2012 ANNUAL REPORT

REPORT ON OPERATIONS

EDISON

EDISON IN ITALY


EDISON IN THE WORLD
Edison headquarters and offices
Hydrocarbon concession/permit
Power generation facility
Trading branch
Hydrocarbon branch
Norway
UK
Belgium
Hungary
Croatia
Romania
Italy
Bulgaria
Turkey
Greece
Algeria
Egypt
Falkland Islands
Daunia
Vaglio
Accettura
IGI
Otranto
San Francesco
Strongoli
Head office
Operating office
Thermoelectric power plant
R&D center
Hydroelectric power plant
Wind farm
Photovoltaic system
Gas field
Oil field
Storage concession
Storage concession in project
LNG terminal
Compressor station
Pipeline in project
Operational pipeline
Merchant line EL.I.TE.

CONTENTS

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

2012 ANNUAL REPORT

REPORT ON OPERATIONS

EDISON

LETTER TO SHAREHOLDERS

Dear Shareholders,

2012 has been a milestone in the long history of Edison, which this year will celebrate its 130th year of activity.

After a decade of cooperation with Italian Shareholders, through the sale of Edison's stake in Edipower and last summer's Public Offering on the Milan Stock Exchange, Electricité de France now has control of Europe's oldest power company and one of Italy's energy market key players. Edison has now a stable and solid Shareholder, committed to its development and growth, both in Italy and abroad.

In addition to Edison's traditional power business, Edison will play an increasingly important role in hydrocarbons sector, in which in the past decades it developed a know-how of international level.

A threefold mission now awaits Edison: to consolidate its presence in Italy, in order to remain the most credible challenger of former monopolies; to develop its power generation know-how also abroad, in the Balkans and the Mediterranean area; to become the Group's hydrocarbon platform.

Within this framework Edison will play a key role since – despite continually evolving international energy scenarios – gas will remain a strategic pillar for security of supply in the long term.

Specifically, Edison's task will be to develop its hydrocarbon portfolio through investments in Exploration and Production both in Italy and abroad, in order to increase and rebalance its own reserves and productions. But Edison will also continue to exploit through strategic infrastructural projects the unique geographical position that Italy has along gas routes, contributing to the diversification, the security and the competitiveness of Europe's supplies, coherently with the Italian National Strategy that foresees Italy acting as the South European Gas Hub.

In this mission Edison will be strengthened and complemented by EDF's ongoing infrastructure development such as the Dunkerque LNG terminal and the South Stream pipeline.

In summary, Edison will keep strong Italian roots and will remain a Company close to Italians. It will invest one billion euros in Italy over the next three years, yet at the same time it will become ever more international.

As far as 2012 performances are concerned, scenarios continued to worsen, even beyond expectations. Italian electricity consumption was down by 3.1%, gas consumption was down by 4%, and extreme pressure continued to affect margins in both markets.

Despite such a difficult context, Edison was able to close the year with positive results: sales revenues went up by 5.6% to 12.014 billion euros; debt went down 32.7% to 2,613 million euros at Dec. 31st 2012, due both to a 1.2 billion-euro positive effect from the sale of its stake in Edipower, and a reduction in investments. EBITDA went up by 23.9% to 1,103 million euros, matching the last Company targets, thanks to the results of gas contracts price reviews and to an important performance by the hydrocarbons sector (20.2% sales increase up to 6,571 million euros) which offset the 6.4% reduction of electricity sales to 6,961 million euros.

Edison – at the end of such a difficult year – was nevertheless able to mark a group net profit of 81 million euros, mainly thanks to the positive effect of the arbitrations obtained on gas supply contracts from Qatar and Lybia.

However, the 2013-2015 energy sector outlook is not optimistic, especially for gas margins, and it is unlikely that Edison will return to the desired profitability before the next round of our long-term gas contracts price reviews is completed.

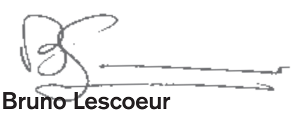
Meanwhile, Edison has already entered its new phase of life. On September Edison appointed a new Executive Committee. On November the Board approved Edison's 2013 Budget, which sets the starting point for Edison's growth along its new strategic guidelines.

In conclusion: lowering energy consumptions demonstrate how much the financial crisis initiated in 2008 is still biting the flesh of real economy, which still shows very feable signs of recovery.

Electricity and hydrocarbons companies accustomed to continuing growth and nice profits must learn how to cope with profoundly different scenarios and must adapt the way they do business: seek new markets; study new technologies; regain efficiency, if they want to keep creating value in the long term and remain, as they have always been, cornerstones of the economy and of the sustainable development of society.

Edison wants to do so, to continue to innovate and to be a factor of progress as it has always been in its history. Edison believes it has the right people and skills to carry on and achieve this mission with dedication, professional commitment and ethical engagement.

Edison also has Shareholders ready to support it in restarting its growth path. With the cooperation of everybody, Shareholders, Management, Employees, we are sure we will succeed.



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).

The Vega platform and the FSO Leonis, located in the Sicily Channel.

ELECTRIC POWER

Italian Market in 2012

Total Italian gross demand	325.3	TWh
Edison's gross sales in Italy (*)	**51.1**	TWh
incl.: - Deregulated market (*)	48.5	TWh
- CIP 6/92	1.7	TWh
- Captive	0.9	TWh
Locations served at 12/31/12	870	'000

Facilities and Production Capacity in 2012

Installed capacity Edison Group	**7.7**	'000 MW
Net production of electric power - Total Italy	284.8	TWh
Net production of electric power in Italy - Edison Group	**22.5**	TWh
Share of total Italian production	7.9	%

(*) Including Power Exchange sales and sales to wholesalers but excluding exports.
Sources: Pre-closing data by AU and Terna and Edison estimated data.

HYDROCARBONS

Italian Market in 2012

Total Italian demand	74.2	Bill. m³
Edison's sales in Italy	**15.8**	Bill. m³
Edison's sales/Total Italian demand	21.3	%
Locations served at 12/31/12	584	'000

Facilities and Production Capacity in 2012

Natural gas production – Total Italy	8.2	Bill. m³
Natural gas production - Edison (Italy)	**0.6**	Bill. m³
Share of total production	7.4	%
Number of concessions and permits in Italy	58	n.
Number of storage-center concessions in Italy (*)	3	n.
Natural gas production - Edison (outside Italy)	**1.9**	Bill. m³
Number of concessions and permits outside Italy	37	n.
Hydrocarbon reserves	50.0	Bill. m³ eq.
Gas transmission network (low- and medium-pressure pipelines)	3.55	'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

7.7

GW Installed Generating Capacity

47

Hydroelectric Power Plants

1

Biomass System

9

Photovoltaic Systems

50.0

Bcme Hydrocarbons Reserves

1

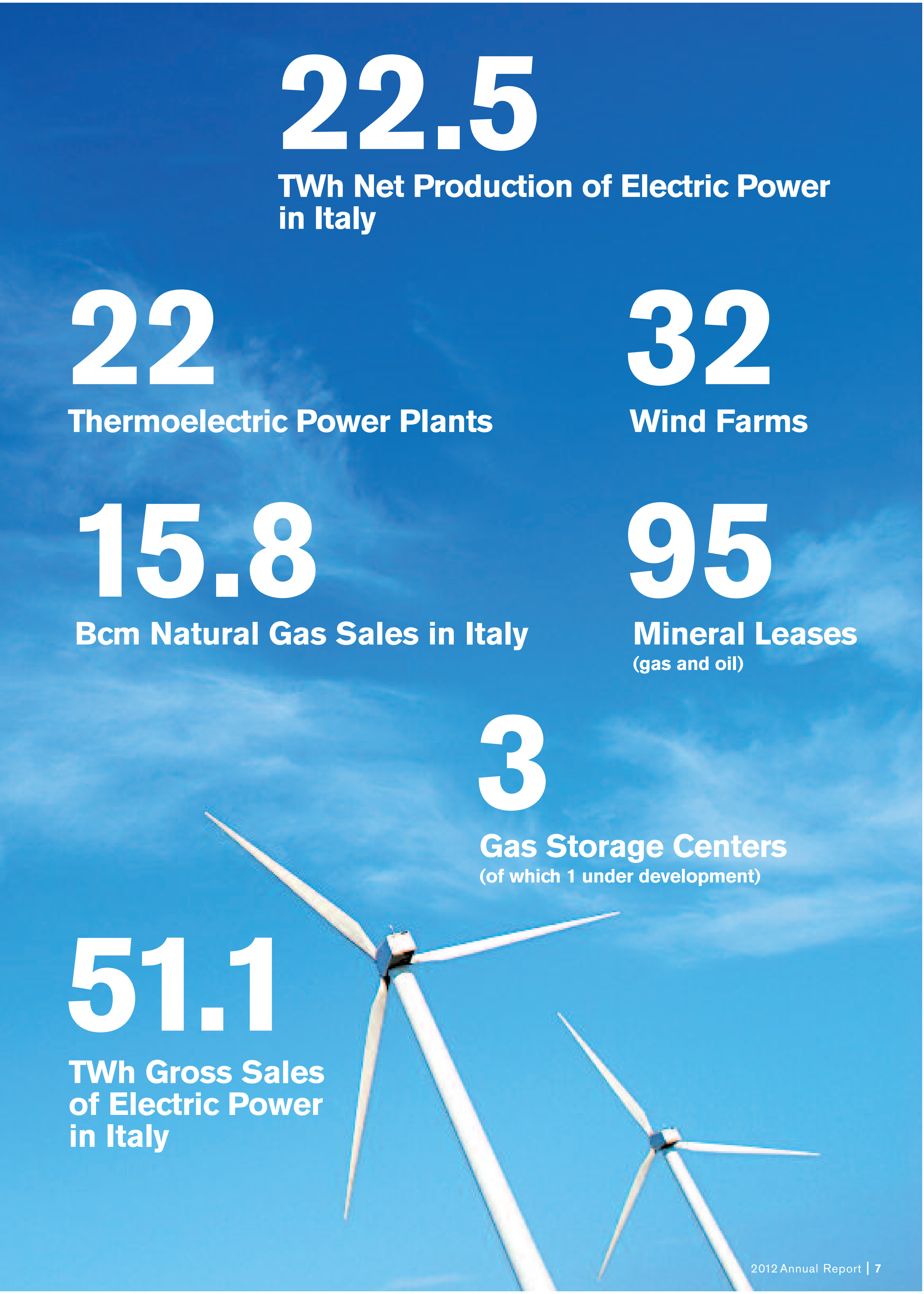
LNG Terminal
(capacity 8 bcm/y)*

1

HV merchant line
(150 MW)**

* Edison Uses 6.4 bcm/y
** Edison Share 48.45%

The Ripabottoni (Campobasso) wind farm.



22.5
TWh Net Production of Electric Power in Italy

22
Thermoelectric Power Plants

32
Wind Farms

15.8
Bcm Natural Gas Sales in Italy

95
Mineral Leases
(gas and oil)

3
Gas Storage Centers
(of which 1 under development)

51.1
TWh Gross Sales of Electric Power in Italy

SIMPLIFIED STRUCTURE OF THE GROUP AT DECEMBER 31, 2012

ORGANIZATION AND ACTIVITIES OF THE DIVISIONS, BUSINESS UNITS AND MAIN CONSOLIDATED COMPANIES

Power Assets

Management and development of thermoelectric, hydroelectric and renewable-source power generating facilities

- Edison Energie Speciali Spa
- Sistemi di Energia Spa
- Hydros Srl
- Dolomiti Edison Energy Srl

Power International

Development and management of partnerships for thermoelectric power generation and sales and interconnection facilities

- Elpedison Power Sa
- Elpedison Energy Sa
- Elite Spa

Energy Management

Dispatching, trading, buying and selling of electric power in wholesale markets

- Edison Trading Spa

Electric Power Business Unit
Hydrocarbons Business Unit
Main consolidated companies

Exploration & Production

Exploration for and production of hydrocarbons (oil & gas) in Italy and internationally

- Edison International Spa
- Abu Qir Petroleum Co

Gas International & Management

Development of international gas infrastructures

Management of gas LT procurement, logistics and trading

Thermoelectric gas sales

- Igi-Poseidon Sa
- Galsi Spa

Gas Regulated Assets

Management of gas storage, transmission and distribution activities in Italy

- Edison Stoccaggio Spa (*)
- Edison D.G. Spa (*)
- Infrastrutture Trasporto Gas Spa (**)

Marketing Sales & Energy Services

Sales of electric power and gas to end customers

Energy efficiency services and solutions

- Edison Energia Spa
- AMG Gas Spa
- C.S.E. Srl

EDISON Spa [1]

(*) Companies subject to functional unbunding requirements.

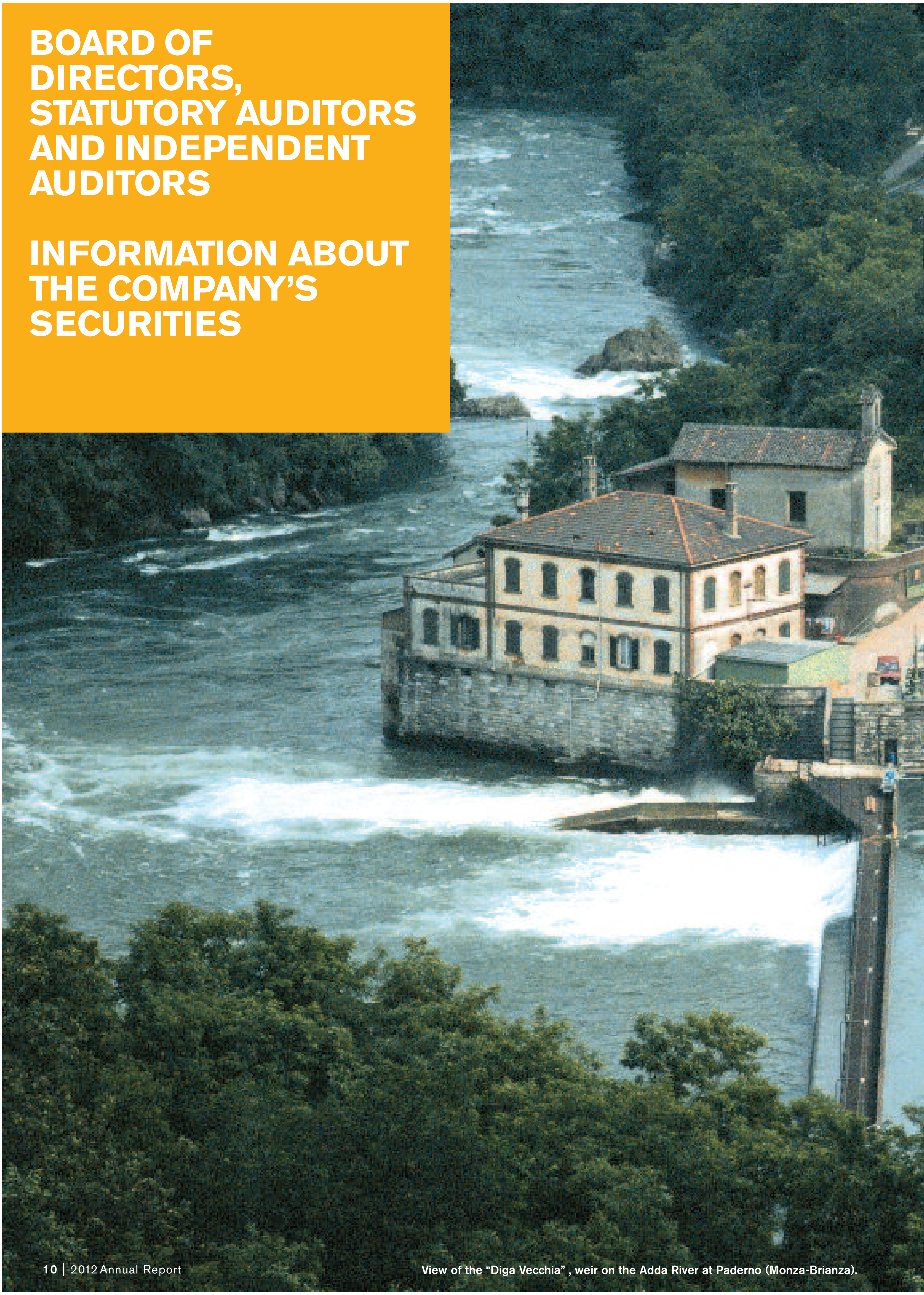
(**) Independent Transmission Operator.

(1) Edison Spa, working through its Divisions, 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.

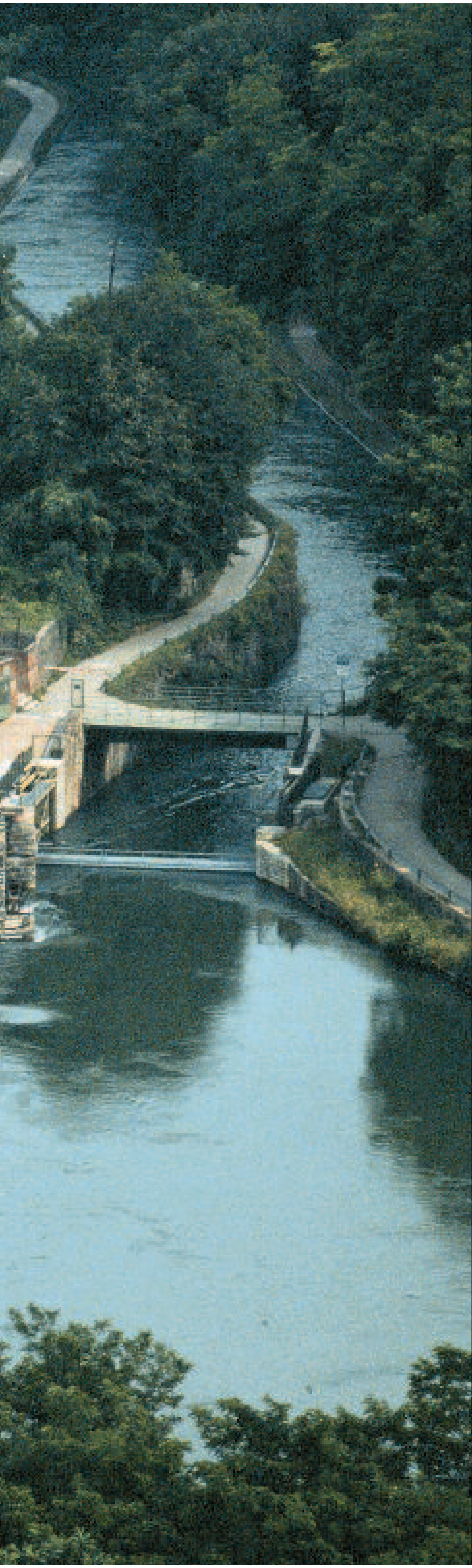
The Rospo platform in the Adriatic sea.

BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

INFORMATION ABOUT THE COMPANY'S SECURITIES



View of the "Diga Vecchia" , weir on the Adda River at Paderno (Monza-Brianza).



BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

Board of Directors

Chairman		Henri Proglio [1][2]
Chief Executive Officer		Bruno Lescoeur [1][3]
Directors		Béatrice Bigois [4][5]
	independent Director	Mario Cocchi [1][6][7]
		Bruno D'Onghia [4]
	independent Director	Gregorio Gitti [1][6][7][8]
	independent Director	Gian Maria Gros-Pietro [1][5][6][7][8][9]
		Adrien Jami [4]
		Pierre Lederer [10]
		Jorge Mora [4]
		Thomas Piquemal [1][5]
		Nicole Verdier-Naves [4][6]
		Steven Wolfram [1]
Secretary to the Board of Directors		Lucrezia Geraci

Board of Statutory Auditors

Chairman	Alfredo Fossati [11]
Statutory Auditors	Giuseppe Cagliero [12]
	Leonello Schinasi [11]

Independent Auditors

Deloitte & Touche Spa [13]

(1) Elected by the Shareholders' Meeting of April 24, 2012 for a one-year period ending with the approval of the 2012 annual financial statements.
(2) Elected Chairman by the Board of Directors on June 4, 2012.
(3) Reappointed Chief Executive Officer by the Board of Directors on April 24, 2012.
(4) Coopted by the Board of Directors on June 4, 2012 and in office until the next Shareholders' Meeting as replacements, following the resignation of Mauro Miglio, Giovanni Polonioli, Renato Ravanelli, Paolo Rossetti and Andrea Viero.
(5) Member of the Control and Risk Committee.
(6) Member of the Compensation Committee.
(7) Member of the Committee of Independent Directors.
(8) Member of the Oversight Board.
(9) Named Lead Independent Director by the Board of Directors on October 26, 2012.
(10) Coopted by the Board of Directors on October 26, 2012 and in office until the next Shareholders' Meeting.
(11) Elected by the Shareholders' Meeting of April 26, 2011 for a three-year period ending with the approval of the 2013 annual financial statements.
(12) Alternate Auditor who, following Angelomaria Palma's resignation, was named Statutory Auditor as of May 24, 2012 for a term of office ending with the next Shareholders' Meeting.
(13) Audit assignment awarded by the Shareholders' Meeting of April 26, 2011 for the nine-year period from 2011 to 2019.

INFORMATION ABOUT THE COMPANY'S SECURITIES

Number of shares at December 31, 2012

Common shares	5,181,545,824
Saving shares	110,154,847

Shareholders with Significant Holdings at December 31, 2012

	% of voting rights	% interest held
EDF Electricité de France Sa [1]	99.476%	97.405%

(1) Interest held indirectly.

REPORT ON OPERATIONS

The Candela (Foggia) thermoelectric power plant.

KEY EVENTS OF 2012

GROWING OUR BUSINESS

Agreement Between Edison and Confindustria Alessandria

On January 26, 2012, Edison and Confindustria Alessandria signed an agreement to develop energy efficiency projects for member companies.

Under the agreement, Edison will build, at its expense, photovoltaic systems at the industrial plants of interested member companies of Confindustria Alessandria that meet certain requirements. Edison will retain ownership of the systems and will be the recipient of the economic benefits provided under the "Energy Account" (national government incentives), while the companies will benefit from a reduction in the cost of the electric power used by their factories and from the consideration they will receive for the air rights they granted to Edison. Title to the photovoltaic systems will pass to the companies upon the expiration of the "Energy Account" (after 20 years) or earlier, under certain conditions. Pursuant to the agreement, Confindustria Alessandria has agreed to promote the project among its member companies and inform Edison of any interested companies.

Agreement Between Edison and Consorzio Multienergia to Promote Energy Efficiency Among the Consortium's Member Companies

On February 17, 2012, Edison and Consorzio Multienergia (an organization part of the Confartigianato system, supported by the associations in Arezzo, Florence, Lucca, Massa-Carrara, Pistoia, Pisa, Siena and Prato) signed an agreement to develop energy efficiency projects for member companies.

Under the agreement, Edison will build, at its expense, facilities for energy self-production with a low environmental impact, such as photovoltaic and cogeneration systems, and develop projects to optimize energy efficiency at the factories of interested member companies of Consorzio Multienergia that meet certain requirements. Edison will build, operate and maintain the equipment.

Pursuant to the agreement, Consorzio Multienergia, already an established Edison customer for the supply of electric power, has agreed to promote the project among its member companies and inform Edison of any companies interested in pursuing the objectives of the agreement.

Edison Is Awarded Three New Hydrocarbon Exploration Licenses in Norway: in the North Sea and the Norway Sea

On March 21, 2012, Edison, through its Edison International Spa subsidiary, was awarded three new hydrocarbon exploration licenses in the Norwegian Continental Shelf, which were put out for bids by the Norwegian Oil and Energy Ministry. The licenses include Block PL 616 in the North Sea, with Edison as operator at 25% in a joint venture with North Energy at 20%, Concedo at 20%, Noreco at 20% and Skagen 44 at 15%; Block PL 620, in the North Sea, with Edison at 25% in a joint venture with Faroe Petroleum Norge as operator at 50% and Noreco at 25%; and Block PL 643 in the Norway Sea, with Edison at 30% in a joint venture with VNG as operator at 40% and Lotos at 30%. The licenses call for an exploration period of three years, at the end of which a drill-or-drop decision will have to be made.

Edison Acquires New Offshore Licenses in the Falkland Islands

On June 26, 2012, Edison, through its Edison International Spa subsidiary, signed a partnership agreement with Falkland Oil and Gas Ltd (Fogl) to participate in deep-sea hydrocarbon exploration in the Falkland Islands. Under the agreement, Edison will have a 25% interest in the northern area, where two exploratory wells will be drilled starting in July, and a 12.5% interest in the southern area, for a total investment of about 100 million U.S. dollars in the two years 2012-2013.

A detail of a thermoelectric power plant.

Edison: Successful Outcome of the Price Revision Arbitration Proceedings for the Contract with RasGas for the Supply of Natural Gas from Qatar

On September 11, 2011, the International Chamber of Commerce of London served notice of its award in the arbitration proceedings between Edison and RasGas for a revision of the price of liquefied natural gas (LNG) supplied from Qatar under a long-term contract.
The Court's decision upheld Edison's merit claims. The overall financial impact for the 2012 reporting year is about 450 million euros.
The RasGas arbitration started in March 2011 as part of the process of renegotiating long-term gas contracts in Edison's portfolio.

Edison: Successful Outcome of the Price Revision Arbitration Proceedings for the Contract with ENI for the Supply of Natural Gas from Libya

On October 1, 2012, the International Chamber of Commerce of Paris served notice of its award in the arbitration proceedings between Edison and ENI for a revision of the price of natural gas supplied from Libya under a long-term contract.
The Court of Arbitration found the price revision request put forth by Edison in 2010 to be valid both formally and substantively, thereby granting in full the Company's claims. The overall financial impact for the 2012 reporting year is about 250 million euros.

OTHER KEY EVENTS

Edison: an Agreement for the Sale of Edipower and the Supply of Natural Gas Is Reached

On February 13, 2012, Edison's Board of Director, 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, approved the final contracts for the corporate restructuring of Edison and Edipower executed by the A2A, Delmi and EDF, each company within the scope of its jurisdiction, calling for the sale to Delmi of the equity interest held in Edipower and a contract for the supply of natural gas by Edison to Edipower, authorizing the Chief Executive Officer to finalize and execute the contracts.
Subsequently, on February 15, 2012, Edison, together with Alpiq, entered into an agreements to sell its equity interest in Edipower to Delmi for a price of 604.4 million euros.
On March 16, 2012, Edison and Edipower signed a contract for the supply of natural gas, in accordance with the terms authorized by Edison's Board of Directors on February 13, 2012, after the contract's final version was resubmitted to the alternative governance body equivalent to the Committee of Independent Directors, comprised of the independent Directors Gregorio Gitti and Gian Maria Gros-Pietro.
More specifically, Edison and Edipower reached an agreement regarding all of the individual components of the parameters that the parties, or an independent expert if the parties fail to agree, will need to revise the gas supply price and keep it consistent with market terms.
The gas supply contract between Edison and Edipower, which will have a duration of six years (72 months), for a total volume estimated at about 1 billion standard cubic meters of gas, equal to 50% of the requirements of Edipower's thermoelectric power plants, will enable Edison to maintain unchanged the balance between its gas procurement sources and uses.
On May 5, 2012, Edison's Board of Directors accepted the amended offer received from Delmi, redefining the sales price of Edison's stake in Edipower (50% of Edipower's share capital) from the original amount of 604.4 million euros stated in the Sales Agreement to a total of 684 million euros.
The transaction closed on May 24, 2012, generating an economic benefit of about 80 million euros, as the amount at which this equity investment was carried in the 2011 financial statements had already been written down to the original amount of the Sales Agreement signed on February 15, 2012. The sale of the investment and the concurrent deconsolidation of Edipower improved the net financial position of the Edison Group by about 1.2 billion euros.

Standard & Poor's Revises Edison's Rating

On March 6, 2012, the Standard & Poor's rating agency revised Edison's long-term and short term credit rating from BBB-/A-3 to BB+/B, respectively, with Negative Credit Watch.
According to the rating agency, this revision reflected primarily the repeated delays in completing Edison's restructuring, which allegedly would have affected the Group's ability to meet its short-term refinancing needs.
Subsequently, on May 14, 2012, following the announcement of final agreements for Edison's restructuring, the rating agency removed the negative credit watch, assigning to Edison a positive outlook.
Lastly, on December 20, 2012, the rating agency raised the Company's long-term and short-term credit rating by two notches, bringing it to BBB/A-2 from BB+/B, respectively, with positive outlook. According to Standard & Poor's, the improved credit rating was determined by the successful restructuring of Edison's stock ownership structure. Following the restructuring transaction, the EDF Group acquired full control of the Company, defined Edison as the natural gas hub for the entire Group and integrated Edison's cash management system with that of its parent company.
The rating improvement also reflects the positive conclusion of the arbitrations with RasGas and ENI for the long-term gas procurement contracts, thanks to which Edison obtained a price review that enabled it to make up the losses suffered during the last three years by the activities engaged in buying and selling natural gas under these contracts.
The positive outlook is indicative of the possibility that Edison's rating could be raised again over the next two years, should EDF show sustained and continuing support for Edison's activities and, most importantly, its natural gas strategy and long-term growth plans.

Moody's Confirms Edison's Credit Rating, with Negative Outlook

On May 29, 2012, the Moody's rating agency confirmed Edison's Baa3 long-term credit rating, removed the on review for downgrade status and revised the outlook to negative.

Transalpina di Energia Launches a Tender Offer for Edison Spa

As stipulated in the Restructuring Agreement executed by A2A, Electricité de France Sa (EDF), Delmi and Edison on December 26, 2011, concurrently with the sale of Edipower to Delmi EDF acquired the 50% interest in Transalpina di Energia Srl (TdE) held by Delmi. As a result of this acquisition, EDF owns, through its wholly owned subsidiary WGRM Holding 4 Spa (WGRM), 100% of TdE's capital.
The purchase of 50% of TdE's capital triggered the joint obligation for EDF, WGRM, MNTC Holding Srl (MNTC) and TdE to launch a mandatory, all inclusive tender offer for all Edison Spa common shares.
This joint obligation was fulfilled by TdE, which, on May 25, 2012, pursuant to and for the purposes of Article 102 of Legislative Decree No. 58 of February 24, 1998, as amended (the "Uniform Financial Code"), informed the CONSOB that it would launch a mandatory, all inclusive tender offer for all Edison Spa voting common shares not owned by the Offeror and MNTC at a price of 0.89 euros per share.
On June 27, 2012, by Resolution No. 18260, the CONSOB approved the Offer's information memorandum; the Offer acceptance period, as agreed with Borsa Italiana Spa, began on July 2 and ended on August 8, 2012.
The press release that Edison's Board of Directors was required to publish pursuant to Article 103, Section Three, and Article 39 of the Issuers' Regulations, setting forth all appropriate data for evaluating the Offer and the Board's own detailed assessment of the offer, was approved on June 18, 2012.
More specifically, Edison's Board of Directors, reviewed the information provided in the TdE press release and the Offer Memorandum and, having received the opinion rendered by the Independent Directors pursuant to Article 39-*bis* of the Issuers' Regulations, approved the press release by a majority vote, with Director Mario Cocchi voting against the motion. As for the assessment of the fairness of the Offer price of 0.89 euros per common share, the Board of Directors could not achieve the majority required by Article 18 of the Bylaws. This was because the Directors Bruno Lescoeur, Béatrice Bigois, Bruno D'Onghia, Adrien Jami, Jean-Luis Mathias, Jorge Mora and Nicole Verdier-

Naves abstained from voting in order to avoid the appearance of acting in the interest of EDF and TdE, due to their relationships with these parties. As a result of this situation, the unanimous vote of all remaining Directors, all independent, was required: while the Directors Gregorio Gitti e Gian Maria Gros-Pietro, considering the fairness opinions they obtained from Goldman Sachs and Rothschild, found the Offer's consideration to be fair, consistent with the opinion they had rendered, Director Mario Cocchi disagreed. In any event, the fact that the Board of Directors was unable to express an opinion regarding the fairness of the price does not prevent the implementation of the Offer.

Completion of Transalpina di Energia's Tender Offer for the Common Shares of Edison Spa, Which Were Officially Delisted on September 10, 2012

The Acceptance Period for the mandatory tender offer (the "Offer") launched by Transalpina di Energia Srl ("TdE") for all outstanding common shares of Edison Spa ended on August 3, 2012. A total of 904,822,259 common shares, equal to 90.208% of the shares subject of the Offer and 17.464% of the voting share capital of Edison Spa (Edison), were tendered in acceptance of the Offer.
On August 8, 2012, upon concurrently obtaining conveyance of full title to the common shares tendered in acceptance of the Offer, TdE paid in cash a total consideration of 805,291,810.51 euros. Subsequently, TdE, having reached and exceeded the threshold of a 95% stake in Edison's voting share capital, began the procedure required to comply with the obligation to purchase the "Remaining Shares," which, pursuant to Article 108, Section One, of the Uniform Financial Code, was applicable to 98,223,039 Edison common shares, equal to 1.896% of Edison's voting share capital. The purchase price for each Remaining Share subject of the Purchase Obligation was the same as the consideration paid during the tender offer for all of Edison's common shares, i.e., 0.89 euros per share; the period for filing offers to sell began on August 13, 2012 and ended on September 4, 2012.
The offers to sell submitted by the holders of the Remaining Shares corresponded to 72.777% of the shares subject of the Purchase Obligation, equal to 71,483,886 Edison common shares. On September 7, 2012, the date the Purchase Obligation price was paid, TdE held 4,151,359,972 Edison voting shares, equal to about 80.124% of its share capital.
As a result of these transactions, Electricité de France Sa holds indirectly a total of 5,154,369,098 Edison common shares, equal to 99.483% of the voting share capital (counting the common share held by MNTC Holding Srl, a company whose share capital is wholly owned by Electricité de France Sa).

By Resolution No. 7544 of August 7, 2012, Borsa Italiana Spa delisted the Edison common shares form the Online Securities Market (MTA) that it organized and operates, effective as of September 10, 2012.

Voluntary Conversion of the Edison Savings Shares

Pursuant to Article 6 of Edison's Bylaws, by virtue of the delisting of the common shares, the savings shares may be converted, one for one, into common shares upon a simple request by the shareholder, in accordance with terms and conditions defined by the Board of Directors. Consequently, on October 26, 2012, Edison's Board of Directors selected November 2 to November 30, 2012 as the optional conversion period. At the end of the exercise period for voluntary conversion, applications to convert were submitted for 437,573 shares, equal to 0.396% of the savings share capital; the Edison Spa common shares were made available to the eligible parties starting on December 3, 2012.
Subsequent to this conversion, Edison's share capital was comprise of 5,181,545,824 unlisted common shares and 110,154,847 savings shares listed on the Online Securities Market (MTA).

Edison and Sorgenia: Together to Fight Unethical Business Practices

On December 4, 2012, Edison and Sorgenia signed a Voluntary Self-regulation Protocol to fight the practice of unauthorized activations and contracts for the supply of electric power and natural gas. This document, which is scheduled to go into effect early in 2013, represents a totally novel approach for the industry, with the two companies committing to provide additional safeguards beyond the obligations required under existing regulations, through every phase of the new customer acquisition and new supplier activation process. The goal of this project, shared with the consumer associations belonging to the Italian National Council of Consumers and Users who contributed to the drafting of the Protocol, is to guarantee the utmost protection of consumers.

SIGNIFICANT EVENTS OCCURRING AFTER DECEMBER 31, 2012

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 After December 31, 2012."

FINANCIAL HIGHLIGHTS. FOCUS ON RESULTS

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

Edison Group

(in millions of euros)	2012	2011 (*)	% change
Sales revenues	12,014	11,381	5.6%
EBITDA	1,103	890	23.9%
as a % of sales revenues	*9.2%*	*7.8%*	
EBIT	229	2	n.m.
as a % of sales revenues	*1.9%*	*n.m.*	
Net profit (loss) from continuing operations	36	(273)	n.m.
Net profit (loss) from discontinued operations	50	(605)	n.m.
Group interest in net profit (loss)	81	(871)	n.m.
Capital expenditures of continuing operations	343	482	(28.8%)
Investments in exploration	116	46	n.m.
Net invested capital (A+B)	9,800	11,030	(11.2%)
Net financial debt (A) [1]	2,613	3,884	(32.7%)
Total shareholders' equity (B)	7,187	7,146	0.6%
Shareholders' equity attributable to Parent Company shareholders	7,055	6,988	1.0%
ROI [2]	2.25%	n.m.	
ROE [3]	1.15%	n.m.	
Debt/Equity (A/B)	0.36	0.54	
Gearing (A/A+B)	27%	35%	
Number of employees [4]	3,248	3,764	(13.7%)

[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 of continuing operations. Net invested capital of 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/Average shareholders' equity attributable to the shareholders of the controlling company.
Average shareholders' equity is the arithmetic average of the 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.
(*) The 2011 amounts reflect a new presentation of the net change in fair value of commodity derivatives.

Edison Spa

(in millions of euros)	2012	2011 (*)	% change
Sales revenues	6,433	5,833	10.3%
EBITDA	336	111	n.m.
as a % of sales revenues	5.2%	*1.9%*	
EBIT	(108)	(486)	77.8%
as a % of sales revenues	*n.s.*	*n.m.*	
Net profit (loss) from continuing operations	(25)	(372)	93.3%
Net profit (loss) from discontinued operations	81	(524)	n.m.
Net profit (loss)	56	(896)	n.m.
Capital expenditures	100	177	(43.5%)
Net invested capital	6,572	7,753	(15.2%)
Net financial debt	626	1,870	(66.5%)
Shareholders' equity	5,946	5,883	1.1%
Debt/equity ratio	0,11	0,32	
Number of employees	1,587	1,588	(0.1%)

(*) The 2011 amounts reflect a new presentation of the net change in fair value of commodity derivatives.

The reservoir and dam of Lasa (Bolzano) hydroelectric plant.

Sales Revenues and EBITDA by Business Segment

(in millions of euros)	2012	2011(*)	% change
Electric Power Operations (1)			
Sales revenues	6,961	7,437	(6.4%)
Reported EBITDA	605	509	18.9%
Adjusted EBITDA (**)	583	704	(17.2%)
Hydrocarbons Operations (1)			
Sales revenues	6,571	5,468	20.2%
Reported EBITDA	608	487	24.8%
Adjusted EBITDA (**)	630	292	n.m.
Corporate Activities and Other Segments (2)			
Sales revenues	48	50	(4.0%)
EBITDA	(110)	(106)	(3.8%)
as a % of sales revenues	*n.m.*	*n.m.*	
Eliminations			
Sales revenues	(1,566)	(1,574)	0.5%
EBITDA	-	-	
Edison Group			
Sales revenues	**12,014**	**11,381**	**5.6%**
EBITDA	**1,103**	**890**	**23.9%**
as a % of sales revenues	***9.2%***	***7.8%***	

(1) See Simplified Structure of the Group on page 8.
(2) 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.
(*) The 2011 amounts reflect a new presentation of the net change in fair value of commodity derivatives.
(**) Adjusted EBITDA reflect the effect of the reclassification of the results of commodity and foreign exchange hedges executed in connection with the physical contracts in Edison's portfolio. The gains or losses generated by the instruments executed to hedge contracts to import natural gas and protect margins on sales of electric power, which are recognized by the Hydrocarbons Operations, were reclassified into the Electric Power Operations. This reclassification is being made to provide a homogeneous operational presentation of the Group's industrial results.
The adjusted EBITDA amount was not audited by the Independent Auditors.

PERFORMANCE AND RESULTS OF THE GROUP IN 2012 AND BUSINESS OUTLOOK FOR 2013

Operating Performance

The Group reported sales revenues of 12,014 million euros in 2012, for an increase of 5.6% compared with the previous year. A breakdown by business segment shows a gain of 20.2% for the Hydrocarbons Operations, driven mainly by higher average sales prices that reflected changes in the benchmark scenario and a slight rise in sales volumes, and a decrease of 6.4% for the Electric Power Operations, due to a contraction in unit sales.

