2009/28/EC concerning incentives for the production of electric power from renewable energy sources (Legislative Decree

No. 28 of March 3, 2011). This legislative decree calls for the following:

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

The Ministry of Economic Development, in concert with the Ministry of the Environment and the Ministry of Agricultural policies, is working on a draft of a decree that will implement Legislative Decree No. 28/2011, which was enacted by the previous government. Publication of the implementing decree is expected early in 2012.

- **Subsidies for High Yield Cogeneration (HYC)**

The publication of two decrees in 2011 (Ministry Decree of August 4, 2011 and Ministry Decree of September 5, 2011) completed the regulatory framework for defining and incentivizing the use of high yield cogeneration. More specifically, the Ministry Decree of August 4, 2011 replaces Annexes I, II and III of Legislative Decree No. 20/2007 concerning cogeneration technologies, the computation of the output from cogeneration and the method for determining the yield of the cogeneration process. The other Ministry Decree defines the framework of HYC incentives. More specifically, cogenerating units commissioned starting on January 1, 2011 are deemed to be HYC systems and, for each calendar year in which they meet HYC requirements, are entitled to receive white certificates in proportion to the primary energy savings achieved the same year.

Existing facilities commissioned between March 7, 2007 and December 31, 2010 will also be eligible for the award of white certificates even if they do not meet the requirements of the Ministry Decree of August 4, 2011, provided they meet those of AEEG Resolution No. 42/02.

The two abovementioned decrees do not clarify issues related to the exemptions for electric power produced by cogenerating facilities, for the purposes of determining the quantity of energy subject to the mandatory quota, as set forth in Article 11, Section 2, of Decree No. 79/1999 (Bersani Decree).

Price Risk and Foreign Exchange Risk Related to Commodity Activities

The Edison Group is exposed to the risk of fluctuations in the prices of all of the energy commodities that it handles, including, specifically, electric power, natural gas, coal, petroleum products and environmental securities. These fluctuations affect the Group both directly and indirectly through indexing mechanisms contained in pricing formulas. Moreover, because some of the abovementioned commodity prices are quoted in U.S. dollars, the Group is also exposed to the resulting foreign exchange rate risk.

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

For a more detailed analysis of this risk please see the IFRS 7 disclosure provided in the section of the Consolidated Financial Statements at December 31, 2011 entitled "Group Financial Risk Management."

Foreign Exchange Risk

The foreign exchange risk arises from the fact that some of Edison's activities are carried out in currencies other than the euro or are influenced by changes in foreign exchange rates through indexed contractual components. Revenues and expenses denominated in a foreign currency can be influenced by fluctuations in exchange rates, with an impact on sales margins (economic risk), while trade and financial receivables and payables can be affected by the translation rates used, with an impact on the economic results (transactional risk). Lastly, fluctuations in exchange rates have an effect also on the consolidated result and the interest in shareholders' equity attributable to Parent Company shareholders, due to the fact that the financial statements of some investee companies are denominated in currencies other than the euro and need to be translated into euros (translational risk).
The objectives pursued when managing the exchange rate risk are set forth in specific Exchange Risk Policies, depending on the different nature of the risk in question. For a detailed analysis of this risk please see the IFRS 7 disclosure provided in the section of the Consolidated Financial Statements at December 31, 2011 entitled "Group Financial Risk Management."

Interest Rate Risk

Because it is exposed to fluctuations in interest rates primarily with regard to the measurement of debt service costs, the Edison Group assesses on a regular basis its exposure to the risk of changes in interest rates and uses derivatives to hedge its positions. The Group's main interest rate exposure is to the Euribor.
For a more detailed analysis of this risk please see the IFRS 7 disclosure provided in the section of the Consolidated Financial Statements at December 31, 2011 entitled "Group Financial Risk Management."

Credit Risk

The credit risk represents Edison's exposure to potential losses caused by the failure of commercial and financial counterparties to honor the commitments they have undertaken. The Edison Group's exposure to the credit risk is related to sales of electric power and natural gas, the investment of temporary excess liquidity and financial derivative positions.
To control this risk, the operational management of which is specifically the responsibility of the Credit Management Function, which is part of the central Finance Department, the Group implemented procedures and activities that are described more in detail in the IFRS 7 disclosure provided in the section of the Consolidated Financial Statements at December 31, 2011 entitled "Group Financial Risk Management."

Competitive Pressure

The energy markets in which the Group operates are subject to intense competition. Specifically, in the Italian electric market, Edison competes with other Italian and international producers and traders who sell electric power to industrial, commercial and residential customers. In order to address the risks entailed by its involvement in the domestic electric power market, the Group has been pursuing in recent years lines of action aimed mainly at developing a portfolio of customers in the deregulated segment of the market, consistent with a strategy of gradual downstream integration, geographic diversification, optimization of the production mix, and development of renewable energy sources.
In the Italian natural gas market, Edison is faced with an increase in competition from Italian and international operators, which has caused a steady erosion of natural gas sales margins. In addition, some foreign producers from countries with abundant hydrocarbon reserves are planning to sell natural gas directly to end customers in Italy. This threatens the market position of companies that, like Edison, resell to end customers natural gas that they buy in other countries. Moreover, the natural gas market is currently going through a phase of excess supply that developed due to a number of concurrent factors, including the full availability of new importation infrastructures started in previous

years, an ample supply of LNG and the development of major reserves of non-conventional gas in the United States, which resulted in a corresponding reduction in U.S. imports.
Among the various actions taken to minimize the competitive pressure risk in the hydrocarbon area, a major contractual tool is the enforcement of clauses allowing the renegotiation of prices, based on changes in the benchmark energy scenario and market conditions, which are included in long-term natural gas supply contracts. In this respect, Edison is engaged in activities specifically focused on renegotiating existing contracts with all its current suppliers of natural gas. The success of these negotiations is essential to relieve over the near term the pressure on sales margins that the Group is currently experiencing in the natural gas area. For some of its suppliers, the Group filed for arbitration proceedings with the aim of asserting Edison's right to obtain reasonable margins that are commensurate with its long-term commitments, without the immediate need to achieve short-term fixes that could prove detrimental over the medium term. At the end of July, an agreement was reached with Promgas, the Group's Russian supplier, adjusting the price of natural gas to the changed conditions of the Italian market. This agreement provides an indication that Edison is beginning resolve the problems that are being faced by all major European gas companies with similar commitments.

Technological Innovation

Radical changes in the electric power generation technologies currently in use or under development could make them more competitive than the otherwise excellent technologies currently represented in the Group's production mix. In addition, changes to the regulatory framework could affect the order of preference for power generation facilities. To minimize these risks, Edison monitors on an ongoing basis the development of new technologies both in the electric power and the hydrocarbon sectors. The Company is also engaged in the assessment of innovative technologies in the fields of energy efficiency and generation from renewable sources. Additional information about activities in this area is provided in the section of this Report on Operations at December 31, 2011 entitled "Innovation, Research and Development."