EBITDA totaled 1,103 million euros, for a gain of 213 million euros (+23.9%) compared with 2011. This increase is the combined result of the following factors:

- the natural gas buying and selling activities, a segment in which the proceeds from the successful conclusion of the price revision arbitrations concerning the long-term contracts for the supply of natural gas from Qatar and Libya (680 million euros, including the one-off benefits for gas deliveries taken in previous years) more than offset the further drastic reduction in prices recorded in 2012 in the markets in which the Group operates;
- a sharp increase in the adjusted EBITDA(1) generated by the exploration and production activities, which were significantly boosted by a favorable oil market scenario and benefited from recent investments in Italy and abroad, which helped increase overall hydrocarbon production compared with the previous year, thereby offsetting the expected and natural decline in the output of existing production concessions;
- a negative change in the adjusted EBITDA(1) of the Electric Power Operations (-121 million euros) caused by a reduced availability of water resources during the period and the lower profitability of sales in the deregulated market segment, mitigated in part by the effects of the early termination of the CIP 6/92 contract for the Piombino power plant, and the impact of a change in scope of consolidation resulting from the divestment of the Taranto thermoelectric power plants in October 2011.

More detailed information about the Group's performance in 2012 is provided in the section of this Report where the performance of the Group's businesses is analyzed.

EBIT amounted to 229 million euros, up sharply compared with 2 million euros in 2011. In addition to reflecting the factors discussed above, this amount is net of depreciation, amortization and writedowns totaling 868 million euros (885 million euros in 2011); the increase in net depreciation and amortization, which grew to 629 million euros (535 million euros in 2011), is mainly the result of higher exploration costs. Net writedowns of 239 million euros (350 million euros in 2011) include the effects of the annual impairment test on assets, which had a negative impact of 230 million euros due mainly to the writedown of a thermoelectric power plant recognized to reflect the early termination of a contract to supply steem (180 million euros) and to the writedown of the Piombino thermoelectric power plant required to reflect the early cancellation of the CIP 6/92 contract (21 million euros). In addition, this amount includes the write down of facilities located in Greece for about 18 million euros.
The result from continuing operations totaled 36 million euros (negative by 273 million euros in 2011). This amount is after net financial expense of 121 million euros, other net charges related to non-core activities amounting to 37 million euros and income taxes of 41 million euros.

The net profit attributable to the Group amounted to 81 million euros (net loss of 871 million euros in 2011) also includes the net result from discontinued operations of 50 million euros. This amount reflects the benefit from the redefinition of the sales price for the equity stake in Edipower Spa, net of the negative margin realized by the Toller under the Tolling Agreement in effect until May 24, 2012. The loss of 605 million euros from discontinued operations reported in 2011 was attributable mainly to the writedown of Edipower's assets to their estimated realizable value.

(1) See note on page 22.

At December 31, 2012, net financial debt totaled 2,613 million euros, down from 3,884 million euros at December 31, 2011, thanks to the sale of the equity stake in Edipower Spa, which had an effect of 1.2 billion euros.
More detailed information about the individual components of this item is provided in the "Net Financial Debt" section 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)	2012	2011(*)
A. NET FINANCIAL (DEBT) AT BEGINNING OF THE YEAR	**(3,884)**	**(3,708)**
EBITDA	1,103	890
Change in operating working capital	(294)	(494)
Income taxes paid (-)	(190)	(184)
Change in other assets (liabilities)	46	(4)
B. CASH FLOW FROM OPERATING ACTIVITIES	**665**	**208**
Investments in property, plant and equipment and intangibles (-)	(459)	(528)
Investments in non-current financial assets (-)	-	(3)
Acquisition price of business combinations (-)	(2)	-
Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	690	259
Repayment of shareholder loan	550	-
Capital distributions from equity investments	8	11
Dividends received	3	5
C. FREE CASH FLOW	**1,455**	**(48)**
Financial income (expense), net	(121)	(160)
Distribution of share capital and reserves	(14)	-
Dividends paid (-)	(14)	(22)
D. CASH FLOW AFTER FINANCING ACTIVITIES	**1,306**	**(230)**
Discontinued Operations	(35)	54
E. NET CASH FLOW FOR THE YEAR	**1,271**	**(176)**
F. NET FINANCIAL (DEBT) AT END OF THE YEAR	**(2,613)**	**(3,884)**

(*) The 2011 amounts reflect a new presentation of the net change in fair value of commodity derivatives.

Outlook for 2013

The persistence of a highly negative market scenario, particularly in the gas area, will have a negative impact on Edison group's expected gas supply and sales margins, which will remain negative until completion of the next cycle of price reviews of long-term procurement contracts. More specifically, for the future, the EBITDA will tend to stabilize at the 2012 level, with possible major fluctuations in 2013 and 2014, depending on the timing of the conclusion of the price reviews.

EDISON AND THE FINANCIAL MARKETS

Stock Market Price and Other Per Share Data

	December 31, 2012	December 31, 2011
Edison Spa		
Stock market price (unit price in euros) [1]:		
- common shares [2]	-	0.7954
- savings shares	0.8424	0.7701
Number of shares (at end of the year):		
- common shares	5,181,545,824	5,181,108,251
- savings shares	110,154,847	110,592,420
Total shares	**5,291,700,671**	**5,291,700,671**
Edison Group		
Earnings per share [3]:		
basic earnings per common share	0.0147	(0.1692)
basic earnings per savings share	0.0447	0.0500
diluted earnings per common share	0.0147	(0.1692)
diluted earnings per savings share	0.0447	0.0500
Shareholders' equity per share attributable to the controlling company's shareholders (in euros)	1.333	1.321

(1) Simple arithmetic average of the prices for the last calendar month of the year.
(2) Delisted on September 10, 2012.
(3) Computed in accordance with IAS 33.

Other Financial Indicators

Rating

	Current	December 31, 2011
Standard & Poor's		
Medium/Long-term rating	BBB	BBB-
Medium/long-term outlook	Positive	Negative Credit Watch
Short-term rating	A-2	A-3
Moody's		
Rating	Baa3	Baa3
Medium/Long-term outlook	Negative	On review for downgrade

AN EVOLVING SCENARIO. MARKETS AND REGULATIONS

ECONOMIC FRAMEWORK

In 2012, conditions were particularly challenging for world trade, which slowed considerably compared with the previous two years. The same was true for global growth, which continues to be hampered by multiple uncertainties, due mainly to unstable economic conditions in the United States and the ongoing recession in the euro zone. In this area, while Germany continued to show modest growth, Greece still appears to be in trouble, Spain has to contend with major unemployment problems and Italy is faced with a stubborn recession despite further success with exports, particularly to non-EU countries.

The concomitant efforts to rectify government budgets in the European countries is making the euro zone crisis worse: in the labor market, unemployment has reached a high level and appears to be headed higher, due to a contraction in economic activity; demand by households and businesses is shrinking, reflecting an unprecedented slide in consumer and business confidence. This negative environment is made worse by a decrease in foreign demand and in trade between EU countries and, as if in a vicious circle, the collapse of imports by euro-zone countries is having negative repercussions on global commerce. In the financial markets, the decisions of the European Central Bank stopped speculative attacks but, clearly, were not enough to solve the existing problems.

As for Italy, 2012 ended on a negative note: GDP contracted, dragged down by a drop in domestic demand, already historically weak, and business investments. Domestic consumer spending was weighted down mainly by a decrease in income caused by a higher tax burden and job losses: the rise in the unemployment rate is showing no sign slowing. To top it all off, a new credit crunch is developing, caused no longer by the banks' inability to attract deposits but by the more strict conditions and higher fees demanded to grant loans, which the banks explain with the negative economic outlook. The technocrat government that has been in charge in Italy since November 2011 succeeded in narrowing the spread between the Italian treasury securities and the German bund. For a country like Italy, with a high level of government debt (in October, it rose to more than 2,000 billion euros), a widening of the spread means a further increase in the already too onerous debt interest expense; however, this was achieved with austerity measures that, as mentioned above, depressed internal demand.

Outside the European Union, the Chinese locomotive appeared to be slowing throughout the first nine months of 2012, hobbled mainly by lower foreign demand and a weak real estate sector. However, industrial productions picked up towards the end of the year, driven by aggressive stimulus measures deployed by the Beijing government that included cuts in interest rates and the approval of an ambitious plan of infrastructural projects. Despite a weaker performance by China (and India), the emerging Asian countries still accounted for more half of world growth in 2012.

A look at the total picture in 2012 shows that the other emerging countries (Russia, Indonesia, Turkey and Mexico) also slowed: the expansionary policies they adopted began to show their effects only in the fourth quarter providing stimulus for otherwise decelerating GDPs, affected mainly by the impact on their exports of the ongoing European recession.

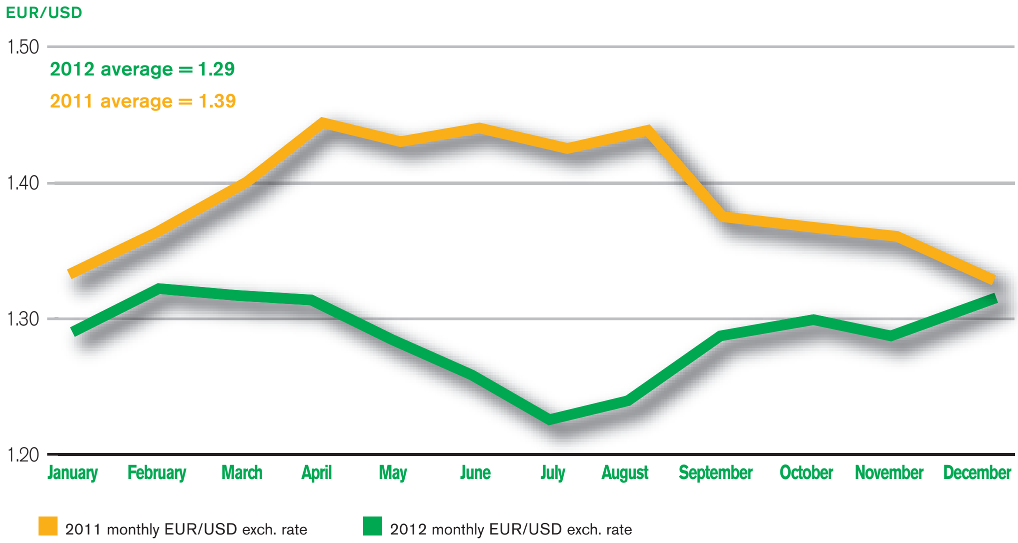
The United States grew, driven mainly by exports and government spending, but the general economic picture continues to be characterized by major uncertainties tied to the "fiscal cliff" into which the country could tumble if the political parties are unable to find an agreement on how to reduce the deficit. This danger appears to have been circumvented thanks to a last-minute agreement reached at the beginning of the new year by a reelected President Obama and the Republicans, which avoided triggering a mix of new taxes and cuts in government spending that would have been devastating for the future growth of the U.S. economy.

The euro/U.S. dollar exchange rate averaged 1.29 U.S. dollars for one euro in 2012, down 7.6% compared with average annual exchange rate of 1.39 U.S. dollars for one euro in 2011.

The slide in the value of the euro, which began in the second half of 2011 due to confidence crisis that enveloped the euro zone showed partial signs of a reversal in the first quarter of 2012, thanks to

A detail of a thermoelectric power plant.

the implementation of budget balancing policies in many countries, including Italy. However, this improvement was nullified by a deterioration of growth expectations in the euro zone and a persisting climate of uncertainty regarding the stability of the European financial system. As a result, the euro steadily lost value, with the exchange rate falling to 1.25 U.S. dollars for one euro, an average rate not seen since the first half of 2006. The deployment of the European Stability Mechanism (ESM), born from projects developed at the ECB under Mario Draghi's stewardship, helped the euro regain value in the third quarter of 2012 and hold steady during the last three months of the year. This stability was also aided by contrasting data in the U.S. economy: encouraging signals from the real estate and labor markets and even Obama's reelection were offset by expectations of cuts in government spending.



In the oil market in 2012, crude prices followed a trend similar to that of exchange rates discussed above. A rise in the first quarter of the year, with the price peaking at USD 124.5 per barrel, was followed by a downward trend in the next quarter, another upturn in the third quarter and stability in the last part of the year.

The similarities in the trends followed by oil prices and the euro/U.S. dollar exchange rate is indicative of the strong link between this commodity and macroeconomic variables and equity markets, with the price of oil becoming in practice an indicator of global economic growth expectations. However, this link is also supported by geopolitical reasons and dynamics affecting fundamentals. While the price was still above USD 110 per barrel, the rise in prices caused by heightened international tensions, particularly between the United States and Iran, was attenuated by bearish considerations of a strictly physical type. These included, in chronological order, slightly weaker demand from Asia, the resumption of supply from Libya, high production by OPEC countries and an increase domestic production in the United States, all factors that, in the fourth quarter of 2012, helped counter the potentially bullish effect of tensions in Syria.

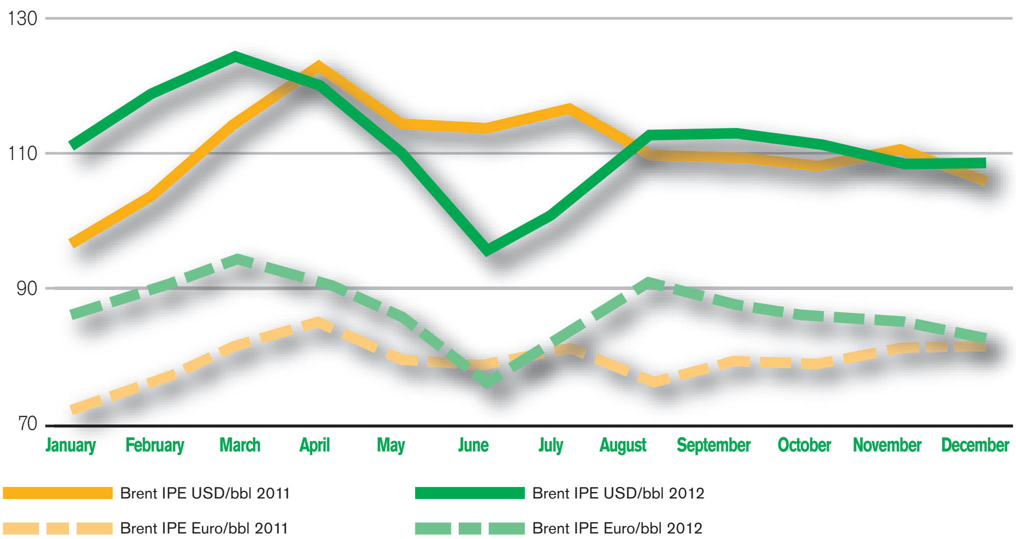
Compared with 2011, the price of oil increased by 0.7% on an annual basis, to an average price of USD 111.7 per barrel, the highest ever recorded in nominal terms. Even in 2008, when the price of oil rose to the all-time high of almost USD 150 per barrel, the average for the year held below USD 100 per barrel.

When stated in euros, the price of crude oil was up 9.1% compared with 2011, to an average of EUR 86.9 per barrel, for an increase larger than the one reported in U.S. dollar terms, reflecting the euro's decline in value versus the dollar, exceeding in multiple months the ceiling of EUR 90 per barrel and, with the exception of June, staying always above last year's levels.

The table and chart provided below show the average annual data and the monthly trends for 2012 and 2011:

	2012	2011	% change
Oil price in USD/bbl (1)	111.7	110.8	0.7%
USD/EUR exchange rate	1.29	1.39	(7.6%)
Oil price in EUR/bbl	86.9	79.6	9.1%

(1) Brent IPE.



In the macroeconomic scenario, the rise in raw material prices extended to other commodities as well, particularly in the case of fuel oil prices, which are directly tied to crude, and European gas prices. The price of natural gas in Italy, at the Virtual Exchange Facility, was up 1.9%, while the price at the TTF hub, similar to the price of gas elsewhere in Europe, increased by about ten percentage points, thereby reducing the differential between domestic gas and foreign gas.

On the other hand, the price of API2 coal followed the opposite trend, falling by 23.8% compared with the previous year, as did the price for CO_2 emissions credits, which plummeted by 44.4%. The overall trend in both markets was adversely affected by a scenario of weak demand and rising production of electric power from renewable sources. As a result, thermoelectric output was down causing a reduction both in CO_2 emissions and, more importantly, solid fuel consumption. The price of coal was also affected by strong demand from Asia where the higher grade coal typically used as a supply source in Europe were diverted, owing to the higher margins available there.

THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy and Market Environment

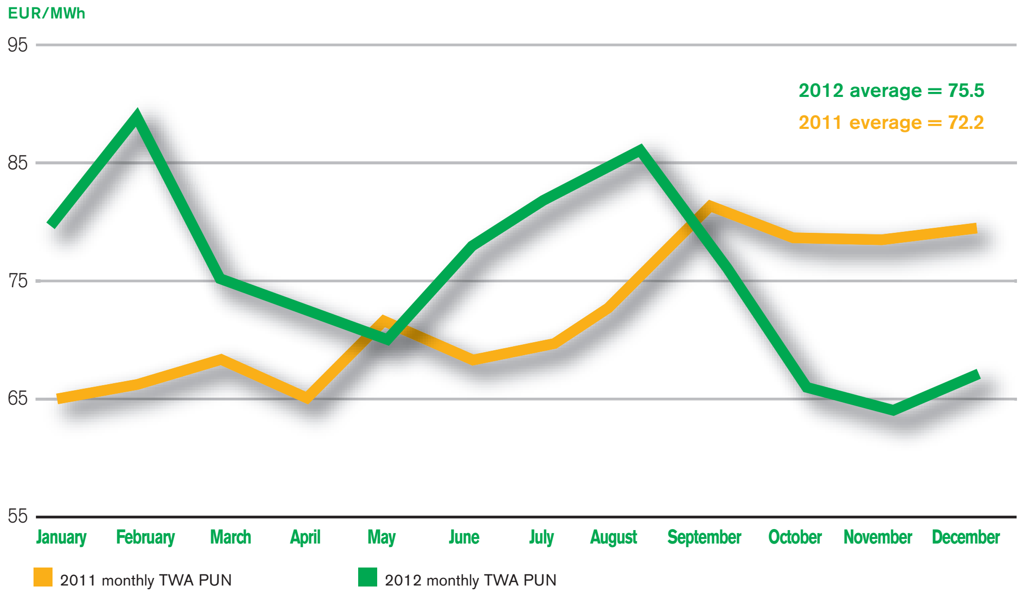
TWh	2012	2011	% change
Net production:	284.8	291.4	(2.3%)
- Thermoelectric	204.8	218.5	(6.3%)
- Hydroelectric	43.3	47.2	(8.2%)
- Other renewables (1)	36.7	25.7	42.4%
Net imports	43.1	45.7	(5.8%)
Pumping consumption	(2.6)	(2.5)	3.5%
Total demand	**325.3**	**334.6**	**(2.8%)**

Source: Analysis of 2011 official and 2012 pre-closing Terna data, before line losses.
(1) Includes production from geothermal, wind power and photovoltaic facilities.