Demand for Electric Power and Natural Gas

Generally, demand for electric power and natural gas is tied to changes in GDP. The situation created by the global economic crisis that started in the last quarter of 2008 continued throughout 2009, causing demand for electric power to show negative growth, compared with the previous year. The trend turned positive in 2010, continuing to show an upward bias in the first nine months of 2011, during which electric consumption was slightly higher than in the same period a year earlier. However, the trend reversed itself in the closing quarter of 2011 and consumption again decreased compared with the same period the previous year. Overall, demand for electric power was up modestly in 2011, compared with 2010, but remained well below the levels achieved before the global crisis. Given this environment, it seems reasonable to assume that it will take a few additional years before demand can return to its pre-crisis levels.
Demand for natural gas was also affected by the global economic crisis, as shown by the consumption levels recorded starting in 2009, when demand was down sharply compared with 2008. In 2010, the demand trend reversed itself, but turned again negative in 2011. As result, 2011 consumption was lower overall than in 2010, falling to levels comparable with those recorded in 2009, due mainly to lower demand from thermoelectric power plants and the effect of warmer weather than in the first and last quarter of the previous year.
The reduction in the overall level of demand for energy put significant pressure on sales margins, already adversely affected by the competitive pressure developments described in the preceding paragraph, particularly in the natural gas area, and could have an impact on the Group's exposure to take-or-pay clauses in long-term contracts for the supply of natural gas. Under these clauses, Edison is required to take delivery each year of contractually determined volumes of natural gas or, should it fail to do so, pay the full amount, or a portion thereof, owed for the undelivered volumes up to the contractual minimum. However, under the take-or-pay clauses, Edison can take delivery of the abovementioned prepaid volumes in subsequent contract years. Based on internally developed forecasts, management believes that it will be able to take delivery, within the applicable contract

terms, of the gas volumes prepaid at December 31, 2011, thereby recovering the cash advances paid, net of the finance charges associated with the abovementioned advances.

The sovereign debt crisis currently affecting some euro-zone countries, including Italy, raises serious concerns about an economic recovery, over the short term, in our country, with potential consequences also for an upturn in energy consumption. A resurgence in the future of the negative trend in the demand for energy, or the possibility of Italy facing a period of slow growth, could have an impact in terms of lower sales volumes of electric power and natural gas by Edison and, consequently, reduce the Group's overall sales margins.

Among the activities carried out in this area, in addition to specific initiatives aimed at renegotiating the prices of the abovementioned long-term contract for the importation of natural gas (see the Competitive Pressure section above), 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.

Country Risk

The Edison Group operates in the international markets, focusing mainly on the Balkans and Southeast Europe, with foreign branches in Bulgaria, Hungary, Romania, Slovakia and the Czech Republic that engage in the marketing of electric power. It is also present in Greece, where it produces and markets electric power through a joint venture with Hellenic Petroleum, its Greek partner. In addition, the Edison Group is active in hydrocarbon exploration and production, with a particularly important presence in Egypt, where it produces natural gas and crude oil as the operator of the Abu Qir offshore concession, and with smaller operations in the Ivory Coast and other countries. Because of its presence in these international markets, the Group is exposed to the so-called "country risk," i.e., a whole series of risks deriving mainly from political, economic, social, regulatory and financial differences compared with conditions in the country of origin. These risks can vary widely from those faced when operating exclusively in the domestic market and, consequently, can have a negative effect on the profitability and valuation of foreign investments.

More specifically, the economic crisis that affected Greece deepened in 2011 and the resulting difficult macroeconomic scenario, combined with a deterioration of the political environment, caused the main rating agencies to sharply downgrade the rating of Greece's long-term sovereign debt. As a

The Sportivi Dentro project is a product of Edison's commitment to foster the rehabilitation of prison inmate through sports. Inmates at the Opera correctional facility were involved in this project.

result, in 2011, the management of the Group's Parent Company made the conservative decision to increase the country risk premium component of the discount rate applied to these investments. However, it is worth mentioning that, despite the current crisis conditions, the regulatory framework of the Greek electric power market improved, starting in the fourth quarter of 2010, with the approval of a safeguard mechanism that ensures coverage of the costs of electric power production facilities. However, the current political situation in Greece is a source of concern for the stability of the regulatory system and is carefully monitored by the Group's Parent Company. Despite the uncertainties in the overall macroeconomic environment, the Company is confident that the implementation of the aid package agreed upon with the European Union, the European Central Bank and the International Monetary Fund, coupled with the strict fiscal policies that the Greek government has implemented or is in the process of defining, should make it possible to support the Greek economy, leading to the country's full recovery.
Similarly, the events that have been occurring for several months in some North African countries, including Egypt, have heightened internal social and political unrest, and their potential repercussions on Edison's ability to continue operating under economically viable conditions are being closely monitored by the Group's Parent Company. As a result of these developments, management decided not to alter the country-risk premium component of the discount rate applied to investments in this North African country, which it conservatively increased at the end of 2010. From an operational standpoint, two years after acquisition, natural gas and crude oil production from the Abu Qir concession is continuing to generate positive economic results, with rising production volumes. In addition, the forth well of the P-II platform was completed at the end of September, despite the internal social and political unrest that characterized this challenging period.

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 the National Fire Protection Association (NFPA) and Factory Mutual (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, inventory management and maintenance activities. When appropriate, an effective industrial insurance and expert evaluation strategy that includes the use of Erection All-Risk and Property All-Risk policies that also provide coverage for indirect damages or delays in the availability of new facilities can help minimize the potential consequences of such damage events. Additional information about the management of environmental and occupational safety risks is provided in the section of this Report on Operations at December 31, 2011 entitled "Health, Safety and the Environment."

Information Technology

The Group's operations are supported by complex information systems, specifically with regard to the technical, commercial and administrative areas. Risks issues also exist with regard to the adequacy of these systems and the integrity and confidentiality of data and information. The continuous development of IT solutions to support business activities, the adoption of strict security standards and of authentication and profiling systems help mitigate these risks. In addition, to limit the risk of activity interruption caused by a system fault, Edison adopted a high reliability hardware and software configuration for those applications that support critical activities. Specifically, with regard to the services provided by an outsourcer, the Group is currently considering the possibility of switching from a disaster recovery service to a business continuity service, which would guarantee continued process viability even in the event of a disaster affecting the main data processing center.

Liquidity

Managing the liquidity risk means addressing the risk that the Company may not have access to sufficient financial resources to meet its financial and commercial obligations in accordance with agreed terms and maturities.
The Group's strategic objective is to minimize the impact of financial debt maturities by maintaining access to existing credit lines and adequate liquidity, implementing on a timely basis negotiations for the funding of maturing financing facilities and scheduling the placement of bond issues.
For a more detailed analysis of this risk please see the IFRS 7 disclosure provided in the section of the Consolidated Financial Statements at December 31, 2011 entitled "Group Financial Risk Management."

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 in the electric power sector are concerned, the Edison Group is constantly engaged in programs to develop new power plants and upgrade older facilities in order to increase their profitability, efficiency and operating flexibility. In addition, the average age of the thermoelectric power plants in Edison's portfolio of production facilities is quite low, because in recent years the Group completed an ambitious program to expand electric power generating capacity, adding a total of about 7,000 MW in Italy. Moreover, also in the areas of electric power distribution and production, the Group is engaged in the development of investments outside Italy, focusing on the Balkans and Southeast Europe.
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 foreign countries where it operates or plans to operate in the future (see the "Country Risk" section above).
As for direct investments in the hydrocarbon sector, the Group is engaged in exploration, development and

production in the natural gas and crude oil areas, with the aim of increasing its hydrocarbon reserves and develop its asset portfolio as an integrated energy operator, while pursuing projects for the development of gas storage fields and thus increase the reliability of Italy's gas system. The investment made in 2009 in the Egyptian oil and gas market with the Abu Qir acquisition is consistent with this approach.
With regard to the hydrocarbon development and production activities, in addition to the remarks provided above concerning investments made to develop the electric power operations and the considerations about country risk (disclosed in a special section of this chapter), please note that they are typically subject to uncertainties with regard to estimates of proven reserves, projections of future production rates and the timing of development investments, due to the fact that estimates of proven reserves depend on a long series of factors, assumptions and variables. Moreover, between the exploration phase and the start of subsequent phases involving the development and commercial exploitation of the discovered hydrocarbon reserves there is usually a significant time lag needed to assess the commercial viability of the discovered hydrocarbon deposits, authorize the development project and build and put into service the necessary equipment (time to market). During this time period, a project's profitability can be affected by volatility in oil and gas prices and by the variability of development and production costs. However, in the specific case of the Abu Qir concession, the very characteristics of the existing infrastructures are such that they mitigate the exposure to this risk.
Moreover, future hydrocarbon production levels will depend on the Group's ability to access new reserves through new discoveries made possible by its exploration activities, the success of its development activities and its ability to negotiate concession agreements with the countries that possess known hydrocarbon reserves.
Additional investment and some carefully selected divestments, implemented as part of a strategy to streamline the overall portfolio, are planned for the future to support the growth of the Group's core businesses both in the electric power sector and the hydrocarbons area. As mentioned above, this development strategy also calls for expansion of the Group's international operations outside the European Union, in countries where Edison is already present, but where the political, social and economic environment could be less stable.
As 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 could 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 adopted a series of internal processes to monitor the research and assessment phases of investment initiatives. In addition to requiring the use of appropriate written procedures, these processes require the use of due diligence activities, binding contracts, multilevel internal authorization processes, project risk assessment activities and strict project management and project control activities.

Policies and Management Tools Adopted by the Group

Energy Risk Policy

Governance

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

Financial Hedges

One of the objectives of the Group's risk management activity is to stabilize the cash flows generated by the existing portfolio of assets and contracts and use strategic hedging to protect the Group's industrial margins from fluctuations caused by the effect of the price risk and the foreign exchange risk (as defined above in the Risk Factors section of this chapter) on the commodities used.
Strategic hedging is carried out by means of financial hedges that are activated gradually during the year, based on market trends and changes in projections of the volumes of physical buy and sell contracts and the production of the Group's assets.
The gradual implementation of strategic hedging helps minimize the execution risk, which refers to the possibility that all hedges will be activated during an unfavorable market phase, the volume risk, which is related to the variability of the underlying items that require hedging based on the best volume projections, and the operational risk, which is related to implementation errors.
Moreover, the Group's policy is designed to minimize the use of financial markets for hedging purposes by maximizing the benefits of the vertical and horizontal integration of its different business segments. Accordingly, the Group makes it a planning priority to physically balance the volumes of physical energy commodities that it will sell in the market on the different due dates, using for this purpose the production assets it owns and its portfolio of medium/long-term contracts and spot contracts.
In addition, the Group pursues a strategy designed to homogenize sources and physical uses, so that the formulas and indexing mechanisms that determine the revenues generated by the sale of energy commodities reflect as much as possible the formulas and indexing mechanisms that govern the costs that the Group incurs to purchase energy commodities in market transactions and to supply its production assets.
To manage the price and foreign exchange risk on the remaining exposure of its portfolio of assets and contracts, the Group can use structured hedges executed in the financial markets in accordance with a cash flow hedging strategy. Financial hedges can also be established in response to specific requests by individual business units to lock in, with operational hedging, the margin earned on a single transaction or a limited number of related transactions.

Enterprise Risk Management Policy

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

The Enterprise Risk Management process is carried out concurrently with the development of the Budget and Strategic Plan by means of a Risk Self Assessment process, the results of which are presented on predetermined dates at meetings of the Audit Committee and the Board of Directors. In this case as well, the model is based on information provided by the individual operating units and departments, each of which, limited to the areas under its jurisdiction, prepared a map of the existing risks based on three parameters that measure their overall impact, the probability of occurrence and the level of control.
The overall results for 2011 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 and charges

In addition to the disclosures provided above concerning risk management and mitigation activities, whenever it incurs current obligations arising from past events, which can be of a legal or contractual nature or implied by Company declarations or conduct such as to create in a third party a valid expectation that the Company will be responsible or assume responsibility for the performance of an obligation, the Edison Group sets aside appropriate amounts in special provisions for risks and charges, which are shown among the liabilities on the balance sheet (see also the Notes to the 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 entitled "Status of the Main Legal and Tax Disputes Pending at December 31, 2011," within the "Commitments and Contingent Risks" chapter of the consolidated financial statements.

OTHER INFORMATION

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

- At December 31, 2011, 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 2011, the Group executed significant transactions with related parties, a description of which is provided in the section of the consolidated financial statements entitled "Intercompany and Related-Party Transactions."
- No secondary registered offices have been established.

Information about the Company's ownership structure and corporate governance, which includes the fees paid to the independent auditors, is provided in a separate document (i.e., the Report on Corporate Governance), which is an integral part of this annual report. Data about the equity investments, compensation and stock option plans of Directors and Statutory Auditors are listed in the Annual Compensation Report.

MOTION FOR A RESOLUTION

Dear Shareholders,
Your company's separate financial statements close with a loss of 895,549,190.64 euros.