In 2012, gross total demand for electric power from the Italian grid totaled 325.3 TWh (TWh = 1 billion kWh), or 2.8% less 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 down 3.1%.
In 2012, net production of electric power fell by 6.6 TWh as a result of a reduction of 9.3 TWh in demand for electric power, a decrease in of 2.6 TWh in net imports and a gain of 0.1 TWh in pumping consumption. Net of pumping consumption, domestic production covered 87% of demand in 2012, up slightly compared with 86% in 2011, with net imports covering the remaining 13% (compared with 14% in 2011).
Net imports of electric power totaled 43.1 TWh, or 5.8% less than in 2011. This reduction is the net result of a decrease of 2.2 TWh in imports and an increase of about 0.5 TWh in exports. More specifically, net imports were down 3.3 TWh from the Northern border (Switzerland, France Austria and Slovenia) and up 0.7 TWh from the Southern border (Greece).
The decrease of 13.7 TWh in thermoelectric output recorded in 2012 (-6.3% compared with 2011) was due mainly to a sharp increase of 11 TWh in production from renewable energy sources (+42.4%) and a reduction of 6.6 TWh in net domestic production (-2.3%), despite a contraction of about 3.9 TWh in hydroelectric production (-8.2%).
Specifically with regard to the main renewable energy sources, in addition to the abovementioned decrease in hydroelectric production (-3.9 TWh; -8.2%) caused by a lower availability of water resources compared with 2011, there was a major increase in production by photovoltaic facilities (+7.7 TWh; +72%) and wind farm (+3.3 TWh; +34%) thanks to the substantial additional capacity installed in the past two years; the output of geothermal power plants was down slightly (-0.1 TWh; -1.4%).

Insofar as the pricing scenario is concerned, the time-weighted average (TWA) for the Single National Price (abbreviated as PUN in Italian) rose to 75.5 euros per MWh, for a gain of 4.6% compared with 2011 (72.2 euros per MWh).
The increase in the PUN can be explained by the higher price of both spot gas and indexed gas. However the impact of this trend was offset in part by effect of a reduction in demand for electric power compared with the previous year. When looking at individual months, the chart shows that the PUN decreased in the fourth quarter of 2012 compared with the same period last year, due to the combined impact of a drop in demand and lower generation costs, but was up significantly during the first eight months of the year, particularly in February, which was characterized by exceptionally cold weather throughout Europe and a "gas emergency" situation.
An analysis by hourly periods shows that, compared with the same period last year, the increase was greater at night and on weekends (+5.0%) than during daytime hours on business days (+3.7%). In the three F1, F2 and F3 hourly time periods the increases amounted to 3.0%, 10.4% and 2.3%, respectively. These changes show, for the first time, average F2 levels that were higher than F1 levels, particularly in the months from March to October. This anomaly can be explained by the increase in production from renewable sources, photovoltaic manly, which helped lower prices during the central daytime hours, shifting peak prices to the early evening hours.

The chart below shows a year-over-year comparison of the monthly trend for the TWA PUN.



In other markets in Europe, electric power prices ran counter to the trend that prevailed in Italy, affected by a general stagnation of the European economy and, in Germany specifically, by a drop of the abovementioned coal generation costs and a gain in renewable generating capacity, which compensated for the reduction in nuclear production. Consequently, prices on the Power Exchange decreased by 16.7% in Germany compared with the average for 2011. The reduction was smaller in the French market (-4.0%) due to the high prices recorded in February. As a result, the differential between the PUN and the prices in foreign markets widened: the Italy-France differential increased from 23.4 euros per MWh to 28.5 euros per MWh and the Italy-Germany differential grew from 21.1 euros per MWh to 32.9 euros per MWh.

Demand for Natural Gas in Italy and Market Environment

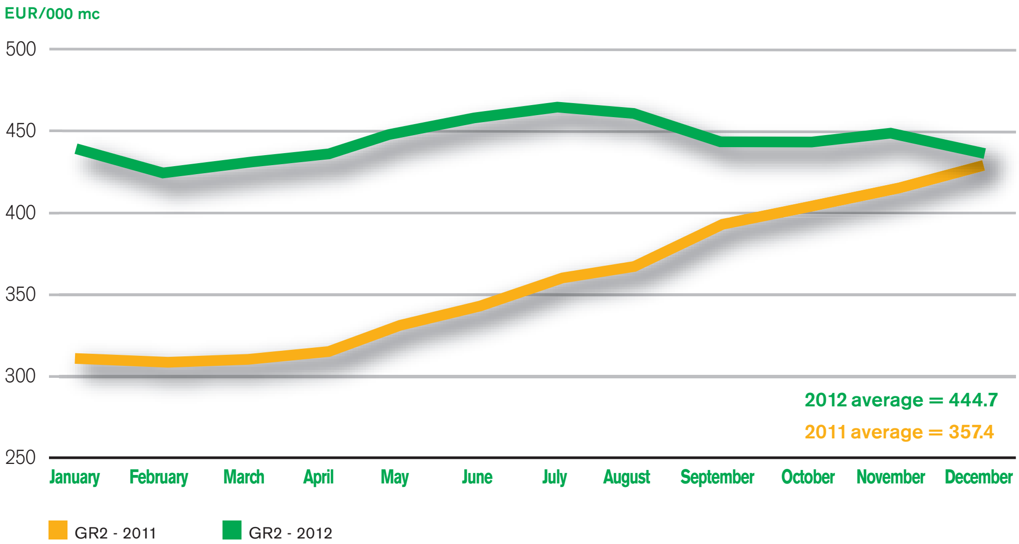
in billions of m^3	2012	2011	% change
Services and residential customers	30.9	30.8	0.4%
Industrial users	17.1	17.0	0.5%
Thermoelectric power plants	24.6	27.8	(11.1%)
System usage and leaks	1.6	1.8	(15.1%)
Total demand	**74.2**	**77.4**	**(4.1%)**

Source: 2011 data and preliminary 2012 data from Snam Rete Gas, the Ministry of Economic Development and Edison estimates.

In 2012, Italian demand for natural gas contracted by 4.1% compared with the previous year to a total of about 74.2 billion cubic meters, for an overall reduction of about 3.2 billion cubic meters.
This decrease is attributable mainly to lower consumption by thermoelectric users, which fell by about 3.1 billion cubic meters compared with 2011 (-11.1%), offset in part by minor gains in consumption by residential customers (+0.1 billion cubic meters; +0.4%) and industrial users (+0.5%).
The drop in demand from thermoelectric power plants in 2012 is due mainly to a sharp rise in production from renewable sources and higher output from coal-fired facilities; the upward trend in consumption by residential and industrial users reflects primarily different weather patterns, with colder weather during the winter months in 2012 than in the winter of 2011.

The following developments characterized supply sources in 2012:
- domestic production was up slightly compared with 2011 (+0.1 billion cubic meters; +1.7%);
- lower imports of natural gas compared with the previous year (-2.7 billion cubic meters; -3.8%), in line with the decrease in consumption;
- a net increase of about 1.5 billion cubic meters in stored gas, on an annualized basis, reflecting an increase in national storage capacity in 2012 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 2011, which, given the built-in time lag, pushed prices higher.
A comparison with 2011 thus shows an upward bias in the Gas Release 2 formula for all of 2012, for an increase of 24.4%.



The generalized increase in commodity prices is reflected in the Wholesale Distribution Charge (abbreviated as CCI in Italian), which is indicative of the prices charged in the residential market. With an increase of about 22.5% compared with the previous year, the CCI 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 Electric Power and Gas Autority, which require the inclusion in the formula of spot gas component for an increasing percentage, starting in April 2012.

The table below shows the average prices for the Gas Release 2 and the CCI in 2012 and 2011:

	2012	2011	% change
Gas Release 2 - euros/000 m³ (1)	444.7	357.4	24.4%
CCI – euros/000 m³ (2)	396.4	323.6	22.5%

(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, No. 77/11, No. 117/2012/R/Gas and No. 263/2012/R/gas. The price is the one quoted at the border.

LEGISLATIVE AND REGULATORY FRAMEWORK

The main legislative and regulatory measures enacted in 2012 that had an impact on the various businesses of the Group are reviewed below.

Electric Power

Production

Hydroelectric concessions: Law No. 134 of August 7, 2012, which converted into a law, with amendments, Decree Law No. 83 of June 22, 2012 setting forth "Urgent measures for the country's development," was published on August 11, 2012 in Issue No. 187 of the *Official Gazette of the Italian Republic.*

Article 37 of this law, which amends the timing and award criteria of calls for bids provides the following:

- Award for consideration of the concession for a period ranging between 20 and 30 years, based on the size of the investments deemed necessary and taking into account primarily the consideration offered to acquire the right to use water resources and the increase in energy produced or installed capacity.
- For concessions that have already expired and those expiring on or before December 31, 2017, the new concession will begin starting on January 1, 2016 and, under any circumstance, not later than December 31, 2017.
- To ensure continuity of the concession's operations, the rules of the call for bids shall require the outgoing concession holder to transfer to the new concession holder title to the business operations required to operate the concession.
- The outgoing concession holder shall receive a consideration for the transfer of the abovementioned business operations. The consideration shall be determined based on market value, i.e., the replacement-to-new value, less ordinary wear and tear, for the so-called "dry assets," while in the case of the so-called "wet assets" the amount owed will be determined based on the inflation adjusted historical cost, less any government grants, also inflation adjusted, received by the concession holder for the construction of the assets in question, less ordinary wear and tear.
- The Ministry of Economic Development shall issue a decree setting forth the general criteria for the determination by the regional administration of the maximum amounts of concession fees for hydroelectric uses, consistent with the principles of profitability and reasonableness.

Avoided Fuel Cost (AFC): The Ministry Decree of November 20, 2012 setting forth "New method for determining the AFC component referred to in the CIP 6/92 resolution and determination of the AFC adjustment amount for 2011" was published on November 30, 2012 in Issue No. 280 of the *Official Gazette of the Italian Republic.*

This Decree governs the implementation of the energy efficiency parameter and the value attributed to the AFC, and defines the AFC adjustment amount for 2011. Basically, for 2009, the technology efficiency parameter is not applied and AFC price/adjustments awarded for that year is confirmed; for 2010, Resolution PAS 09/2010 is applied (for Edison the adjustment payment already awarded is confirmed and the technology efficiency parameter is applied); and, for 2011, Resolution PAS 09/2010 is applied.

Environment

Burden Sharing Ministry Decree: The Ministry Decree of March 15, 2012 was published on April 2, 2012 in issue No. 78 of the *Official Gazette of the Italian Republic.* This decree, which concerns the allocation on a regional basis of the burden required to meet the national target of increasing renewable-source production to 17% of final gross production by 2020, specifies regional objectives with regard to renewable sources and defines the modalities for handling instances when regions or autonomous provinces fail to achieve their targets.

The Simeri Crichi (Catanzaro) thermoelectric power plant.

Two relevant decrees concerning renewable energy sources were published on July 10, 2012 in Regular Supplement No. 143 to Issue No. 159 of the *Official Gazette of the Italian Republic.*

Fifth Energy Account - Decree of July 5, 2012 - Implementation of Article 25 of Decree Law No. 28 of March 3, 2011, setting forth incentives for the production of electric power from photovoltaic solar systems, signed jointly by the Ministry of Economic Development and the Ministry of the Environment and the Protection of the Territory and the Sea, which defines the incentives for the photovoltaic sector. These incentive call for government funding totaling 6.7 billion euros a year.

New development include the following:

- Establishment of a **Facilities Register**, as a tool to monitor the development of facilities for the purpose of establishing a ranking system maintained by the GSE in accordance with the rules of the Energy Account. The new ranking rules give priority to facilities concurrently erected on buildings classified in the best energy class or installed as replacements for asbestos roofing materials. Other priority criteria include: facilities built with UE/SEE components; facilities located at contaminated sites, sites belonging to the military, closed landfills, abandoned quarries and depleted mines; facilities of up to 200 kW dedicated to production facilities; and facilities installed on buildings, greenhouses, arbors, sheds, cantilevered roofs and sound barriers. The Registers will be allocated a predetermined budget amount: 140 million euros for the first Register, 120 million euros for the second Register and 80 million euros for subsequent Registers.
- **Exemption from listing in the Register** for all facilities with a capacity of up to 12 kW. Facilities that qualify as "innovative," those built by public administrations, system of up to 50 kW that replace asbestos and asbestos-based roofing materials (which will be awarded gradually decreasing tariff bonuses in 2013, 2014 and 2015) and systems between 12 kW and 20 kW that accept a 20% reduction in the incentive will also be exempt from listing in the Register.
- **All-inclusive tariff**, which replaces an earlier incentivizing modality. The length of time over which a facility may be depreciated will no longer depend exclusively in the energy produced by the facility but also on the portion of energy used for self-consumption. The reduction of the incentives and concurrent increase in the gross cost of electric power drawn from the grid will make facilities built for self consumption more advantageous, irrespective of size.

Ministry Decree of July 6, 2012 - Implementation of Article 24 of Legislative Decree No. 28 of March 3, 2011, setting forth incentives for the production of electric power from renewable source facilities other than photovoltaic systems, signed jointly by the Minister of Economic Development, the Minister of the Environment and the Protection of the Territory and the Sea and the Minister of Agriculture, which defines the tariffs and modalities to access incentives for renewable-source facilities other than photovoltaic systems.

This decree projects an indicative cumulative annual cost for all types of incentives for renewables (excluding photovoltaic) of 5.8 billion euros. The notices and the calls for bids for Register listings (new facilities an renovations) for renewable-source projects were posted on the GSE website on September 8, 2012.

Decree Law No. 83 of June 22, 2012, converted with Law No. 134 of August 7, 2012, which introduced certain significant provisions in the environmental area:

- The 55% tax deduction for energy efficiency projects is extended to June 30, 2013.
- Article 33, Section 4, of Legislative Decree No. 28/2011 is amended to allow domestic and EU biofuel producers to implement the technological modifications required to produce next-generation biofuels for a period of time limited to December 31, 2014, in connection with the expected revision of Directive No. 2009/28/EC for promoting the use of energy from renewable sources.
- The deadline for implementation of the Waste Traceability Control System is been suspended until June 30, 2013.

The Resolution of the National ETS Committee No. 27 of November 13, 2012 (Emissions Monitoring and Communication) was published in the November 23, 2012 issue the *Official Gazette of the Italian Republic* in implementation of Regulation No. 601/2012/EU, by which the Commission recently defined the methods for monitoring and communicating greenhouse gas emissions in the third period of the European market for emissions rights (2013-2020).
The methods must be implemented in compliance with a Monitoring Plan, which must be signed electronically by the plant operators and filed with the National Committee by January 31, 2013. The National Committee will have 90 days to decide whether to accept (possibly with changes) or rejecting the submitted Plan.
Exemptions are provided for low emissions plants. Plant operators who applied for permits to release greenhouse gas emissions during the 2013-2020 period must present and Emissions Monitoring Plan consistent with the latest EU guidelines by January 31, 2013.

Wholesale Market

Reform of the electric power market: Under Article 21 of Decree Law No. 1/2012 (converted into Law No. 27/2012) the Ministry of Economic Development is required to publish new guidelines and amend the implementation provisions of Law No. 2/09 with the aim of minimizing costs and ensure the reliability and quality of the electric power supplied to users, while respecting market criteria and principles. For the time being, the pay-as-bid system introduced by Law No. 2/09, scheduled for adoption in April 2012, was not implemented; the Electric Power and Gas Authority (AEEG), which has always been skeptical about this mechanism, recommended, as part of its suggested amendments to Legislative Decree No. 93/11, that the Parliament repeal it in full.

Facilities that are essential for the reliability of the electrical system: Facilities classified as essentials for 2012 included 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. These power plants were classified as essential for 2013 as well: Edison chose the same type of remuneration as in 2012 (regular status for Porcari and Milazzo and alternative modalities for San Quirico); in addition, Terna added the Torviscosa power plant to the essential facilities for 2013 and Edison opted for alternative modalities for this power plant as well.

Dispatching for renewable sources: A number of actions taken in 2012 modified the profitability of renewable source facilities and their dispatching rules. The CRT rate component was cancelled as of January 1 and the compensation for avoided losses provided to producers connected at medium and low voltage were significantly reduced as of July 1. In addition, Resolution No. 281/12/r/efr revised, effective January 1, 2013, the imbalance compensation penalties for renewable source facilities (excluding on-site swaps, CIP 6/92 and all-inclusive rates, except for those listed in not in Legislative Decree No. 28/11), introducing penalties payable for imbalances in excess of the exemption of 10% of the final cumulative program (20% until June 2013).

Grid capacity reservation for the connection of production facilities: The rules governing the reservation of grid capacity for the connection of production facilities stabilized in 2012. Following the motions filed by several producers challenging the guarantee rules introduced by Resolutions ARG/elt No. 125/10 and No. 187/11, the Authority, by Resolution No. 328/12/R/eel, opted for reserving capacity at the estimate level for medium voltage and low voltage connections and at the authorization level for high and extremely high voltage connections. By the same resolution, it also specified the responsibilities of the various parties involved and the maximum deadlines by which network operators must present new connection solutions within the framework of the authorization process.

Flexibility services: With Article 34 of Law No. 134/2012 (converting Decree Law No. 83/2012), the Parliament authorized the AEEG to introduce a specific remuneration for flexibility services. In December 2012, the AEEG began a public consultation process, indicating that it intends to remunerate these services within the framework of the Dispatching Services Market.

Remuneration of production capacity: In November 2012, Terna began a public consultation process aimed at defining the implementation rules of the new mechanism for the remuneration of production capacity , based on the criteria published by the AEEG with Resolution ARG/elt No. 98/11. In the meantime, the AEEG modified the criteria for the allocation of the revenues generated by the current capacity payment, further emphasizing a zone-based differentiation of the remuneration.

Retail Market

Indemnification system: Following the complaint filed by Edison in 2011 with the Regional Administrative Court of Lombardy challenging Resolution ARG/elt No. 219/10 (Provisions Governing the Implementation of the Indemnification System), the AEEG published two resolutions (No. 99/2012/R/eel and No. 195/2012/R/eel) which introduced measures to mitigate the adverse effects that some operators suffered and listed in the complaints they filed. Contrary to expectations, these new measures further increased the managerial and economic burden faced by incoming operators.
Consequently, in response to these latest measures, the primary complaint currently pending was amended with the inclusion of additional grounds. A hearing was held on October 4, 2012 and a decision is pending.

Unfair business practices: On September 20, 2012, the AEEG provided clarifications in response to the issues raised by operators with regard to Resolution No. 153/2012/R/com, which went into effect on June 1, 2012 (voluntary adoption of a Self-regulation Protocol, clear identification of sales personnel, new methods for confirming acceptance of the contract), thereby providing a relatively exhaustive answer to Edison's queries. Moreover, under the abovementioned Resolution No. 153/2012/R/com, companies can adopt, individually or collectively, a Voluntary Self-regulation Protocol for unauthorized contracts. Such protocols must mandatorily include the following: additional procedures to prevent the occurrence of this practice beyond the obligations required under existing regulations; a person or department at the company, responsible for controlling and monitoring the protocol's implementation; measures that can be adopted in the event of non-compliance with the protocol. The protocol must be published on the seller's website and communicated to customers during the pre-contract phase.
Edison complied with the abovementioned resolution, signing in 2012 a Self-regulation Protocol with Sorgenia and the consumer associations belonging to the Italian National Council of Consumers and Users, by which it agreed to provide additional safeguards beyond the obligations required under existing regulations through every phase of the new customer acquisition and new supplier activation process, implementing and strengthening the resolution's provisions and creating new ones. Among these new provisions, Edison established a monitoring mechanism, jointly with the consumer associations, to ensure compliance with the protocol; a dedicated e-mail address for representatives of the consumer associations regarding unethical business practices and actions that can be taken for failure to comply with the protocol, such as "economic compensation' for the inconvenience suffered, which will be paid based on the number of months of service. This protocol went into effect on February 1, 2013.

Integrated Information System: The Single Buyer is continuing to work on the implementation of the trading platform for operators. In November 2012, following the publication of the technical specifications for population of the databases by electric power and gas distributors, it published a consultation document, to which Edison responded, aimed at implementing by June 2013 the following processes: information about customers and supply points served by each user of the dispatching service; indemnification system and review of customer data prior to initiating the switching process.

Delinquencies by natural gas customers: By Resolution No. 540/2012/R/gas, the AEEG postponed to February 1, 2013 the deadline for the implementation of the Default Service. Pursuant to this resolution, the distribution company is free to adopt the most appropriate organizational modalities also when providing the Default Service, and may use any form of outsourcing for the various activities included in the Default Service (procurement, billing), including the option of using a sales company of the same group of companies or a temporary supplier for a period of up to six months, selected based on an independently handled competitive bidding process or with procedures established for this purpose by the Single Buyer.
On December 29, 2012, the Regional Administrative Court of Lombardy ruled that the Default Service approved with Resolution ARG/gas No. 99/11, as amended, was illegitimate. Unless the Council of State rules otherwise, the Default Service must thus be viewed as illegitimate, with the consequence that, under current conditions, Distributors are not required to activate this service. The Regional Administrative Court did not take into consideration Resolution No. 540/2012/R/gas because it was published after (December 14, 2012) the hearing held for the complaints filed by the Distributors (October 31, 2012). Given the framework outlined above and absent a contrary ruling by the Council of State, the Default Service should not go into effect on February 1, 2013.

Hydrocarbons

Rates and Market

The AEEG published Resolution No. 263/2012/R/gas, by which it defined the modalities for determining the gas raw material rate component (CCI) starting on October 1, 2012. This resolution concerns:

- The determination of the CCI as the sum of the component covering natural gas procurement costs (QEt) and a fixed consideration covering the costs to market gas at the wholesale level (QCI).
- The quarterly update of the QEt component determined based on a weighing criterion that takes into account the take-or-pay index (95%) and the PMKT market index (5%).
- The QCI wholesale distribution component, which is confirmed at 0.930484 €/GJ, but is broken down into two items, one tied to the use of the infrastructures (0.461667 €/GJ) and the other one reflecting the remaining distribution costs (0.468817 €/GJ).
- The launch of a study aimed at assessing procurement conditions for sales companies in the wholesale market. The AEEG reported that the input it received in response to this study shows that a situation of excess supply of natural gas in the Italian wholesale market "would generate strong competitive pressure in the wholesale market and on the procurement terms applied to retailers, including in the case of gas earmarked for supply to customers with protected status" and that "in many cases, these conditions would result in price levels significantly lower that the CCI component." The purpose of the study is to "award retailers a remuneration consistent with the procurement terms they pay in the wholesale market, avoiding potentially unjustified excess profits and allowing the transfer to end customers of any additional benefits generated by a favorable trend in spot market prices." After completing the study, the AEEG, by Resolution No. 456/2012/R/gas indicated that the research process had ended and concurrently launched a procedure aimed at defining CCI corrective actions implementable in the first half of 2013.

Balancing Market:

- Gas emergency: On February 7, 2012, by Resolution No. 32/12/R/gas, the AEEG amended the rules of the economic merit balancing market, requiring that, under emergency situations caused by gas shortages, charges for operator imbalances be determined based on the highest market price, corresponding to the unauthorized use of the strategic reserve. The gas emergency that affected the Italian system in February 2012 caused Edison to incur significant imbalance costs, due mainly to the unavailability of gas from the Adriactic LNG terminal.

The Ministry of Economic Development issued an authorization to access the strategic reserve due to the terminal's failure in February. Currently, the Company is engaged in discussions with the AEEG and Snam Rete Gas to define the modalities for implementing the authorization to use the strategic reserve.

- Amended document setting forth provisions governing the physical and economic items of the natural gas balancing service (settlement): Resolution No. 229/2012/R/gas reforms, starting in January 2013, the current rules governing the allocation of natural gas, revising completely the process and attributing in unambiguous terms the obligations and responsibilities of the operators involved.

The procedure entail 12 balancing sessions, one for each month of the year, and annual adjustment sessions, which deal with the adjustment payments attributable to each year and are held the following year. The settlement price of these items will be the balancing price. Important innovations concern the method applied to redelivery points, for which daily or monthly meter readings will be used, if available. The redelivery points where metering data are collected at different time intervals will be subject to load profiling, in accordance with new criteria that include unambiguous modalities to determine annual consumption to which simplified standard load profiles can be applied.

There is also greater order and transparency in the definition of transactions that allow a correct attribution of consumption to each user of the balancing service, with the determination of a direct link between balancing user and individual redelivery point. Each user of the balancing service will be able to identify in advance the distribution users for whose consumption it is responsible, within the framework of a correspondence matrix for the system's users defined and updated monthly by the system's users themselves.

In order to allow a period of adjustment for the activities related to the balancing activity, the AEEG published on December 20, 2012 a new resolution (Resolution No. 555/2012/R/gas) by which it delayed some deadlines for the communication of data between Snam and the other parties involved (users of the balancing system, users of the distribution system, distributors).

Infrastructures

Gas Storage: With Legislative Decree No. 93/2011, which introduced important new developments with regard to strategic storage and modulation storage, the Ministry of Economic Development defined new methods to computes the annual total volume of the strategic reserve. For the 2012-2013 thermal year, the strategic reserve was lowered to 4.6 billion cubic meters, down from 5.1 billion cubic meters the previous year.
The so-called "Deregulations" Decree (converted into Law No. 27 of March 24, 2012) established that the storage capacities available following the redetermination of the strategic stored volume (0.5 billion cubic meters) and the adoption of new methods to compute modulation obligations will awarded, for the space determined and updated by a decree of the Ministry of Economic Development, for the purpose of offering integrated transmission services by means of foreign gas pipelines and regasification facilities, inclusive of natural gas storage, to industrial companies and regasification companies to guarantee compliance with the regasification programs of their users in the event of unforeseeable circumstances.
The "Growth" Decree Law (No. 83 of June 22, 2012, converted into Law No. 134 of August 7, 2012) determined the portion of the modulation storage space that must be awarded through competitive bidding and the portion of the same modulation storage space that must be awarded with the current allocation procedures. The same procedures (competitive bidding) shall be used for additional natural gas storage capacity available for other types of services, including any capacity that has not been awarded. The AEEG shall use any proceeds generated by the competitive bidding process in excess of the rates charged for modulation services to lower distribution rates, while those generated by the offer of storage space that becomes physically available due to facility expansions carried out pursuant to Legislative Decree No. 130/2010 must be used to lower transmission rates.

Gas Transmission: With regard to the obligation to segregate Edison Stoccaggio - Ramo Trasporto in accordance with Legislative Decree No. 93/2011, the Board of Directors of Edison Stoccaggio - Ramo Trasporto approved a proposal to spin off Edison Stoccaggio's transmission operations to a newly established company called Infrastrutture Trasporto Gas Spa (in practice, the abovementioned business operations are being transferred to the "beneficiary" company EDENS Calabria Spa, which adopted the new Bylaws approved for the transmission activity). The new company's articles of incorporation are effective vis-à-vis third parties as of October 1, 2012. The new company's purpose is to engage in the transmission and dispatching of natural gas and all instrumental and ancillary activities.
The governance model adopted is the so-called dualistic model allowed under the Italian Civil Code, with a Supervisory Board comprised of at least three but not more than five members (half less one of whom must be independent of the Parent Company) and a Managing Board comprised of at least two but not more than five members who meet the independence requirements.
The dualistic system also calls for the appointment of a Chairman of the Managing Board, a Chief Executive Officer and a General Manager (all three posts may be held by the same person).
At the national level, Snam Rete Gas and Società Gasdotti Italia (SGI) have already obtained, albeit with specific requirements, respectively the final certification decision and the preliminary certification as Independent Transmission System Operator. The certification application filed by Infrastrutture Trasporto Gas is still being evaluated by the AEEG.

Issues Affecting Multiple Business Segments

Law No. 35/2012 converting Decree Law No. 5/2012 ("Simplifications" Decree): Decree Law No. 5/2012 (published on February 9, 2012 in Issue No. 33 of the *Official Gazette of the Italian Republic*), setting forth urgent simplification and economic development provisions, was converted into Law No. 35 of April 4, 2012 (published on April 6 in Issue No. 82 of the *Official Gazette of the Italian Republic*). The main provisions of interest to the Group's businesses are mentioned below:

- E&P (Article 24): This article introduces the possibility of providing additional extensions of existing permits for activities involving offshore exploration, prospecting and production with regard to liquid and gaseous hydrocarbons;
- AEEG powers (Article 58): This article amends the powers of the AEEG, which, in urgent cases, can order autonomously, but motivating its actions, the adoption of precautionary measure even before the start of the penalty process.

Law No. 56/2012 ("Special Powers in Strategic Sectors"): Law No. 56 of May 11, 2012, which converted into law with amendments Decree Law No. 21 of March 15, 2012, which set forth rules governing special powers concerning the corporate structure of companies in the defense and national security sectors and strategic relevant activities in the energy, transportation and communications sectors, was published on May 14, 2012 in Issue No. 111 of the *Official Gazette of the Italian Republic.* More specifically, Article 2 of the Decree regulates special powers with regard to strategic assets in the energy sectors. One or more regulations will be enacted identifying the networks, facilities, assets and relationships that are strategically relevant to the nation's interest in the energy sectors and the types of action or transactions within each group to which the new rules will not apply. Basically, with regard to any resolution, action or transaction by companies that own one or more strategic assets, liable of jeopardizing national interest with regard to procurement and the safety and operation of networks and facilities, the government is being granted, under exceptional circumstances that present a real threat of serious injury to national interest, veto power or the power to grant a conditional authorization to implement the abovementioned resolution, action or transaction.

Law No. 134/2012 ("Development" Decree Law): Law No. 134 of August 7, 2012, which converted into a law, with amendments, Decree Law No. 83 of June 22, 2012 containing urgent measures for the country's development, was published in August 11, 2012 in Issue No. 187 of the *Official Gazette of the Italian Republic.* In addition to the provisions concerning hydroelectric concessions (Article 37) and flexibility services (Article 34) mentioned earlier in this Report, the following provisions are relevant to the Group:

- **Hydrocarbon exploration and production (Article 35):** The law establish a single and more restrictive buffer zone for oil and gas, increasing the minimum distance from 5 miles to 12 miles from the coastline and the external perimeter of protected marine and coastal areas, for any new prospection, exploration and production activities. Permit application procedures in progress on the effective date of Legislative Decree No. 128/2010 and related and connected procedures are not affected. Lastly, activities to protect the sea and ensure the safety of offshore activities will be financed through a percentage increase of more than 40% of the offshore royalties (from 7% to 10% for gas and from 4% to 7% for oil).
- **Calls for tenders for the distribution of natural gas (Article 37):** With regard to natural gas distribution, the decree clarifies that any party can respond to a locally based call for tenders, except for parties that, at the corporate group level, operate at the time of the call for tenders local public services by virtue of a direct assignment or a procedure lacking public transparency, and specifies that this prohibition does not apply to companies listed on regulated markets or companies directly or indirectly controlled by them.
- **Energy infrastructures and the natural gas market (Article 38):**
  1) For the purpose of developing strategic energy infrastructures, if a regional administration fails to issue a ruling within 150 days from the date of an application, the Ministry of Economic Development shall ask the administration involved to take action within 30 days. If the lack of action by the regional administration continues, the Ministry shall refer the matter to the Office of the Prime Minister, which shall issue a decision within 60 days with the participation of the affected regional administration. The procedure for intervention by the central government to expedite authorization procedures for energy infrastructures shall also be applied when a regional administration fails to take action with regard to issues under its jurisdiction.

2) The possession of a permit to build and operate a liquefied natural gas regasification terminal at a site on government property, a port or an adjacent area constitutes a right to the issuance of the required concession.
3) With regard to the modalities for allocation of storage services used to provide flexibility for the importation system and earmarked for the modulation service for residential customers and the storage service for industrial and thermoelectric customers, this law calls for switching from a pro rata system with volumes segmented by type of user to a competitive bidding system for all of the available capacities. The Ministry of Economic Development shall issue a decree by which it shall determine, in addition to the portion of the modulation storage space reserved for residential and non-residential customers with consumption of not more than 50,000 cubic meters a year, the portion of the modulation storage space to be awarded in accordance with the allocation procedures currently in effect. In addition, the offer of storage space through a competitive bidding process shall be made only to electric power producers, limited to their generating facilities that are fueled exclusively with natural gas. The AEEG shall adjust the natural gas transmission rates to benefit the parties with greater consumption.
4) Lastly, this law introduces the possibility of setting limits to the storage capacities that a single operator or corporate group may acquire, so as to establish a more competitive access to them. This objective will be achieved with decrees issued by Ministry of Economic Development with the input of the AEEG.

- **Electric power generating facilities necessary for emergency situations (Article 38-*bis*):** The Ministry of Economic Development has been assigned responsibility for determining each year the production capacity, from facilities fired with fuel oil and other fuels different from gas, the availability of which must be guaranteed. The rules concerning emissions limits applied to these facilities are less restrictive and the AEEG must define their dispatching modalities and the methods for reimbursing them for the costs incurred, such as general systems charges.
- **Inclusion of geothermal energy among strategic energy sources (Article 38-*ter*):** Facilities for the extraction of geothermal energy have been included among the strategic infrastructures and facilities.
- **Revision of the system of excise taxes on electric power and energy products (Article 39):** This law calls for a new definition of energy intensive companies based on E.U. regulations, with the aim of revising the excise taxes on energy and the general system costs incurred by these companies.

Law No. 95/2012 (Spending Review): Law No. 135 of August 7, 2012, which converted into a law, with amendments, Decree Law No. 95 of July 6, 2012 containing urgent measures for a revision of public spending without change in public services, was published on August 14, 2012 in issue No. 189 of the *Official Gazette of the Italian Republic.* In order to reduce spending for purchases of goods and services and ensuring procedural transparency:
- Contracts executed in violation of the obligation to carry our purchases through the procurement tools provided by Consip Spa (Consip) are null and void, constitute a violation of regulations and give rise to an administrative liability. This provision does not apply to regional purchasing hubs, which, however, shall take into account the quality and price parameters of the procurement tools provided by Consip.
- Public administrations and companies that are wholly owned, directly or indirectly, by a public entity, including those in the areas of electric power and natural gas, are required to carry out their purchases through the agreements or framework contracts made available by Consip and the relevant regional purchasing hubs or through their independent procedures, in compliance with the applicable regulations, using online purchasing systems on the electronic market. Orders may be awarded in a manner different from the abovementioned modalities, provided they constitute purchases from other procurement hubs and are at prices lower than those of the agreements or framework contracts made available by Consip and the regional purchasing hubs.

- Public administrations that have validly executed a contract for the supply of goods and services shall have the right to cancel the contract at any time, after giving formal notice to the supplier at least 15 days in advance and after paying for all services already received and one-tenth of the services not yet provided. Any stipulation contrary to this provision is null and void.

Law No. 221/2012 (Growth *bis*): Law No. 221 of December 17, 2012 was published on December 18, 2012 in Issue No. 294 of the *Official Gazette of the Italian Republic,* converting into law, with amendments, Decree Law No. 179 of October 18, 2012, published on October 19, 2012 in Issue No. 245 of the *Official Gazette of the Italian Republic*). The provisions that are relevant to the Group include one concerning the duration of gas storage concessions. More specifically, under this law, concessions for the storage of natural gas awarded starting on the date Legislative Decree No. 164 of May 23, 2000 went into effect will have a duration of 30 years, renewable for 10 years only once, except for concessions awarded before the legislative decree went into effect on May 23, 2000, which will continue to be valid for the original duration plus two ten-year extensions.

Law No. 228/2012 (2013 Stability Law): Law No. 228 of December 24, 2012, setting forth "Provisions for Preparation of the Annual and Multi-year Government Budget," was published on December 29, 2012 in Issue No. 302 of the *Official Gazette of the Italian Republic.* The provisions that are relevant to the Group include the following:

- Surcharges for mountain watersheds (Section 137): As of January 1, 2013, extension of hydroelectric surcharges for all hydroelectric generating facilities with average rated capacity greater than 220 kw with catchment systems located in whole or in part within the territory of municipalities included in already delineated mountain watershed.
- Photovoltaic (Section 425): Extension from December 31, 2012 to March 31, 2013 of the effectiveness of the Fourth Energy Account for the incentives awarded for facilities installed on public buildings and areas belonging to public administrations. These facilities will be eligible for the incentives provided under the Fourth Energy Account if they are commissioned by March 31, 2013. This deadline can be extended to June 30, 2013, if an environmental impact study is required, or to October 30, 2013, if the corresponding permit was issued after March 31, 2013.

European Union Regulations

European Emission Trading Scheme (ETS) - Proposals by the European Commission to reform the market operating mechanism (backloading): Due to the economic crisis, the second phase of the ETS (2008-2012) was characterized by a large surplus of emissions rights. In July 2012, the European Commission (CLIMATE DG) presented various bills aimed at amending the ETS Directive with regard to the timing of the release of permits on the market through auctions during the third phase of the ETS (2013-2020), with the aim of shifting 900 million rights to the end of the period. The governments of the member countries and the European Parliament are currently discussing a Decision that would amend the ETS Directive, in the sense of attributing to the European Commission the necessary powers to modify the scheme, and a Regulation that would change the schedule of the EU ETS auctions, shifting to the end of the period the 900 million rights in question. The market impact is expected to be limited, but there is more opposition politically to giving the Commission power to intervene at its discretion in the activities of the market.
This process is not expected to be finalized before March-April 2013, when the European Parliament will vote on the Commission's bills.

New Energy Efficiency Directive No. 27/2012/EC: The new European Directive No. 2012/27/EU, which was adopted and published in the *Official Journal* on November 14, 2012, amending Directives No. 2009/125/EC and No. 2010/30/EU and repealing Directives No. 2004/8/EC and No. 2006/32/EC, established a common framework of regulations and obligations at the European level to ensure the achievement of the EU objective of a 20% energy efficiency gain, as required by the "20 20 20 Package."

The European Commission will assess the progress made by the member countries by June 30, 2014, together with the progress made at the EU level, towards the achievement of an EU energy consumption objective of not more than 1,474 MTEP of primary energy and/or not more than 1,078 MTEP of end-use energy, based on an assessment of indicative national objectives communicated by member states. New developments include measures for the energy efficient renovation of public buildings, with minimum energy performance requirements that buildings owned or occupied by the central government will be required to meet starting on January 1, 2014 (for 3% of the total usable covered surface area).
The Directive sets forth mandatory energy efficiency levels at the national level, new obligations with regard to metering, billing and consumer information; provisions to promote energy efficiency through heating and cooling infrastructures; and new rate regulations for the transmission and distribution of electric power that foster energy efficiency.
Based on mandatory energy efficiency guidelines, energy distributors and/or sellers will be required to achieve annual savings equal at least to 1.5% of annual energy sales to end customers (1% in 2014/2015, 1.25% in 2016/2017, 1.5% in 2018/2019/2020).
Member countries will be required to adopt policies that encourage the development of efficient heating and cooling systems, with special emphasis on high-yield cogeneration, verifying by December 31, 2015 the application potential of high-yield cogeneration and district heating and cooling systems.
It will also be mandatory for each member country to define a long-term strategy to mobilize investments in the renovation of residential and commercial buildings, both public and private, and adopt measures aimed at promoting "the availability, for all end customers, of high quality and cost effective energy audits (with modalities defined in the Directive).
Edison was an active contributor to the process of drafting and adopting this Directive, providing input that was incorporated in the provisions concerning the role of Energy Service Companies (ESCO), the development of adequate financial instruments to support energy efficiency activities and stimulate the establishment of a market for energy services, the role of voluntary agreements and the requirements for high-yield cogeneration.

Package for Energy Infrastructures: In 2011, the European Commission presented a Regulation for energy infrastructures-oil pipelines, gas pipelines and electrical grids-that are essential for the achievement of climate and energy objectives. If the share of renewable energy is to increase to 20% of end-use energy consumption by 2020, the energy produced must be delivered to consumers, which will require a more powerful and integrated network than the one currently available. To secure the supply of natural gas, even in the event of a crisis, sources must be diversified and new pipelines must be built to bring gas from new regions directly to Europe. The establishment of a functioning and competitive internal market, with fair and competitive prices, will require interconnections linking member states that will enable distributor companies to supply energy to customers in all EU member countries. Compared with the decade from 2000 to 2010, investments in the natural gas and electric power sectors will have to increase by 30% and 100%, respectively. The Commission is proposing to select a certain number of projects "of common interest" that are important for the achievement of the energy and climate objectives. The projects that, after a multi-phase selection process, will be designated as being "of common interest" will benefit from a two-fold advantage:
- They will have the benefit of a special procedure for the licensing process, which will be simpler, faster and more transparent than regular procedures: each member country will designate a single authority with licensing jurisdiction (single transaction desk) responsible for managing the licensing process from start to finish, The entire licensing procedure will last no more than three years.
- They will have the benefit of EU financing, in the form of subsidies, project bonds or guarantees. For the 2014-2020 period, a total of 9.1 billion euros has been appropriated for energy infrastructures within the framework of the Connecting Europe Facility - CEF.