If you concur with the criteria adopted to prepare the financial statements and the accounting principles and methods applied for that purpose, we recommend that you adopt the following resolutions:

" The Shareholders' Meeting,

- having reviewed the company's separate financial statements and the Group's consolidated financial statements at December 31, 2011, together with the report of the Board of Directors on Operations and the report on corporate governance and the company's ownership structure;
- having examined the report of the Board of Statutory Auditors to the Shareholders' Meeting pursuant to Article 153 of Legislative Decree No. 58/1998 (Uniform Financial Code);
- having examined the reports of the Independent Auditors on the separate financial statements and consolidated financial statements at December 31, 2011;
- considering that, due to the transition to and adoption of the IFRS principles, the company's shareholders' equity at December 31, 2011 includes unavailable reserves pursuant to Articles 6 and 7 of Legislative Decree No. 38/2005;

resolves to:

FIRST RESOLUTION
to approve the company's separate financial statements for the year ended December 31, 2011 in their entirety and individual entries;

SECOND RESOLUTION
to replenish the loss of 895,549,190.64 euros by utilizing:
- the reserve for investment grants pursuant to Article 55 of the Uniform Tax Code for 3,770,174.10 euros;
- the merger surplus reserve for 7,292,233.12 euros;
- retained earnings for 799,739,595.79 euros;
- the reserve for the adjustment to fair value as the deemed cost of property, plant and equipment upon transition to the IFRSs, pursuant to Article 7.6 of Legislative Decree No. 38/2005 for 84,747,187.63 euros, leaving a balance of 382,362,099.36 euros.

Milan, February 13, 2012

The Board of Directors
by Bruno Lescoeur
Chief Executive Officer

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, 2011, the Board of Statutory Auditors of Edison S.p.A. (the "**Company**" or "**Edison**") carried out its oversight activities pursuant to law, performing its work in accordance with the rules of conduct for Boards of Statutory Auditors of corporations with shares traded on regulated markets published by the Italian Board of Certified Public Accountants and Accounting Experts and consistent with Consob pronouncements concerning corporate controls and the activities of the Board of Statutory Auditors.

* * *

The Board of Statutory Auditors currently in office was elected by the Shareholders' Meeting of April 26, 2011, 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 be elected from the slate of Statutory Auditors filed by minority shareholders. The term of office of this Board of Statutory Auditors will end upon the approval of the Company's financial statements at December 31, 2013.
The members of the Board of Statutory Auditors are in compliance with the limit on the number of governance posts held set forth in the Bylaws and Article 144-*terdecies* of the Consob Issuers' Regulation No. 11971 and, during the year, met their disclosure obligations toward the Consob.
Pursuant to Legislative Decree No. 58/1998 and Legislative Decree No. 39/2010, the Shareholders' Meeting of April 26, 2011 awarded the assignment to perform statutory, independent audits of the financial statements to the Independent Auditors Deloitte & Touche S.p.A., whose reports should be consulted for additional information. The assignment to the Independent Auditors is for a period of nine years (2011-2019), as allowed under current regulations.

* * *

With regard to the manner in which we performed in 2011 the activities assigned to us, we confirm that:

- We attended the Shareholders' Meetings and the meetings of the Board of Directors held during the year and obtained from the Directors timely and suitable information about the Company's operating performance and business outlook, as well as about transactions executed by the Company and its subsidiaries that qualified as highly material, because of their size and characteristics.
- We obtained the information needed to perform the activities assigned to us regarding compliance with the law and the Bylaws, compliance with the principles of sound management and the level of adequacy of the Company's organization through direct observation, information obtained from managers of Company departments, periodic exchanges of information with the company retained to perform statutory, independent audits of the annual and consolidated financial statements, attendance at meetings of the Audit Committee, Compensation Committee and Oversight Board.
- We monitored the working and effectiveness of the system of internal controls and the adequacy of the administrative and accounting system, specifically with regard to the latter's reliability in presenting the results from operations.
- We updated the functions assigned to the Board of Statutory Auditors, which, pursuant to Article 19 of Legislative Decree No. 39/2010, is required to perform the function of the "Internal Control and Audit Committee," making them consistent with the provisions of the abovementioned statute, and carried out the oversight activity required by the same statute with regard to: a) the financial reporting process, b) the effectiveness of the internal control, internal auditing and risk management systems, c) the statutory, independent auditing of the annual and consolidated financial statements, d) the independence of the Independent Auditors, through direct observation, information obtained from managers of Company departments and analyses of the work product of the Independent Auditors.
- As part of this effort: we studied the information concerning the quarterly reviews of the correct maintenance of the accounting records performed by the company retained to perform statutory,

independent audits of the financial statements; we received from the abovementioned Independent Auditors the reports required by Article 14 and Article 19, Section Three, of Legislative Decree No. 39/2010; we received from the abovementioned Independent Auditors their "Annual Independence Confirmation," required pursuant to Article 17, Section Nine, Letter a), of Legislative Decree No. 39/2010; we analyzed, pursuant to the abovementioned Article 17, Section Nine, Letter a), of Legislative Decree No. 39/2010, the risks related to the independence of the company performing statutory, independent audits of the financial statements and the measures it adopted to minimize such risks.

- We monitored the functionality of the control system for Group companies and the adequacy of the instructions given to them, also pursuant to Article 114, Section 2, of Legislative Decree No. 58/1998.
- We monitored the concreted methods deployed to implement the corporate governance rules of the Corporate Governance Code for listed companies promoted by Borsa Italiana Spa, as adopted by the Company.
- We ensured that the internal procedure concerning related-party transactions, which went into effect on January 1, 2011, was consistent with the principles set forth in the Regulation approved by the Consob with Resolution No. 17221 of March 12, 2010, as amended, and that the abovementioned procedure was being complied with, pursuant to Article 4, Section Six, of the abovementioned Regulation.
- We verified compliance with laws and regulations governing the preparation and presentation of the separate and consolidated financial statement schedules and the related supporting documents.
- We ascertained the methodological adequacy of the impairment process applied to determine if any Company assets were impaired.
- We verified that the 2011 Report of the Board of Directors on Operations complied with current laws and regulations, was consistent with the resolutions adopted by the Board of Directors and the facts presented in the separate and consolidated financial statements. No remarks by the Board of Statutory Auditors were required with regard to the Semiannual Consolidated Report. The Semiannual Report and the Quarterly Reports were publicly disclosed in the manner required by current laws and regulations.