The projects sponsored by Edison in connection with the ITGI, IGB and Galsi gas pipelines are included in the assessment that the European Commission is currently carrying out, together with the promoters of the projects and the relevant governmental players.
The final approval of the "Infrastructure Package" regulation is expected during the first four months of 2013.

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

ELECTRIC POWER OPERATIONS

Quantitative Data

Sources

GWh (*)	2012	2011	% change
Edison's production:	**22,463**	**26,416**	**(15.0%)**
- Thermoelectric power plants	17,657	21,578	(18.2%)
- Hydroelectric power plants	3,881	4,128	(6.0%)
- Wind farms and other renewables	925	710	30.3%
Other sources	**28,626**	**45,737**	**(37.4%)**
- Edipower (up to 5/24/12)	2,391	6,747	(64.6%)
- other purchases [1]	26,235	38,990	(32.7%)
Total sources in Italy	**51,089**	**72,153**	**(29.2%)**
Production outside Italy	**1,892**	**2,172**	**(12.9%)**

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

Uses

GWh (*)	2012	2011	% change
CIP 6/92 dedicated	**1,673**	**4,738**	**(64.7%)**
Captive and other customers	**945**	**3,321**	**(71.6%)**
Deregulated market:	**48,471**	**64,094**	**(24.4%)**
- End customers [1]	18,102	23,522	(23.0%)
- IPEX and mandates	6,750	2,807	n.m.
- Wholesalers and industrial portfolio	14,528	28,204	(48.5%)
- Other sales [2]	9,091	9,561	(4.9%)
Total uses in Italy	**51,089**	**72,153**	**(29.2%)**
Sales of production outside Italy	**1,892**	**2,172**	**(12.9%)**

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

Financial Highlights

(in millions of euros)	2012	2011(*)	% change
Sales revenues	**6,961**	**7,437**	**(6.4%)**
Reported EBITDA	605	509	18.9%
Adjusted EBITDA[1]	583	704	(17.2%)
Capital expenditures	96	168	(42.9%)
Number of employees [2]	1,229	1,275	(3.6%)

(1) See note on page 22.
(2) Year-end data.
(*) The 2011 amounts reflect a new presentation of the net change in fair value of commodity derivatives.

Production and Procurement

In 2012, Edison's portfolio changed drastically compared with the previous year, due both to the effect on production of a change in the scope of consolidation and a different sources/uses optimization strategy.

The Group's production in Italy decreased to 22,463 GWh, or 15% less than in 2011. More specifically, thermoelectric output was down 18.2%, due mainly to an across-the-board reduction in national demand for electric power that affected disproportionately facilities powered with fossil fuels and the divestment, in October 2011, of the thermoelectric power plants dedicated to the ILVA production facility in Taranto.

The Marghera Azotati thermoelectric power plant near Venice.

As for production from renewable sources, the year was characterized, on the one hand, by a contraction in hydroelectric production (-6%), in line with the national trend and reflective of the reduced availability of water resources, and, on the other hand, by an increase in the output of wind farms and other renewable-source facilities (+30.3%) thanks to the completion of repowering and expansion programs at the San Giorgio and Foiano (BN) wind farms and more windy conditions during the period.
Other purchases carried out to round out the sources portfolio decreased by 37.4% compared with 2011, reflecting both the termination of the Tolling Agreement with Edipower, effective May 24, 2012, and a decision to reduce outside purchases, particularly on the IPEX, a segment in which the Group was a net seller in 2012, as explained below.
However, it is important to keep in mind that this category includes purchases that occur when facilities operate in bidding mode and other transactions with relatively low unit margins.

Production outside Italy, consisting of the output of the facilities operated by Elpedison Power in Greece, decreased by 12.9% in 2012, due to a contraction in Greece's internal demand and the entry of new generating capacity.

Sales and Marketing

In 2012, sales of electric power totaled 51,089 GWh, down 29.2% compared with the previous year (72,153 GWh), reflecting the impact of reductions in all sales segments and basically confirming the trend that characterized the first nine months of 2012.
Sales in the CIP 6/92 and Captive Customer segments contracted sharply (-64.7% and -71.6%, respectively), due to the abovementioned divestment of the thermoelectric power plants located in Taranto. The sales volume was also down in the deregulated market, falling by 24.4%. However, this decrease reflects the absence of Edipower's contribution, effective May 24, 2012. This negative performance is the net result of different dynamics in the individual segments. Specifically, while sales to end business customers and wholesalers decreased, due to the compression of margins that severe competitive pressure is causing in these segments, sales to end residential customers and transactions on the IPEX increased.
As mentioned above in the section on procurement, other sales in the deregulated market include volumes generated with the production facilities operating in bidding mode.

Operating Performance

Sales revenues amounted to 6,961 million euros in 2012, for a decrease of 6.4% compared with 2011, due to the impact of lower unit sales, which was only partially offset by an increase in average sales prices.
Adjusted EBITDA totaled 583 million euros in 2012 (704 million euros in 2011). The decrease of 17,2% is attributable to the effect of sales in the deregulated market, where margins were down sharply due to a reduction in hydroelectric production, caused by a limited availability of water resources, and the continuing compression of thermoelectric generation and distribution margins resulting from the unrelenting, severe competitive pressure that characterizes the national electric power market.
EBITDA benefited from the net positive contribution generated by the voluntary early termination of the CIP 6/92 contract for the CET 3 power plant in Piombino, effective as of January 1, 2013 and from a non-recurring gain resulting from the settlement of the adjustment payment for Avoided Fuel Cost for the years from 2009 to 2011, as discussed in the section of this Report entitled "Legislative and Regulatory Framework."

Capital Investments

Capital expenditures, which totaled 96 million euros in 2012, focused in completing wind power projects started in previous years (15 million euros), repowering existing wind farms for about 40 MW of installed capacity (32.5 million euros) and expanding the district heating systems for greenhouses near the power plant in Candela (FG) (about 13 million euros), with minor investments and upgrading maintenance of thermoelectric and hydroelectric power plants accounting for the balance.

HYDROCARBONS OPERATIONS

Quantitative Data

Sources of Natural Gas

Gas in millions of cubic meters	2012	2011	% change
Production in Italy [1]	611	520	17.6%
Imports (pipeline + LNG)	12,285	11,812	4.0%
Domestic purchases	3,328	2,749	21.1%
Change in stored gas inventory [2]	(449)	124	n.m.
Total sources in Italy	**15,775**	**15,205**	**3.8%**
Production outside Italy [3]	**1,906**	**1,726**	**10.4%**

(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

Gas in millions of cubic meters	2012	2011	% change
Residential use	2,346	2,152	9.0%
Industrial use	1,725	1,484	16.2%
Thermoelectric fuel use	8,770	9,117	(3.8%)
Other sales	2,934	2,452	19.7%
Total uses in Italy	**15,775**	**15,205**	***3.8%***
Sales of production outside Italy [1]	**1,906**	**1,726**	**10.4%**

(1) Counting volumes withheld as production tax.

Crude Oil Production

In thousands of barrels	2012	2011	% change
Production in Italy	1,809	2,142	(15.6%)
Production outside Italy [1]	1,737	1,366	27.2%
Total production	**3,546**	**3,508**	**1.1%**

(1) Counting volumes withheld as production tax.

Financial Highlights

(in millions of euros)	2012	2011 (*)	% change
Sales revenues	**6,571**	**5,468**	**20.2%**
Reported EBITDA	608	487	24.8%
Adjusted EBITDA [1]	630	292	n.m.
Capital expenditures	245	311	(21.2%)
Investments in exploration	116	46	n.m.
Number of employees [2]	1,369	1,319	3.8%

(1) See note on page 22.
(2) Year-end data.
(*) The 2011 amounts reflect a new presentation of the net change in fair value of commodity derivatives.

Production and Procurement

In 2012, production of natural gas, counting the combined output of the Italian and international operations, increased from 2,246 million cubic meters to 2,518 million cubic meters, for a gain of 12.1%. Production was up 17.6% in Italy, thanks to the sidetrack drilling projects implemented at some wells in 2011, and grew by 10.4% abroad, reflecting the full contribution of wells that went on stream in 2011 at the Abu Qir concession in Egypt.

The Group's crude oil production held relatively steady, as an increase in output abroad (+27.2%) provided by the Abu Qir concession, more than offset the impact of a reduction in Italy (-15.6%)


Edison has become the global gas competency hub for the EDF Group, with a presence in Italy and internationally and gas and oil exploration, production and importation, distribution and sales activities.

caused by the interruption of production from the Rospo field required to allow the replacement of the Alba Marina storage vessel, which was completed in December.
Gas imports were up 4% reflecting the combined impact of an increase in uses during the period and the interruption of the supply of natural gas from Libya in 2011, which began in February due to political unrest in that country.

Sales and Marketing

Sales of natural gas to customers in Italy totaled 15,775 million cubic meters, for an increase of 3.8% compared with 2011.
Specifically, sales to residential users were up 9%, reflecting both different weather dynamics and the effects of a strategy focused on growth in the end customer segment, but sales to thermoelectric users contracted by 3.8%, due mainly to 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 increased by 16.2% compared with the previous year.
Sales to other wholesalers, volumes traded on the Virtual Exchange Facility and sales on the balancing market totaled 2,934 million cubic meters (2,452 million cubic meters in 2011).

Operating Performance

In 2012, sales revenues grew to 6,571 million euros, for an increase of 20.2% compared with 2011, thanks to an increase in unit sales and an upward trend in the benchmark scenario.
Adjusted EBITDA totaled 630 million euros in 2012, or 338 million euros more than the 292 million euros earned in 2011. This improvement is the result of the following factors:

- the contribution of the natural gas buying and selling activities, a segment in which the proceeds from the successful conclusion of the price revision arbitrations concerning the long-term contracts for the supply of natural gas from Qatar and Libya (680 million euros, including the one-off benefits for gas deliveries taken in previous years) more than offset the drastic reduction in prices recorded in 2012 in the markets in which the Group operates;
- the significant incremental contribution provided to EBITDA by the exploration and production activities thanks to positive price scenario effects and higher production volumes both in Italy and abroad, as mentioned above.

Capital Investments

In 2012, capital investments totaled 245 million euros, including about 172 million euros for the exploration and production segment and about 73 million euros allocated to regulated activities in the areas of natural gas storage, transmission and distribution.
In Italy, the main exploration and production investments included 6 million euros to drill Well 7 in the Clara North field and 41 million euros to purchase the Alba Marina storage vessel for the Rospo concession. Outside Italy, the focus was on the Abu Qir concession in Egypt (about 80 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 included the acquisition of new offshore concessions in areas north and south of the Falkland Islands (31.5 million euros).
In the regulated area of gas infrastructure, consisting mainly of storage facilities, the largest investments were used to increase the capacity of the San Potito and Cotignola field (about 61.5 million euros).

Exploration Activities

In 2012, the Group invested about 116 million euros in exploration projects in Norway, where exploration costs of about 62 million euros were recognized for the development of the Zidane 2 and Skarfjell 1 appraisal wells, and in the Falkland Islands for exploration activities in connection with the recently acquired exploration permits (about 44.5 million euros).

Hydrocarbon Reserves

The Group's hydrocarbon reserves (proven reserves plus 50% of probable reserves) totaled about 50.0 billion cubic meter equivalent at December 31, 2012, compared with 49.8 billion cubic meter equivalent at the end of 2011. Therefore, net of the volumes produced in 2012 (about 3.2 billion cubic meter equivalent), hydrocarbon reserves increased by about 3.4 billion cubic meter equivalent. The main contributor was the Zidane 2 appraisal well in Norway which made it possible to recognize new reserves of about 2.4 billion cubic meter equivalent. An additional contribution came from the revaluation or reclassification (from probable to proven) of certain reserves in Italy and Egypt. 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)	2012	2011	% change
Sales revenues	**48**	**50**	**(4.0%)**
EBITDA	(110)	(106)	(3.8%)
as a % of sales revenues	n.m.	n.m.	
Capital expenditures	2	3	(33.3%)
Number of employees [1]	650	642	1.2%

[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 2012, sales revenues were substantially in line with the previous year, but EBITDA were down by 4 million euro, owing in part to higher advertising expenses incurred for sponsorships provided at the 2012 Olympics.

DISCONTINUED OPERATIONS

Financial Highlights

(in millions of euros)	2012	2011	% change
Profit (loss) from discontinued operations	**50**	**(605)**	***n.m.***
Capital expenditures	-	21	(57.1%)
Number of employees [1]	-	528	n.m.

[1] Year-end data.

The net profit of 50 million euros reported by the discontinued operations is the result of an 80-million-euro revision of the sales price of the equity stake in Edipower Spa, net of the negative margin realized by the toller under the tolling agreement in effect until May 24, 2012. The loss reported in 2011 included mainly Edipower's integrated contribution amounting to 591 million euros, 571 million euros of which was attributable to the adjustment made to the value of Edipower's assets, inclusive of the allocated indistinct goodwill, to bring them in line with their estimated realizable value.

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, 2012 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)	2012	2011
Net profit (loss) of Edison Spa	**56**	**(896)**
Intra-Group dividends eliminated in the consolidated financial statements	(156)	(97)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	188	214
Lower net profit of discontinued operations	(30)	-
Higher writedown of discontinued operations	-	(40)
Higher writedown of goodwill	-	(53)
Other consolidation adjustments	23	1
Group interest in net profit (loss)	**81**	**(871)**

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

(in millions of euros)	12/31/2012	12/31/2011
Shareholders' equity of Edison Spa	**5,946**	**5,883**
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 investments in consolidated associates	(1,279)	(1,839)
- Recognition of the shareholders' equities of consolidated companies	2,417	2,973
Valuation of investments in associates measured by the equity method	13	10
Other consolidation adjustments	(42)	(39)
Shareholders' equity attributable to Controlling Company shareholders	**7,055**	**6,988**

SOCIAL RESPONSIBILITY. OUR ACTIONS

INNOVATION, RESEARCH AND DEVELOPMENT

In 2012, the Group's innovation, research and development activities continued along the guidelines identified in previous years. The areas targeted in 2012 included energy efficiency, projects related to the smart grid and distributed generation from renewables or with a low environmental impact (mainly involving photovoltaic and fuel cell technologies).

Among activities for the characterization of energy efficiency solutions for our customers, work continued at the Trofarello Research Center on tests of innovative air conditioning systems powered with natural gas.

Activities pursue to develop solutions for the delivery of efficiency services included a pilot test project carried out at the facilities of a customer in the hotel industry. More specifically, the project entailed installing at three hotels systems to monitor consumption of electric power specifically designed to record in detail the main usage types and identify potential areas for efficiency improvements. These technological solutions, which often leverage technologies and infrastructures in the telecommunication and information technology sectors, address the issue of smart-grid solutions downstream of the distribution grid.

Another project in the smart grid area was the test of a system to monitor consumption of electric power that was carried out on a panel of residential customers. This system was integrated with a web platform capable of showing customers a detailed breakdown of their energy consumption behavior and the costs associated with it.

At Edison's Trofarello Research Center, in collaboration with the Chemistry and Energetics Departments of Turin's Politecnico University and with the EIFER Institute in Karlsruhe, Germany, work continued on testing fuel cell systems and components. The experiments performed resulted in the selection of a very high performance pre-commercial product that was installed and tested for a full year at the facilities of a customer in the service sector.

In the advance photovoltaic area, characterization activities continued, both in the lab and in the field at a test facility built at the Altomonte power plan. Work also continued on a study carried out in cooperation with ECTL-Università Ca' Foscari, in Venice, concerning certain basic operating aspects of innovative solar cells.

A detail of the thermoelectric power plant of Candela (Foggia).

HEALTH, SAFETY AND THE ENVIRONMENT

Contributing to the development and management 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 the challenges inherent in Edison's responsibility, shared within the international group to which Edison belongs.

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 2012 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 truly outstanding results and bring its occupational safety indices to levels that place it among the best Italian and international companies with respect both to its own employees and the employees of contractors.

In the aggregate, the 2012 occupational safety data for Company employees and employees of contractors showed a significant improvement compared with the previous year, with an Injury Incidence Rate of 2.9 (3.7 at the end of 2011) and a Lost Workday Incidence Rate of 0.08 (0.09 at the end of 2011). The number of accidents decreased by about 30% compared with 2011 (18 vs. 25), while the number of hours worked decreased by 6.5%.

This achievement is the combined result of a steady performance for Company employees, with an Injury Incidence Rate of 2.3 (1.9 in 2011) and a Lost Workday Incidence Rate of 0.06 (0.05 in 2011), and a significant improvement for employees of contractors, who was cut in half the number of accidents compared with 2011 (9 vs. 17) and lowered both the Injury Incidence Rate (3.8 vs. 6.4 in 2011) and the Lost Workday Incidence Rate (0.12 vs. 0.13 in 2011).

Activities Concerning Prevention and 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 2012 in this area are reviewed below:

- All of 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.
- The phase of collecting the objective and subjective data needed to update the assessment of risk from work-related stress, in accordance with the general guidelines of the European Agreement of October 8, 2004, was completed. The reports supporting the assessment process will be published in the first half of 2013. All the preventive measures developed with the first assessment of risk from work-related stress have been implemented, particularly those that entail 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.
- 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. Specific topics addressed in 2012 included: assessment of confined spaces, accident analysis, audit management and management of change and communications.

- The development and training programs in the areas of health and safety developed for 2012 in accordance with the agreement between the national government and the regional administrations in December 21, 2011 were completed. More specifically, the courses for executives (started in 2011) were completed in 2012 and an e-learning training course was provided to all office staff, followed by more in-depth sessions for employees whose job description included activities at operating sites. This training program was implemented using funds made available through special agreements with the labor unions. In 2013, this program will be expanded to include special courses on the role of supervisors.
- Based on the safety organizational model of the Edison Group. the Trofarello Research and Development Center obtained the certification of its health and safety management system in accordance with the requirements of the BS OHSAS 18001 standard. In the same way, the hydroelectric facilities of Sistemi di Energia Spa and the biomass power plant of Compagnia Elettrica Bellunese Spa (CEB) received 18001 certification of their health and management safety system (integrated with the environmental system). Thanks to these achievements, 100% of the Edison Group's operating sites in Italy are covered by environmental and safety management systems certified in accordance with the UNI EN ISO 14001 and BS OHSAS 18001 standards. Outside Italy, the same result was achieved by the thermoelectric power plants of Elpedison Power Sa, in Greece.
- A project called "Dicci la Tua" (Tell Us About it) that was launched in 2011 at the Company's Foro Buonaparte headquarters in Milan and at its offices in Rome and Bologna was completed in 2012. This project, which is based on the observation of risky behavior and the structured collection of improvement suggestions, pursues through the involvement and participation of all employees at the abovementioned offices the objective of promoting a stronger culture of safety, encouraging employees to take direct responsibility in this area. This project produced more than 250 reports of risky behaviors/situations, including 102 improvement recommendations. In addition to providing an adequate feedback and implementing doable recommendations, the Company's response included communication and acknowledgment initiatives for those who provided the best qualitative-quantitative input. In 2013, this project will be continued as a structural initiative and will become accessible through the Company Intranet as a vehicle for the submission of improvement ideas and suggestions.
- The internal auditing plan was successfully carried out with a 96% completion rate. The plan's implementation progress was reported monthly in the "Environment, Health and Safety" document published on the Company Intranet.
- As was the case in 2011, Edison was an active participant at the "OSHA Week 2012," the European health and safety week (October 22-26), with communication and training projects. The topic for 2011 was "Working Together for Risk Prevention," which will be repeated in 2013. In this area, more than 30% of the Edison Italian population was involved in this initiative during "OSHA Week 2012."
- As part of the process of developing a culture of safety, the Safety Message project was launched at the end of 2012, jointly with the Group's safety community, with the aim of making employees increasingly aware of health and safety issues through a dedicated page on the Company Intranet.
- 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 with the implementation of a business documents management software called DIMP and the launch of awareness raising activities addressed to all external employees of contractors when they first access Edison sites.
- Further to the enactment of relevant national regulations, the Company published specific internal guidelines for managing the assessment process and the prevention and emergency measures for activities performed in confined spaces. The Company procedure governing the "Accident Communication" process was also updated.