* * *

The specific disclosures that must be provided with this Report, pursuant to the Consob Communication of April 6, 2011, as subsequently updated, are listed below:

1. Based on the information received and the facts gathered by the Board of Statutory Auditors, we summarize below the transactions with a material impact on the Company's income statement, balance sheet and financial position, including those executed through subsidiaries, all of which were reviewed and approved by the Board of Directors and are discussed in the Report on Operations prepared by the Board of Directors:
   - On February 11, 2011, Edison successfully completed the renegotiation with ENI of the price for the supply of natural gas from Norway under a long-term contract that expired at the end of 2011.
   - On April 22, 2011, Edison, by exercising a tag-along option, sold to ExxonMobil Italiana Gas S.r.l. and Qatar Terminal Ltd a 2.703% interest in the share capital of Terminale GNL Adriatico S.r.l. at a price of 78 million euros, in a transaction that did not affect the agreements providing Edison with access to 80% of the terminal's regasification capacity until 2023.
   - On June 13, 2011, Edison executed a loan agreement with a pool of banks for a 700-million-euro facility with a maximum duration of 18 months.
   - On June 17, 2011, the Moody's rating agency confirmed Edison's Baa3 long-term credit rating and revised the outlook from stable to negative, while the Standard and Poor's rating agency placed Edison's BBB long-term rating on "credit watch developing," on June 21, 2011.
   - On July 21, 2011, Edison and Promgas executed an agreement renegotiating the purchase price of long-term gas supplied from Russia, with a positive impact of about 200 million euros on 2011 EBITDA.
   - On October 10, 2011, Edison closed a transaction selling to ILVA (Riva Group) the entire share capital of Taranto Energia S.r.l., a company to which Edison conveyed the CET 2 and CET 3 thermoelectric power plants located within ILVA's industrial complex, in Taranto, collecting a consideration of 164 million euros.
   - On December 5, 2011, the Standard & Poor's rating agency revised Edison' long-term and short-term credit rating, downgrading it from BBB to BBB- and from A-2 to A-3, respectively, with negative credit watch, and, on December 7, 2011, Moody's placed Edison's rating under review

for a possible downgrade; these rating revisions were motivated primarily by persistent weakness in the gas market and the uncertainty caused by multiple delays on the part of Edison's shareholders in finding an agreement to redefine the Company's governance.

- On December 26, 2011, Electricité de France ("**EDF**"), A2A Spa ("**A2A**"), Delmi Spa ("**Delmi**") and Edison signed an agreement in principle concerning the reorganization of the equity stakes held in Edison and Edipower Spa ("**Edipower**"), which is commented in greater detail later in this Report.
- On December 28, 2011, Edison disbursed its pro rata share (550 million euros) of an interest-bearing shareholder loan provided to Edipower.
- At the beginning of 2012, Edison and the National Electrical Services Manager (GSE) executed an agreement for the early termination, effective January 1, 2013, of the CIP 6/92 contract for the CET3 power plant in Piombino, in accordance with the terms of the Ministry Decrees of December 2, 2009 and June 23, 2011, thereby completing the process of voluntary early termination of the CIP 6/92 contracts that started in 2010.
- In 2011, gas production increased by 14.2%, due mainly to the Abu Qir concession.

  In the activity that involves buying and selling natural gas, unit margins remained negative due (i) on the one hand, to the competitive price pressure caused by increased competition, excess supply and the availability of large quantities of spot gas at prices lower than those paid under conventional long-term gas procurement contracts, and (ii) on the other hand, to a decrease in demand for natural gas in Italy, compared with the levels before the 2009 economic crisis. However, the interruption of imports from Libya in 2011 had the effect of significantly reducing the total amount of advances paid under take-or-pay clauses, which decreased to 67 million euros (down from 91 million euros at December 31, 2010), and of commitments owed to the counterparties, which amounted to 79 million euros (compared with 140 million euros at December 31, 2010).

  With regard to this issue, following the successful conclusion in 2011 of the renegotiations concerning natural gas supplied from Norway and Russia, Edison, acting pursuant to the relevant clauses of existing contracts, is taking specific renegotiating actions with suppliers of natural gas from Qatar, Libya and Algeria, also filing for arbitration with regard to all of these suppliers, as allowed under the abovementioned contracts, with the aim of asserting its right to earn a reasonable margin on its portfolio of multi-year import contracts.

2. The characteristics of intercompany and related-party transactions executed in 2011, the parties involved and their financial effects are adequately explained in the section of the 2011 Consolidated Financial Statements entitled "Intercompany and Related-party Transactions," which should be consulted for additional information.

   With regard to this issue, the Board of Statutory Auditors, in the course of its work, did not uncover any atypical and/or unusual intercompany and/or related-party transactions.

   On December 3, 2010, as required by Consob Resolution No. 17221 of March 12, 2010, as amended, Edison's Board of Directors adopted a new internal procedure that governs the decisions-making process and the disclosure requirements concerning related-party transactions (the "**Procedure**"). This Procedure went into effect on January 1, 2011.

   This procedure classifies these transactions into different categories and provides for each category specific validation and implementation methods, in accordance with a process explained in detail in Edison's 2011 Report on Corporate Governance and the Company's Ownership Structure, which should be consulted for additional information.

   As part of this new procedure, the Company established a Committee of Independent Directors, comprised of three independent directors, which is required to render an opinion as to whether related-party transactions executed by the Company and its subsidiaries are in the Company's interest and whether their terms and conditions are beneficial and substantively fair, depending on the type transaction. This Committee met four times in 2011 and once in January 2012, before being activated as the Alternative Equivalent Oversight Entity in connection with the Highly Material Transaction described below. With regard to this Highly Material Transaction, we confirm that, on February 22, 2012, the Company published the disclosure document required by Article 5 of Consob Regulation No. 17221 of March 12, 2010.

Pursuant to Article 4, Section 6, of the Regulation adopted by the Consob with the abovementioned Resolution No. 17221/2010, we confirm that we verified i) that the procedure adopted by the Company was consistent and complies with the principles of the abovementioned Consob Regulation, and ii) that intercompany and related-party transactions were fair and in the Company's interest.

* * *

On January 24, 2012, Edison's Board of Directors approved, for the part under its jurisdiction, the agreement in principle executed on December 26, 2011, the subject of which was the reorganization of the equity stakes held in Edison and Edipower (the "**Transaction**").

Specifically, this agreement calls for the simultaneous implementation of the following transactions:

1. The acquisition by EDF of the 50% interest in the share capital of Transalpina d'Energia S.p.A. ("**TdE**") held by Delmi, at an implied price equal to 0.84 euros for each Edison share.
2. The acquisition by Delmi of the 70% interest in Edipower's capital held by Edison (50%) and Alpiq S.a. ("**Alpiq**") (20%).
3. The execution by Edison and Edipower of a natural gas supply contract covering 50% of Edipower's gas need for the next six years, on market terms, subject to annual revision.