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 2012 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 2011, lists the main indicators of environmental performance (energy consumption, emissions into the atmosphere, water used and effluents discharged, waste generated, environmental accounting). Also in this Area, the software called Edison Performance Indicator Collection (EPIC) was implemented at the end of 2012 with the aim of improving the process of collecting the data and information needed for these types of reports.
- Following the enactment of Legislative Decree No. 121/2011, which broadened the liability of entities under Legislative Decree No. 231/2001 to include environmental crimes, an assessment activity of the potential crimes covered by Legislative Decree No. 231/2001 was launched and completed in 2012 in order to assess Edison's position with regard to these risks. As a result, a Company protocol for the management of environmental risks is at an advanced definition stage.
- The process of mapping Company biodiversity initiatives 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 the Montedison Group in various businesses sold to parties outside the Group.

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

Power Asset Management Division

Power Asset Business Unit

- Work was completed on securing the issuance and renewal of the Integrated Environmental Permit required by Legislative Decree No. 59/2005 for facilities under Ministry jurisdiction with a thermal capacity in excess of 300 MW and for facilities under Regional jurisdiction with a thermal capacity of less than 300 MW.
- The renewal/monitoring audits of the integrated environmental and safety management system of the Thermoelectric Activities and the Hydroelectric Activities were performed in June and October, respectively, with a positive outcome by the CSQ-IMQ certification entity and an accredited auditor for the EMAS registration.
- Work continued on the environmental remediation of areas with soil and aquifer contamination identified or started in previous years at some thermoelectric and hydroelectric power plants. In 2012, the areas that underwent remediation at the Milazzo (MS) thermoelectric power plant and the Rho (MI) electrical station were returned to their "legitimate use."

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 the same way, the hydroelectric facilities of Sistemi di Energia and CEB's biomass power plant received 18001 certification of their health and safety system (integrated with the environmental system).
- As required by Presidential Decree No. 151/2011, work began on the activities needed to secure the Fire Prevention Certificate for electric substations with transformers containing more than a cubic meter of oil.

Exploration and Production Division

- A monitoring inspection of the integrated environmental, health and safety management system of the Operations Italy Department in accordance with the reference UNI EN ISO 14001 and BS

OHSAS 18001 standards and the renewal of the EMAS environmental registration for the Garaguso power plant were successfully completed in 2012.

- Improvement projects at sites operated by the Operations Italy Department included the following:
  1) at the Vega offshore platform, startup of a system to collect and treat wastewater and rainwater from areas potentially exposed to contamination by hydrocarbons, separating it from water from other unaffected areas;
  2) at the Rospo offshore concession, replacement of the Alba Marina storage vessel;
  3) at the Maria a Mare plant, revamping of the facilities to link the plant and the existing wells with a pipeline; the project will make it possible to recover the gas that is currently burned off and bring it to the San Giorgio Mare plant for treatment and delivery into the network;
  4) completion at all facilities of the first training cycle on the use of defibrillators for first aid, already available at all plants in the Power area.
- The process for handling potential emergencies for expatriate employees in Egypt was strengthened in 2012. More specifically, the Company provided training courses to new expatriates and refresher course to employees already on site, explaining the operating modalities an practices that should be followed in emergency situations. In addition, a process to provide health, safety and environmental information to all employees travelling to Egypt was introduced in 2012.
- A training workshop for Italian and foreign employees belonging to the safety and environment professional family was organized at the Stavanger office of Edison's Norwegian branch. Based on the findings of an audit, the activities of the Norwegian branch, which are governed within the framework of the environmental and safety management system applied by the HSE Function, were found to be in compliance with local regulations and standards.

Gas Midstream, Energy Management and Optimization Division

Edison Stoccaggio Spa

- A monitoring inspection of the integrated environmental, health and safety management system in accordance with the UNI EN ISO 14001 and BS OHSAS 18001 reference standards, which included a renewal of the EMAS registration of the Cellino field, was successfully completed by Edison Stoccaggio. As part of the implementation of the "Seveso Directive," all inquiries concerning the Cellino, Collalto and San Potito Cotignola were completed satisfactorily.
- All of the activities required for implementation of the "Seveso Directive" were implemented at the gas storage facilities. In addition, in November, the Technical Regional Committee for Abruzzo issued a favorable opinion with regard to the inquiry concerning the Cellino field. This was the first favorable opinion for a gas storage facility issued in Italy.
- Following its expansion and the addition of new emission points, the Collalto facility received a permit to release emissions into the atmosphere valid for 15 years.

Edison Distribuzione Gas Spa

A monitoring inspection of the integrated quality, environmental, health and safety management system in accordance with the UNI EN ISO 9001, UNI EN ISO 14001 and BS OHSAS 18001 reference standards was successfully completed by Edison Distribuzione in 2012.

Marketing, Sales and Energy Services Division

A monitoring inspection of the quality management system in accordance with the UNI EN ISO 9001 reference standard was successfully completed by the Marketing, Sales and Energy Services Division in 2012.

Engineering Division

A monitoring inspection of the integrated quality, health and safety management system in accordance with the UNI EN ISO 9001 and BS OHSAS 18001 reference standards was successfully completed in 2012.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Human Resources

At December 31, 2012, counting the employees of companies consolidated on a proportional basis, the staff of the Edison Group totaled 3,248 employees, or 516 fewer than at December 31, 2011, when 3,764 employees were on its payroll.
Developments in 2012 included, in addition the deconsolidation of Edipower Spa (520 employees), the acquisition of CSE Srl (5 employees), the establishment of Infrastrutture Trasporto Gas Spa through the partial proportional demerger Edison Stoccaggio Spa, and the absorption of Sarmato Energia Spa by Edison Spa.
With data stated on a constant scope of consolidation basis, the Group's staff was basically unchanged.

In 2012, training programs were characterized by an investment in professional competencies, both of a transversal and vertical type.

Total labor costs for the year amounted to 218 million euros, for an increase of 4 million euros or 1.9%,compared with the previous year.

Industrial Relations

In 2012, the Edison Group and the labor unions for the electric power industry, faced with the deepening production crisis of the thermoelectric sector resulting from a situation of overcapacity in Italy and the current economic crisis, which is affecting in particular power plants that are facing the expiration of the incentive mechanism provided under the CIP 6/92 Resolution, began discussions of technical and management issues with the aim of finding the most appropriate solutions to address the resulting employment issues.

More specifically, on October 30, 2012, the Company and the labor unions for the electric power industry signed an important labor union agreement that identifies and defines the tools to manage the social impact of the crisis through a structured set of income support tools based on the use of social "safety net" systems, geographic mobility incentives to facilitate transfers to new positions that are and or will be available within the Group, activation of targeted reemployment services that

may include the use of specialized and qualified placement companies, and promotion of self-employment initiatives.
The agreement is based on prioritizing efforts to find new jobs for the employees, both within the Group-consistent with the existing professional qualifications and the Company's needs to fill existing and future positions-and in the job market more in general, if conditions for rehiring within the Group could not be satisfied and or due to special personal conditions.
It is also worth mentioning that, following the acquisition of control by EDF, the Company and the representatives of its employees became full members of the Group's European Works Council (EWC).
In the second half of 2012, the Company began negotiations with the labor unions for the electric power industry for the renewal of the national collective bargaining agreements that expired on December 31, 2012.

Organization

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

- After completing the stock ownership restructuring process, Edison's new mission within the EDF Group was redefined. Consistent with this new mission:
  - on September 20, 2012, Edison established an Executive Committee chaired by the Chief Executive Officer and comprised of 10 top managers, some of whom have been assigned supervision and coordination responsibilities, also functional, within the EDF Group;
  - effective November 19, 2012, consistent with the abovementioned decision, the macro organizational structure was redefined in accordance with a model based on Divisions, Business Units, Departments and Functions;
- the operational credit management activities for the Retail customer segment were entrusted to the Marketing and Distribution Business Unit;
- within the framework of the activities required for the certification procedure of the Independent Transmission Operator, the activities and resources of Edison Stoccaggio Spa previously used for transmission activities and other resources identified at certain staff functions of Edison Spa were conveyed to the newly created company Infrastrutture Trasporto Gas Spa.

Personnel Training and Development

Overall, Edison carried out a training program for a total of 96,446 hours in 2012, up from about 82,000 hours the previous year, provided to more than 2,300 employees, for a teaching cost of about 2.6 million euros (1.9 million euros in 2011), including more than 400,000 euros funded through the training and development account of the *Fondimpresa* and *Fondirigenti* interprofessional funds.
In 2012, the Group's training and development program was again characterized by a broad and transversal coverage of the different populations within the company, with a slight increase in professional training (about 15,000 hours) and the usual focus on topics related to safety and the environment (more than 25,000 hours) and institutional-managerial training designed to foster the development of organizational and managerial skills by newly hired young people, professionals and managers.
In addition, about 10,000 hours were devoted to technical training and continuing development for various professional groups at Company headquarters and production facilities in 2012. Programs in this area included preparation for the assigned role for technical-operational employees at the new production facilities of the Elpedison Power Sa joint venture in Greece.
Lastly, language training programs were significantly expanded (20,000 hours in 2012) in response to growing needs, with instruction provided both with traditional methods and with "blended" programs (targeted for special user groups, including young people under development).
Noteworthy developments concerning the support provided with regard to professional trade/family competencies included the programs of Edison's Market Academy, which became fully operational. Training programs were also developed for other important professional profiles, such as geologists for hydrocarbon exploration and production, energy commodity traders, specialists in institutional affairs and the "Gymnasium" program, specifically designed to support new hires during the orientation period with specialized training in the "management trades."
A common thread linking these programs is the way they are designed, starting with specific professional profiles and the corresponding needs and the high level of involvement of line managers both in the design of the programs and the teaching process (supported by specific "training the trainers" programs).

Also in the area of professional training, the second edition of the specialization course on the Energy Business and Utilities got under way in May 2012. This program on core energy skills was developed in partnership with Milan's Politecnico University and is aimed at Edison professionals with a cross-functional vocation. In the first edition of the Program, which ended in February 2012, 30 professionals received a specialization diploma after completing eight work projects on issues relevant to the Company.

Lastly, the Company continued in its usual commitment to provide updated information about regulatory, statutory and industry issues through conventions and seminars benefiting its managers. Noteworthy project carries out in this area in 2012 included a seminar about the main new developments introduced by REMIT, the EU Regulation No. 1227/2011 concerning the integrity and transparency of the wholesale energy market, and the "Gas Market: current environment and outlook" seminar developed in collaboration with the Law School of the University of Bergamo, which analyzed the developments of the process to deregulate the natural gas market, evaluating assumptions and implications from an economic and legal standpoint.

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 Control and Risk Committee and Board of Directors on predetermined dates and are used by the Internal Auditing 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 Condensed Consolidated Financial Statements at December 31, 2012 entitled "Group Financial Risk Management," which should be consulted for additional information.

Risk Factors

Risks Related to the External Environment

Legislative and Regulatory Risk

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

- **Renewals of Hydroelectric Concessions**
  Article 37 of the recently enacted Decree Law No. 83 of June 22, 2012, setting forth "Urgent Measures for the Country's Development" (converted into law No. 134/2012), substantially amended the regulations governing hydroelectric concessions. Pursuant to the new rules, issues related to concessions that expired or are in the process of expiring are also addressed in the law by means of transitional provisions (for concessions that have already expired and those expiring up to December 31, 2017, to which the five year period provided under Article 12, Section 1, of the Bersani Decree is not applicable, the new concession starts five years after the original expiration date, but never later than December 31, 2017).
  Publication of a long-awaited Ministry decree that specifies the criteria for responding to calls for tenders is now expected to complete the regulatory framework. This decree should be a source of reliable certainty for operators, also with regard to planning future investments and the submission of bids for the renewal of concessions.

- **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. Currently, considering the outcome of the early implementation of the initial auctions on the EEX common European platform, the placement price of the first CO_2 emissions rights settled at an average price of 6.50 euros per ton. If this price should be confirmed at subsequent auctions, starting in 2013, it seems reasonable to project that the costs incurred by thermoelectric producers will be relatively low.

- **Provisions Concerning Incentives for Renewable Energy Sources**
  The Ministry of Economic Development, in concert with the Ministry of the Environment and the Ministry of Agricultural Policies, issued a decree that, by implementing the principles and guidelines of Legislative Decree No. 28/11, sets forth provisions concerning the incentive modalities for renewal source systems. More specifically:
  - Starting on January 1, 2013, newly commissioned facilities with a rated capacity up to 5 MW (20 MW for hydroelectric units) will have direct access to the incentives, without participating to competitive bidding process, but will have to meet the capacity quotas set for the 2013-2015 period differentiated by technology (registers). The incentive will remain constant over time (feed-in tariff) for a period 20 years
  - For new facilities commissioned after December 31, 2012 with an installed capacity greater than 5 MW (20 MW for hydroelectric units), the incentive (feed-in tariff) will be awarded through low bid auctions (managed by the GSE). Appropriate capacity quotas for the 2013-2015 period differentiated by source have been defined for these auctions as well. The value of the feed-in tariff varies for each type of facility and is different by capacity class. The incentive is also for 20 years.
  - Facilities that are the subject of partial or total renovation or complete rebuilding and hybrid power plants with a total capacity that does not exceed the threshold set for the renewable source used by the facility are also eligible for the incentive.
  - Existing facilities (commissioned before December 31, 2012) will continue to benefit from green certificates and the fixed, all-inclusive tariff system until 2015. Green certificates may be converted into feed-ins after 2015 based on the following conversion formula: $I = k * (180 - Re) * 0.78$, if the validity of the green certificates extends beyond 2015 and for the remainder of the incentive period, so as to guarantee the profitability of the investments made.
  - The GSE will take back surplus green certificates at a price equal to 78% of the reference price (listed in Law No. 244/07).

Price Risk and Foreign Exchange Risk Related to Commodity Activities

The Edison Group is exposed to the risk of fluctuations in the prices of all of the energy commodities

that it handles, including, specifically, electric power, natural gas, coal, petroleum products and environmental securities. These fluctuations affect the Group both directly and indirectly through indexing mechanisms contained in pricing formulas. Moreover, because some of the abovementioned commodity prices are quoted in U.S. dollars, the Group is also exposed to the resulting foreign exchange rate risk.
The activities required to manage and control these risks are governed by the Energy Risk Policies, which require the adoption of specific risk limits, in terms of economic capital, and the use of financial derivatives that are commonly available in the market for the purpose of containing the risk exposure within preset limits.
Approved activities that are part of the core businesses of the Edison Group include physical and financial commodity trading, which must be carried out in accordance with special procedures and segregated at inception in special trading portfolios. Trading portfolios are monitored by means of strict risk limits and compliance with these limits is verified by an organizational unit independent of those who execute the transactions.
A more detailed analysis of these risks is available in the disclosure provided pursuant to IFRS 7 in the section of the Consolidated Financial Statements at December 31, 2012 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, 2012 entitled "Group Financial Risk Management."

Interest Rate Risk

Because it is exposed to fluctuations in interest rates primarily with regard to the measurement of debt service costs, the Edison Group assesses on a regular basis its exposure to the risk of changes in interest rates and uses derivatives to hedge its positions. The Group's main interest rate exposure is to the Euribor.
A more detailed analysis of the interest rate risk is available in the disclosure provided pursuant to IFRS 7 in the section of the Consolidated Financial Statements at December 31, 2012 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 Group implemented procedures and activities that are described more in detail in the disclosure provided pursuant to IFRS 7 in the section of the Consolidated Financial Statements at December 31, 2012 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, in recent years, the natural gas market has been going through a phase of excess supply that developed due to a number of concomitant 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 an increase in the availability of gas in an environment characterized by falling consumption.
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. Important positive results in this area were achieved in 2012, thanks to the successful conclusion of arbitration proceedings filed against RasGas and ENI, which came on the heels of the settlement reached with Promgas in 2011, to adjust the price of natural gas to the changed conditions of the Italian gas market. The arbitration for the contract to import gas from Algeria is currently pending and an award is expected in 2013,

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

Edison has joined the world's largest electric power group to invest even more in energy for Italians. These are the closing remarks of Edison's new corporate spot.

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, 2012 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 gross domestic product (GDP). Starting in the last quarter of 2008, the impact of the global economic crisis produced a drastic reduction in consumption of electric power, particularly pronounced in 2009, that was followed by a partial recovery in 2010 and 2011. However, a rebound to pre-crisis levels of demand appears to be uncertain, also in view of the heavy setback suffered in 2012.
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. During the ensuing years, demand for natural gas followed an alternating annual trend, picking up in 2010 only to fall back in 2011 and especially in 2012, due mainly to lower consumption by thermoelectric power plants.
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, 2012, thereby recovering the cash advances paid, net of the finance charges associated with the abovementioned advances.
Currently, the national scenario is characterized by a credit squeeze, increased tax pressure and a contracting GDP, due in part to the newly enacted restrictive fiscal policies, needed to bring Italy out of the zone of potential contagion deriving from the sovereign debt crisis affecting some euro-zone countries. This context raises serious concerns about an economic recovery in Italy over the short term, with potentially negative 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.
In this regard, the deepening economic crisis that is affected Greece the previous year continued in 2012. Despite this difficult macroeconomic scenario, combined with ongoing uncertainty about the stability of the internal political environment, the determination of the euro zone countries to keep Greece in the monetary union, through the decision of providing it with considerable financial aid, caused the Standard and Poor's rating agency to raise from "selective default" to B- the rating of Greece's long-term sovereign debt. The crisis situation and uncertainty about Greece's ability to remain in the euro zone, still far from being resolved, had already been recognized in 2011, when the Group's Parent Company decided to increase the country risk premium component of the discount rate applied to investments in Greece. It is worth mentioning that, in this context, the stability of the regulatory framework of the Greek electric power market is also threatened and, consequently, continues to be carefully monitored by the Group's Parent Company. More specifically, working in collaboration with the Greek association of independent producers, the Group monitors on an ongoing basis the structure of the safeguard mechanism approved within the permanent system in the fourth quarter of 2010, which ensures coverage of the costs of electric power production facilities. Despite the uncertainties in the overall macroeconomic environment, the Company is confident that, thanks to 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 new Greek government is in the process of defining, it should be possible to restore investor confidence and support the Greek economy, leading to the country's recovery.
Similarly, the events that characterized some North African countries during the past two years, 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, which conservatively increased the country-risk premium component of the discount rate applied to investments in this North African country at the end of 2010. While the situation remains unstable and tense, the recent presidential election in Egypt should enable the newly elected president to form a stable government, as the starting point for the country's democratization. It is also worth mentioning that, from an operational standpoint, natural gas and crude oil production from the Abu

Qir concession has steadily generated positive economic results since the time of acquisition, with rising production volumes, thanks in part to the completion of the forth well of the P-II platform and 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 of 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, Property All-Risk and Exploration and Production 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, 2012 entitled "Health, Safety and the Environment."

Information Technology

The Group's operations are supported by complex information systems, specifically with regard to the technical, commercial and administrative areas. Risks issues also exist with regard to the adequacy of these systems and the integrity and confidentiality of data and information. The continuous development of IT solutions to support business activities, the adoption of strict security standards and of authentication and profiling systems help mitigate these risks. In addition, to limit the risk of activity interruption caused by a system fault, Edison has adopted a high reliability hardware and software configuration for those applications that support critical activities. Specifically, with regard to the services provided by the outsourcer, a study for transforming the current disaster recovery service into a business continuity service that will guarantee the continuity of processes even in case of a disaster event at the main data processing center was completed during the year and the technical solution that will be implemented in 2013 was identified.