Under the contract to sell the equity interests in Edipower (the "**Edipower Transaction**") signed on February 15, 2012 by Edison, Alpiq and Delmi, Edison's pro rata share of the sales price for the corresponding shares amounts about 604 million euros, payable on the date of the closing, planned by June 30, 2012, concurrently with the repayment to Edison of the 550-million-euro loan it provided to Edipower at the end of 2011 and the execution of the abovementioned gas supply contract (the "**Gas Contract**").

This transaction is a transaction executed by related parties that, because it exceeds the materiality threshold of the Procedure Governing Related-party Transactions, qualifies as a "Highly Material Transaction."

Article 10.9 of the Procedure requires, for such transactions, that the Committee of Independent Directors (or one or more of its members delegated by the Committee) be involved both in the transaction's negotiations and in its preparatory phase, through the delivery of a complete and timely flow of information, and be allowed to request information and question the decisions of the parties responsible for the negotiations or the preparatory phase.

Because, as Edison disclosed, the Company was not involved in the discussions that resulted in the agreement in principle signed on December 26, 2011, the Committee of Independent Directors was excluded from the negotiations that resulted in the stipulation of the abovementioned agreement and the definition of the sales price for Edison's equity interest in Edipower.

With regard to the uncertainty as to whether the Independent Director Mario Cocchi met the requirements to qualify as a non-related party, after obtaining a legal opinion about this issue, the other members of the Committee of Independent Directors (Gian Maria Gros Pietro and Gregorio Gitti) unanimously agreed to activate the Alternative Oversight Entity Equivalent to the Committee of Independent Directors (the "**Alternative Oversight Entity**"), comprised of the remaining two Independent Directors, which, on January 24, 2012, provided the Board of Directors with a favorable opinion about the Company's interest in executing the Edipower Transaction and the beneficial effect and substantive fairness of the Transaction's terms, comforted by the fairness opinion of two investment banks (Goldman Sachs and Rothschild), which found the amounts involved to be fair.

The execution of the contract to sell Edipower is subject, directly and indirectly, to the fulfillment of certain conditions precedent, which include, in addition to the issuance of an authorization to proceed by the antitrust authorities, a confirmation by the Consob that the price of the tender offer for Edison's shares that EDF will be required to launch as a result of the Transaction will not be higher than 0.84 euros per share.

With regard to this issue, as stated in a press release dated February 24, 2012, the Consob is in the process of reviewing the matter in order to be able to exclude that other transactions related to the transfer of ownership of the Edison shares could produce an additional consideration component, compared with the stated transaction price for the Edison shares of 0.84 euros per share.

Within this context, the Company's Board of Directors concluded that the sale of Edipower qualified as a "highly probable" transaction and, consequently, as allowed by IFRS 5, classified the equity investment and Edipower's assets as discontinued operations, since those assets represented about one-third of the Edison Group's electric power generating capacity.

The fairness, from a financial standpoint, of Edipower's sales price was confirmed, in addition to the fairness opinions provided by the advisors to the Alternative Oversight Entity (Goldman Sachs and Rothschild), by a fairness opinion rendered by Lazard & Co. S.r.l. in its capacity as Edison's advisor. This opinion confirmed the fairness of the consideration that Edison will receive from the Edipower Transaction, determined using as the primary valuation method the discounted cash flow and, as secondary tools, an analysis of comparable transactions and one based on the market multiples of comparable companies.

Lazard & Co. S.r.l. pointed out some issues that it faced in performing its valuation (noted, substantively, also by the advisors to the Alternative Oversight Entity), which are worth mentioning in this Report as well:

i) The financial analyses were performed *"on the basis of projections that reflect the assumption that Edipower operates as a merchant operator, i.e., by producing electric power for its own account and selling it in the market."* In reality, until December 31, 2011, Edipower operated as an operator within the framework of a Tolling Agreement for most of its thermoelectric power plants and a Power Purchase Agreement for its hydroelectric power plants, pursuant to which it produced electric power on behalf of its shareholders without exposure to market risk (demand for electric power and commodity prices). Consequently, Edipower's historical results are not comparable with the projections for 2012 and subsequent years.

ii) No reconciliations of the financial results certified by the Independent Auditors to the pro forma 2011 results (nor for the projections for the years 2012-2019 supplied by Edison), prepared under the assumption that Edipower would operate as a merchant generator, were provided. Lastly, the pro forma results were not reviewed by Edipower's Independent Auditors nor verified independently by Lazard & Co. S.r.l.

iii) The current negative macroeconomic situation, both at the global and national level, coupled with the changes and uncertainties that characterize the electric power generation industry in Italy, *"undermines the reliability of all long-term macroeconomic and industrial assumptions. A small change in any of these assumptions could have a material impact on Edipower's financial results and, consequently, its valuation."*

The amount at which the equity investment in Edipower and Edipower's assets are carried on Edison's separate and consolidated financial statements were written down to the sales price that Edison received in the Edipower Transaction. This writedown accounts for virtually the entire 2011 loss from discontinued operations, amounting to 510 million euros in the separate financial statements and 591 million euros in the consolidated financial statements.

With regard to the Gas Contract, the Alternative Oversight Entity provided the opinions required by the Procedure on January 24, 2012 and February 13, 2012, stating that the draft contract negotiated by Edison and Edipower (to be executed at closing) is *"in the Company's interest, calls for the provisions of services on market terms and is correctly stipulated."*

The Edipower Transaction and the Gas Contract were approved by the Board of Directors on January 24, 2012 and February 13, 2012 with the unanimous vote of all Directors, except for the independent Director Mario Cocchi, who abstained on the grounds of insufficient information at the January 24 meeting and was absent on February 13. In a letter dated February 23, 2012, Mr. Cocchi explained why he did not approve of the Edipower Transaction and asked that his dissent be noted in the book of minutes of the meetings of the Board of Directors.

* * *

3. On March 9, 2012, the Independent Auditors Deloitte & Touche S.p.A. issued the reports required by Article 14 of Legislative Decree No. 39 of January 27, 2010, certifying that the separate and consolidated financial statements at December 31, 2011 were prepared transparently and present

truthfully and fairly the financial position, 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 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.
These reports contain a disclosure requirement regarding the abovementioned transactions for the corporate restructuring of Edison and Edipower.

4. In 2011, the Board of Statutory Auditors received no complaints filed pursuant to Article 2408 of the Italian Civil Code or memoranda submitted by third parties.

5. The approval of the 2010 financial statements by the Shareholders' Meeting on April 26, 2011 marked the end of the statutory auditing assignment awarded to the Independent Auditors PricewaterhouseCoopers S.p.A. and the Shareholders' Meeting awarded this assignment to the Independent Auditors Deloitte & Touche S.p.A. for the 2011-2019 period.
Please note that the following assignments were awarded by Edison in 2011:
• to the Independent Auditors Pricewaterhouse Coopers S.p.A., prior to the expiration of their engagement, the following additional assignments within the framework of the independent audit:
  a. 135,000.00 euros for additional work performed in 2011 for arbitration proceedings related to the renegotiation of long-term gas procurement contracts;
  b. 8,000.00 euros for reviewing the agreements with F.lli Ciccolella S.p.A.;
• to the Independent Auditors Deloitte & Touche S.p.A. the following additional assignments within the framework of the independent audit:
  c. 50,000.00 euros to review the Sustainability Report;
  d. 6,430.00 euros to review the 2010 Pay Schedule for expatriates in Egypt and Croatia;
  e. 19,285.00 euros to review the 2010 Pay Schedule for Gas JV Employees in Italy;
  f. 19,285.00 euros to review the 2010 Pay Schedule for Gas JV Employees abroad;
and from Edison's subsidiaries:
• to the Independent Auditors Deloitte & Touche S.p.A. the following additional assignments within the framework of the independent audit:
  h. 25,650.00 euros to audit the Norway branch of Edison International S.p.A.;
  i. 10,500.00 euros to audit revenues and storage costs of Edison Stoccaggio S.p.A.;
  j. 1.500.00 euros for activities related to a Consip call for tenders for Edison Energia S.p.A.;
  k. 1,200.00 euros for activities concerning the re-filing of a tax return by Compagnia Energetica Bellunese S.p.A.;
  l. 1,200.00 euros for activities concerning the re-filing of a tax return by Compagnia Energetica Lombarda S.p.A. in liquidation.

For the sale of full disclosure, we point out that , in 2011, companies from the network of the Independent Auditors Deloitte & Touche performed the following activities as part of engagements that were ongoing at the time they were awarded the auditing assignment:
- support and evolutionary maintenance for application software, for 93,330.00 euros;
- analysis and development of the integrations of some application systems, for 43.850.00 euros;
- support in connection with tax issues related to a possible reorganization of the activities of Edison International and taxation support for expatriate employees, for 49.556.00 euros.

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

6. In 2011, the Board of Statutory Auditors issued the opinions required pursuant to law in connection with the compensation awarded to Directors who perform special functions, which were determined by the Board of Directors upon a recommendation by the Compensation Committee.
   Detailed information about the total compensation of the members of the Board of Directors is provided in a special section of the Report on Corporate Governance and the Company's Ownership Structure.
   In addition, meeting on March 2, 2011, the Board of Statutory Auditors, based on the conclusions obtained by reviewing the technical and cost offers it received and the entire process applied to study and analyze the abovementioned offers, it submitted a detailed opinion to the Shareholders indicating that the offer submitted by Deloitte & Touche S.p.A. for the award the statutory, independent auditing assignment was the best offer.

7. In the exercise of its function, in order to obtain the information needed to carry out its oversight activities, the Board of Statutory Auditors performed the following activities:
   - It met on a regular basis and drew up 13 minutes of the meetings recording its activities.
   - It attended all meetings of the Board of Directors (14), obtaining from the Board of Directors a steady flow of information concerning its activity and transactions with a material impact on the Company's income statement, financial position and cash flow executed by the Company and its subsidiaries.
   - Its Chairman attended the meetings of the Audit Committee (6) and the Compensation Committee (7).
   - It attended the Shareholders' Meeting held on April 26, 2011.
   - It interacted with the governance bodies of the subsidiaries, as required by Article 151 of Legislative Decree No. 58/1998, and held joint meetings with them.
   - It attended the meetings of the Oversight Board of the Organizational Model adopted pursuant to Law No. 231/2001, for the purpose of exchanging information.

8. The Board of Statutory Auditors monitored compliance with the law and the Articles of Incorporation and with the principles of sound management, ensuring that all transactions approved and executed by the Board of Directors complied with the applicable statutes and the Bylaws, were financially sound, were not manifestly imprudent or reckless, did not give rise to potential conflicts of interest, were not in conflict with resolutions approved by the Shareholders' Meeting and did not compromise the integrity of the Company's assets.
   The Board of Directors reserved for its exclusive jurisdiction all significant transactions with related parties, which, as the Board of Directors specified, include, in addition to transactions with Transalpina di Energia ("**TdE**"), the Company's controlling shareholder, and TdE's shareholders, also transactions with the shareholders of TdE's shareholders and group companies owned by these parties, all of which have been classified as "**Significant Parties.**" Additional information about this issue is discussed in Section 2 above, keeping in mind that all of the abovementioned Significant Parties are classified as Related Parties for the purposes of the new procedure approved in accordance with Consob Resolution No. 17221/2010.
   The Board of Statutory Auditors believes that the governance tools and systems adopted by the Company provide adequate assurance that the principles of sound management are being followed in operating practice.

9. The Board of Statutory Auditors monitored the adequacy of the organizational structure of the Company and the Group by gaining an understanding of the organizational structure, obtaining information from the relevant departments and through meetings with managers of various Company functions, the manager of the Internal Control Systems Department and the Independent Auditors, with whom it exchanged data and information.
   The Board of Directors, acting directly or through governance bodies delegated to represent it, is responsible for managing the Company. In order to strengthen its managerial function, a series of issues that are especially significant for Edison S.p.A. and the subsidiaries of Edison S.p.A. are reserved for the Board's exclusive jurisdiction and, consequently, cannot be delegated to individual Directors.
   Pursuant to the Bylaws, the Chairman of the Board of Directors and the Chief Executive Officer are the Company's legal representative vis-à-vis third parties and in court proceedings.

The Chairman of the Board of Directors does not have operational authority, serving instead in an institutional, guidance and control function. The Chief Executive Officer has the most ample powers to manage the Company.
The organizational structure of the Company and the Group is defined by the Chief Executive Officer and communicated by means of a system of organizational communications, by which the Chief Executive Officer appoints the managers of the various departments and business units, and a system for the delegation of authority, consistent with the assigned responsibilities, the attribution guidelines of which are confirmed within the framework of the Model 231/2001. Similar organizational communications issued by the managers of the different departments and business units and reviewed by the Chief Executive Officer, are used to define the organizational structure at a more operational level. All employees can access these organizational communications on the Company Intranet.

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

The 231 Model, of which the Code of Ethics is an integral part, was adopted following an analysis of the Company's operations to identify activities with a risk potential. It includes a series of general principles, rules of conduct, control tools, administrative procedures, training and information programs, and disciplinary systems that are designed to prevent, as much as possible, the occurrence of the abovementioned crimes. The Board of Directors also established an Oversight Board (**OB**), which is responsible for ensuring that the 231 Model is functioning effectively and is kept up to date, and is required to report to the Board of Directors and the Board of Statutory Auditors every six months. The members of the OB include an outside professional, who serves as Chairman, and two independent Directors. The Chairman of the Board of Statutory auditors attends the meetings of the OB (4 in 2011).
The Company has been using for some time a procedure for the internal management and external communication of documents and information concerning its activities as an issuer of securities, with special emphasis on insider information. This procedure is an integral part of the 231 Model. This procedure was amended in 2010 to make it more consistent with regulatory changes introduced to reflect European Union rules governing market abuse and to address operational issues that developed in connection with the procedure's implementation.
In the area of internal dealing, in addition to the obligations that already exist pursuant to the regulations concerning market abuse, the Board of Directors, acting pursuant to law, introduced an obligation to refrain, during certain periods of the year, from executing transactions that involve financial instruments issued by the Company.
In 2011, there were no transactions executed by Directors or Statutory Auditors for which disclosure to the market and the regulatory authorities was required.
Lastly, the Board of Statutory Auditors interfaced on an ongoing basis with the Internal Control Systems Department to monitor the implementation of the internal auditing plan and its findings, both during the design phase and in analyzing completed engagements and any related follow-up activities. As mentioned earlier in this report, the Board of Statutory Auditors, through its Chairman, attended the meetings of the Audit Committee and the Oversight Board and analyzed the semiannual reports sent by these entities to the Board of Directors.

11. In addition, the Board of Statutory Auditors monitored the adequacy of the Company's administrative and accounting system and its reliability in presenting accurately the results from operations, through direct observations, by obtaining information from the managers of the relevant departments, reviewing Company documents and analyzing the information produced by the Independent Auditors. Acting pursuant to law and based on the mandatory recommendation of the Board of Statutory Auditors, the Board of Directors appointed a Corporate Accounting Documents Officer, who was awarded the powers and attributions that the law requires and was provided with sufficient authority and resources to discharge his duties.
The Board of Directors approved an "Accounting Control Model Pursuant to Law No. 262/2005," the purpose of which is to establish the guidelines that must be applied within the Edison Group to satisfy the obligations set forth in Article 154-*bis* of Legislative Decree No. 58/1998 with regard to the preparation of corporate accounting documents and comply with the resulting certification requirements, and authorized the Chief Executive Officer, acting through the Corporate Accounting Documents Officer, to implement the abovementioned Model.
The preparation of accounting disclosures and of statutory and consolidated financial statements is governed by the Group Accounting Manual and by the other administrative and accounting procedures that are part of the Model adopted pursuant to Law No. 262/2005, including the fast closing procedure.
The Model adopted pursuant to Law No. 262/2005 includes official procedures concerning the impairment test, performed in accordance with IAS 36. As in the past, the analysis of the recoverable values of goodwill and other assets was carried out with the support of a highly qualified independent expert and approved by the Board of Directors on February 13, 2012. A detailed description of the methods and assumptions applied is provided in Note 17 to the consolidated financial statements.

The performance of the impairment test and its results were analyzed and discussed at meetings of Audit Committee, which were attended by the Chairman of the Board of Statutory Auditors, and at meeting held by the Board of Statutory Auditors, which constantly monitored the implementation of the test through discussions with company managers, the independent expert and the Independent Auditors. The Board of Statutory Auditors is cognizant of the attestations issued by the Chief Executive Officer and Corporate Accounting Documents Officer of Edison S.p.A. regarding the adequacy of the administrative and accounting system, in light of the Company's characteristics, and the effective implementation of the administrative and accounting procedures required for the preparation of the separate financial statements of Edison S.p.A. and the consolidated financial statements of the Edison Group.

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

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

13. No issues requiring disclosure in this Report were raised in the course of periodic meetings held by the Board of Statutory Auditors with the company retained to perform statutory, independent audits of the financial statements, pursuant to Article 150, Section 3, of Legislative decree No. 58/1998.

14. The Board of Statutory Auditors monitored <u>the process adopted to ensure the concrete implementation of the corporate governance rules</u> set forth in the edition currently in effect of the Corporate Governance Code published by Borsa Italiana (the "**Code**"), with the support of the Corporate Affairs Department.

    The Report on Corporate Governance and the Company's Ownership Structure lists the limited number of Code recommendations that the Board of Directors chose not to adopt and explains the reasons for these choices.

    The main rules of corporate governance, as defined after September 16, 2005, the date that TdE became Edison's controlling shareholder, have been incorporated into Edison's Bylaws and reflect the provision of the framework agreement executed on May 12, 2005 by Electricitè de France S.a. and its WGRM Holding 4 S.p.A. subsidiary and A2A S.p.A. and its Delmi S.p.A. subsidiary and of the Shareholders' Agreement executed by the same parties to address issues concerning the management and corporate governance of Edison and TdE (the "**Governance Agreements**"). The governance rules set forth in the Governance Agreements have been incorporated into Edison's Bylaws for the sake of transparency and to disclose to the market the Company's governance rules. Please note that the abovementioned Governance Agreements were extended repeatedly in 2011 and have now been extended one more time to the closing date of the corporate restructuring Transaction described earlier in this Report.

    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 2011, 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 13, 2012, provided an overall positive assessment of the activities of the Board of Directors and its Committees.
In 2011, following the resignation of the Director Adrien Jami, the Board of Directors, at the meeting held on December 21, 2011, coopted the Steven L. Wolfram as his replacement.
Additional information about the Company's corporate governance is provided in the Report on Corporate Governance and the Company's Ownership Structure, with regard to which the Board of Statutory Auditors has no objections requiring disclosure to the Shareholders' Meeting.

15. Lastly, the Board of Statutory Auditors verified directly compliance with the provisions of the statutes governing the preparation of the draft separate financial statements and consolidated financial statements at December 31, 2011, the respective accompanying Notes and the Report of the Board of Directors. It accomplished this task through direct observations and with the support of managers of Company departments and representatives of the Independent Auditors.
Specifically, the Board of Statutory Auditors attests that the separate and consolidated financial statements of Edison S.p.A. at December 31, 2011 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 2011, the Board of Statutory Auditors has no remarks, as would be required pursuant to Article 153 of Legislative Decree No. 58/1998, with regard to issues under its jurisdiction concerning the separate and consolidated financial statements, the accompanying notes and the report on operations, and concurs with the motion submitted to the Shareholders' Meeting by the Board of Directors to replenish the loss reported in 2011.
The Shareholders' Meeting convened to approve the 2011 financial statements marks the end of the term of office of the Board of Directors elected by the Shareholders' Meeting of April 26, 2011. The Board of Statutory Auditors therefore recommends that the shareholders take appropriate action with regard to this issue.

Milan, March 16, 2012

The Board of Statutory Auditors

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

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