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.
Insofar as the strategic objectives of liquidity risk management are concerned, the process of integrating Edison and its subsidiaries with EDF, its reference shareholder, is currently under way. Inter alia, this process entails a centralized cash management system that will provide Edison with flexibility for its own short-term cash needs and those of its consolidated subsidiaries, while optimizing the management of daily cash surpluses and needs. As part of this integration process with EDF, the Group is preparing a medium/long-term refinancing plan that will provide coverage for all the financial needs contemplated in the expenditure plan.
A more detailed analysis of this risk is available in the disclosure provided pursuant to IFRS 7 in the section of the Consolidated Financial Statements at December 31, 2012 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 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 acquisition of the Abu Qir offshore concession 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 Control and Risk 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 2012 are reviewed in the Risk Factors section of this Report.

This year Edison is again a supporter of Italy's national rugby team at the 6 Nations Tournament. An appointment not to be missed by fans of this sport that provides entertainment, excitement and fun.

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, 2012," 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, 2012, 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 2012, 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 2012), 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.

The Company has chosen to avail itself of the options provided by Article 70, Section 8, and Article 71, Section 1-bis, of the Issuers' Regulations and, consequently, will no longer comply with the obligation to make available to the public an information memorandum in connection with transactions involving mergers, demergers, capital increases through contributions in kind, acquisitions and divestments.

MOTION FOR A RESOLUTION

Dear Shareholders,

Your Company's separate financial statements at December 31, 2012 close with a net profit of 55,986,418.02 euros, or 55,986,418 euros rounded to the nearest integer.

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, 2012, together with the report of the Board of Directors on operations and the Report on corporate governance;
- 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, 2012;
- taking into account the provisions of Article 2430 of the Italian Civil Code and those of Article 25 of the Bylaws concerning the preferred dividend payable to the savings shares and their right to cumulative dividends;
- considering that, in this regard, the Company's financial statements closed with a loss both in 2010 and 2011 and, consequently, a preferred dividend was not distributed to the savings shares;
- considering that this Shareholders' Meeting, convened in extraordinary session, resolved not to reconstitute the portion of retained earnings restricted pursuant to Law No. 266/2005 by the amount of 72,945,385.19 euros, which was used to replenish the loss incurred in 2011;
- considering that, due to the transition to and adoption of the IFRS principles, the Company's shareholders' equity at December 31, 2012 includes unavailable reserves pursuant to Articles 6 and 7 of Legislative Decree No. 38/2005;
- taking into account the provisions of Article 109, Section 4, of Presidential Decree No. 917/1986, in the version in effect until December 31, 2007, to the extent that it is still applicable;
- taking into account that the Company's share capital amounts to 5,291,700,671.00 euros, divided into 5,181,545,824 common shares and 110,154,847 savings shares;

resolves

THIRD RESOLUTION

i) to approve the report of the Board of Directors on operations for the 2012 reporting year;
ii) to approve the company's separate financial statements for the year ended December 31, 2012 in their entirety and individual entries;

FOURTH RESOLUTION

iii) to allocate 5% of the net profit for the year of **55,986,418.02** euros to the statutory reserve for a total of	**2,799,320.90 euros**
iv) to appropriate as follows the net profit of **53,187,097.12** euros that remains after the partial utilization for an allocation to the statutory reserve, as per Item (iii) above:	
a) **as** a dividend on the 110,154,847 savings shares:	
- 5% of the par value, i.e., 0.05 euros per share, as past due preferred dividend for each of the 2010 and 2011 reporting years, and thus 0.10 euros per share for a total of	11,015,484.70 euros
- 5% of the par value, i.e., 0.05 euros per share, as preferred dividend for the 2012 reporting year, for a total of	5,507,742.35 euros
for a total of 0.15 euros on each savings share and thus for a grand total of	**16,523,227.05 euros**
b) **as** retained earning the remaining balance, taking into the recommendations of Items (iii) and iv) a) above	**36,663,870.07 euros**

The dividend will be payable as of April 25, 2013, with coupon presentation date April 22, 2013 and record date April 24.

Milan, February 8, 2013

The Board of Directors
By Bruno Lescoeur
Legal representative

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, 2012, 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.
Following the resignation, on May 24, 2012, by the Statutory Auditor Angelo Maria Palma and the Alternate Luca Aurelio Guarna, Giuseppe Cagliero took over as Statutory Auditor until the next Shareholders' Meeting. 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' Regulations No. 11971 and, during the year, met their disclosure obligations toward the Consob.
Pursuant to Legislative Decree No. 58/1998 ("**TUF**") and Legislative Decree No. 39/2010, the Shareholders' Meeting of April 26, 2011, acting further to a reasoned recommendation by the Board of Statutory Auditors, 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 2012 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 (now called Control and Risk Committee), the Compensation Committee and the 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 performed 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," 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 were informed of the preparation of the Compensation Report required pursuant to Article 123 *ter* of Legislative Decree No. 58 of February 24, 1998 and Article 84 *quater* of Consob Regulation No. 11971/1999 ("**Issuers' Regulations**") and have no remarks to make in this regard.
- We ascertained that the amendments to the Bylaws were in compliance with statutory and regulatory requirements, including Law No. 120 of July 12, 2011, which added Articles 147 *ter* and 148, setting forth gender parity requirements in the management and control bodies of listed companies, to Legislative Decree No. 58 of February 24, 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 S.p.A., as adopted by the Company;
- We ensured that the internal procedure concerning related-party transactions 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 6, 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; the separate and consolidated financial statements are accompanied by the required attestations of conformity, signed by the Chief Executive Officer and the Corporate Accounting Documents Officers;
- We ascertained the methodological adequacy of the impairment process applied to determine if any Company assets were impaired;
- We verified that the 2012 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 2012 reporting year was characterized by transactions that resulted in Electricité de France S.a. ("**EDF**") gaining control of Edison and by the consequences of this development on the Company's governance structure , the divestment of the interest held in Edipower S.p.A. ("**Edipower**") an the resulting reduction in financial debt, as outlined below:

- On January 24, 2012, Edison's Board of Directors, resolving with regard to the issues under its jurisdiction and based on the Prior favorable opinion of the Equivalent Oversight Entity alternative to the Committee of Independent Directors rendered with the abstention of Director Cocchi, approved the agreement in principle signed on December 26, 2011, which concerned the restructuring of the ownership of Edison and Edipower (the "**Transaction**"), which entailed the concurrent implementation of the following transactions:
  1. acquisition by EDF of the 50% interest in the share capital of Transalpina di Energia S.p.A. ("**TdE**") held by Delmi at an implied price corresponding to 0.84 euros for each Edison share;

2. acquisition by Delmi of the 70% interest in Edipower's share capital held by Edison (50%) and Alpiq S.a. (20%);
3. execution of contract for the supply of natural gas by Edison to Edipower in quantities sufficient to cover 50% of Edipower's gas needs for six years on market terms, subject to annual revision.

- On February 13, 2012, subsequent to the opinion rendered by the Equivalent Oversight Entity alternative to the Committee of Independent Directors having been amended, the Board of Directors authorized the execution of the contract to sell the 50% interest in Edipower and the contract to sell gas to Edipower.
- On March 16, 2012, the latter of these two contracts was executed with a duration of six years and for a total volume estimated at 1 billion standard cubic meters of gas, corresponding to 50% of the requirements of Edipower's thermoelectric power plants.
- On April 4, 2012, the Consob issued Communication No. 12027130 by which, further to a request received on EDF's behalf regarding the computation of the price of the Mandatory Tender Offer for the Edison shares triggered by its acquisition of control of TdE and thus of Edison, it ruled that the price of 0.84 euros per share was not representative of the price actually stipulated by the parties.
- On May 3, 2012, the Consob issued Communication No. Dcg/Die/12036271 by which it acknowledged the subsequent offer to increase the price owed by EDF to Delmi for the sale of 50% of TdE's share capital and the resulting redetermination of the price for each Edison share, increasing it from 0.84 euros to 0.89 euros, concluding that this price was consistent with the implementation of the statutory criterion for the determination of the price of the Mandatory Tender Offer pursuant to Article 106, Section 2, of the TUF.
- On May 5, 2012, the Company's Board of Directors resolving with regard to issues under its jurisdiction, approved, with Director Cocchi voting against the motion, the price adjustment offer received from Delmi increasing the purchase price of 50% of Edipower from the original amount of 604.4 million euros to about 684 million euros. The sale of 50% of Edipower closed on May 24, 2012 producing, due to the sales proceeds and Edipower's deconsolidation, an improvement of about 1.2 billion euros in the net financial position of the Edison Group.
- Also on May 24, 2012, EDF acquired control of the Company upon its WGRM Holding 4 Spa ("**WGRM**") subsidiary, already the owner of 50% of TdE, closing the acquisition of the remaining 50% of TdE, sold by Delmi as part of the Transaction, due to the fact that TdE was already Edison's controlling shareholder with a 61.3% interest in its common share capital.
- As a consequence of this event, TdE, WGRM and MNTC Holding Srl ("**MNTC**"), an EDF subsidiary owner of 19.4% of Edison's share capital, launched a tender offer pursuant to Article 102 and Article 106, Section 1, of the TUF at a price of 0.89 euros per share.
- On June 18, 2012, Edison's Board of Directors, with Director Cocchi voting against the motion, approved the Issuer's Press Release required by Article 103, Section 3, of the TUF and Article 39 of the Issuers' Regulations, by which it acknowledged that, while it did obtain an opinion provided by the independent Directors pursuant to Article 39-*bis* of the Issuers' Regulations, it failed to achieve the majority required to approve resolutions concerning the fairness of the tender offer's consideration, with Directors Gross Pietro and Gitti voting in favor of the motion, Director Cocchi voting against it and all other Directors in attendance abstaining in order to avoid the charge that they acted in the interest of EDF and the offeror TdE, given their relationships with these parties.
  Upon the conclusion of the tender offer procedure and the resulting purchase obligation pursuant to Article 108, Section 1, of the TUF, EDF owned, through TdE and MNTC, a 99.5% interest in Edison's common share capital.
- By Resolution No.7544 of August 7, 2012, Borsa Italiana S.p.A. delisted Edison's common shares from the online stock market, effective September 10, 2012. As required by the provisions of Article 6 of the Company Bylaws, during the period from November 2, 2012 to November 30, 2012, the voluntary conversion of the savings shares into common share was available on the basis of one new common share for each savings share held, resulting in the conversion of 437,573 savings shares, out of a total of about 110 million shares, which, consequently, continued to be listed on a regulated market.

The acquisition of control by EDF, effective May 25, 2012, triggered the enactment of certain amendments to the Bylaws approved by the Shareholders' Meeting on May 24, 2012 with the aim, inter alia, of deleting from the Bylaws certain special provisions that reflected the governance agreements reflective of the previous situation of joint control by EDF and Delmi.
Subsequently, the Company's organizational structure and the responsibilities of its top management were also redefined, reformulating, inter alia, the attributions of the Chief Financial Officer and the Chief Operating Officer and establishing an Executive Committee comprise of the manager of the main business and corporate areas. Edison's new mission was also defined, with greater focus on the hydrocarbon area.

* * *

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:
    - 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.
    - On March 6, 2012, the Standard & Poor's rating agency revised Edison's long-term and short term credit rating from BBB-/A-3 to BB+/B, respectively, with Negative Credit Watch (removed on May 14, 2002 and upgraded to positive outlook).
    - On March 21, 2012, different consortia in which Edison, through its Edison International SpA subsidiary, is a participant with interests ranging between 25% and 30% were awarded three new hydrocarbon exploration licenses in the Norwegian Continental Shelf, which were put out for bids by the Norwegian Oil and Energy Ministry; the licenses call for an exploration period of three years, at the end of which a drill-or-drop decision will have to be made.
    - On May 29, 2012, the Moody's rating agency confirmed Edison's Baa3 long-term credit rating, removed the "on review for downgrade" status and revised the outlook to negative.
    - On June 26, 2012, Edison, through its Edison International Spa subsidiary, signed a partnership agreement with Falkland Oil and Gas Ltd to participate in deep-sea hydrocarbon exploration in the Falkland Islands, with interests ranging between 12.5% and 25% depending on the wells, and requiring a total investment of about 100 million U.S. dollars over the 2012/2013 period.
    - On September 11, 2012, the International Chamber of Commerce of London served notice of its award in the arbitration proceedings between Edison and RasGas for a revision of the price of liquefied natural gas (LNG) supplied from Qatar. The Court's decision upheld Edison's claims. The overall financial impact for the 2012 reporting year is estimated at about 450 million euros.
    - On October 1, 2012, the International Chamber of Commerce of Paris served notice of its award in the arbitration proceedings between Edison and ENI for a revision of the price of natural gas supplied from Libya under a long-term contract. The Court's decision upheld Edison's claims. The overall financial impact for the 2012 reporting year is estimated at about 250 million euros.
    - On December 20, 2012, Standard & Poor's again raised the Company's long-term and short-term credit rating by two notches, bringing it to BBB/A-2 from BB+/B, respectively, with positive outlook.

2. The characteristics of intercompany and related-party transactions executed in 2012, the parties involved and their financial effects are adequately explained in the section of the 2012 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 2012 Report on Corporate Governance and the Company's Ownership Structure, which should be consulted for additional information.

   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.

   Please note that due to the acquisition of control by EDF, finalized on May 24, 2012, the reference related parties changed after the abovementioned date, with the elimination of the requirement to qualify as related parties Delmi's industrial shareholders. Consequently, the Board of Directors, upon redetermining the powers delegated to the Chief Executive Officer, adopted as the sole definition of related party the one provided in IAS 24.

   Pursuant to the Procedure, the Committee of Independent Directors, comprised of three independent Directors, 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 five times in 2012. At those meetings it reviewed three related-party transactions, including a Highly Material Transaction and two Less Material Transactions, as defined in the Procedure. For both of the Less Material Transactions, the Committee rendered a favorable opinion. With regard to the Highly Material Transaction, consisting of the Transaction described above, which resulted in the sale of 50% of Edipower and the execution of a long-term contract to supply natural gas to Edipower, considering 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 met six times to review the contract for the sale of the interest in Edipower by Edison to Delmi and the contract to supply natural gas to Edipower by Edison, related to the sales contract, and, with the support of independent advisors, rendered a favorable opinion in both cases.

* * *

3. On February 14, 2013, 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, 2012 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.

4. In 2012, 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. With the approval of the 2010 financial statements by the Shareholders' Meeting on April 26, 2011, the statutory independent auditing assignment was awarded to the Independent Auditors Deloitte & Touche S.p.A. for the 2011-2019 period.
   Please note that the Independent Auditors Deloitte & Touche S.p.A. received from Edison:
   - the following additional assignments within the framework of the independent audit:
     a. 80,000.00 euros for attestations related to the Prospectus for the Edison tender offer;
     b. 19,887.00 euros to review the 2012 Pay Schedule for Gas JV Employees in Italy;
     c. 19,887.00 euros to review the 2012 Pay Schedule for Gas JV Employees outside Italy;
     d. 7,000.00 euros for the CSE purchase price allocation for Edison;
     e. 6,800.00 euros for green certificate attestations;
     f. 6,631.00 euros to review the 2012 Pay Schedule for expatriates in Egypt;
     g. 6,500.00 euros for attestation of research and development data for E.U. financing facilities;
     h. 4,000.00 euros for attestation of IRAP deduction of personnel costs;

   and from Edison's subsidiaries:
   - the following additional assignments within the framework of the independent audit:
     a. 38,850.00 euros to audit the Norway branch of Edison International S.p.A.;
     b. 10,000.00 euros for activities related to CSE S.r.l.;
     c. 5,500.00 euros for the Interim Report of Edison International;
     d. 2,000.00 euros for auditing the separate annual financial statements of Compagnia Elettrica Lombarda.

   For the sake of full disclosure, we point out that, in 2012, companies from the network of the Independent Auditors Deloitte & Touche performed the following activities to carry out and complete engagements that were ongoing at the time they were awarded the auditing assignment, for a total amount of 104,066 euros, concerning the following assignments:
   - Consulting activities in connection with the development of non-accounting information systems;
   - Non- evolutionary maintenance activities.

   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 2012 to members of the network to which the Independent Auditors belong.

6. In 2012, the Board of Statutory Auditors issued the opinions required pursuant to law:
   (i) regarding the compensation awarded to Directors who perform special functions, which was determined by the Board of Directors upon a recommendation by the Compensation Committee;
   (ii) regarding the replacement of Directors pursuant to Article 2386 of the Italian Civil Code;
   (iii) regarding the award to the Independent Auditors of assignments different from auditing the financial statements;
   (iv) regarding the appointment of Corporate Accounting Documents Officers.

   Detailed information about the total compensation of the members of the Board of Directors is provided in a special section of the Compensation Report.

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 10 minutes of the meetings recording its activities;
   - It attended all meetings of the Board of Directors (12), 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;
- It participated in a Consob hearing at the Consob's request;
- Its Chairman attended the meetings of the Control and Risk Committee and the Compensation Committee;
- It attended the Shareholders' Meeting held on April 24, 2012.
- 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.
Prior to the acquisition of control by EDF on May 24, 2012, 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 no longer classified as Related Parties due to the corporate reorganization mentioned earlier in this Report.
Subsequent to the abovementioned event, the Board of Directors resolved to award to the Chief Executive Officer the most ample powers to manage the Company, enabling him to carry out, singly with his signature, all acts that fall within the framework of the corporate purpose, except for the limitations applicable pursuant to law and excluding those transactions that are reserved for the sole jurisdiction of the Board of Directors pursuant to law or by a resolution of the Board itself.
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.
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 Control and Risk Committee (formerly 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 Control and Risk 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 Control and Risk Committee and the Company's management. The Board of Directors assigned to the manager of this unit, part of the Internal Control Systems Department, the task of assessing the adequacy and effectiveness of the overall system of internal controls. The activity of this Department 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 (5 in 2012).

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.
Please note that, as of September 10, 2012, the internal dealing rules apply only to the savings shares and related financial instruments, since the savings shares are the only class of listed shares.
In 2012, the following transactions executed by Directors or Statutory Auditors were disclosed to the market and the regulatory authorities: 1,330,000 common shares tendered by Director Cocchi and 30,000 common shares tendered by Director Gian Maria Gros Pietro in connection with the Tender Offer and 47,000 common shares sold by Director Bruno D'onghia.
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 Control and Risk 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 the Corporate Accounting Documents Officers, who were awarded the powers and attributions that the law requires and were provided with sufficient authority and resources to discharge their 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 Officers, 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 8, 2013. A detailed description of the methods and assumptions applied is provided in Note 18 to the consolidated financial statements.
The performance of the impairment test and its results were analyzed and discussed at meetings of Control and Risk 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 Officers 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 the adequacy of the instructions provided by the Company to its subsidiaries pursuant to Article 114, Section 2, of Legislative Decree No. 58/98, making sure that the subsidiaries were providing the information needed to comply with statutory disclosure requirements, and has no objections.

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 the process adopted to ensure the concrete implementation of the corporate governance rules 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 Code recommendations that the Board of Directors chose not to adopt and explains the reasons for these choices.
    The Company had established an Audit Committee, a Compensation Committee and a Strategy Committee as internal committees of the Board of Directors. General guidelines defining the attributions of each committee were provided in the Governance Agreements executed by EDF and Delmi for their joint control of Edison and were reflected officially in special resolutions approved by the Board of Directors.
    Following the acquisition of sole control by EDF, the Strategy Committee was disbanded and the rules of operation and composition of the Control and Risk Committee and Compensation Committee were redefined by the Board of Directors on June 4, 2012 to take into account the changes in corporate governance. The requirement of the Code that the Control and Risk Committee be comprise exclusively of independent Directors has not been complied with.
    In 2012, the Control and Risk Committee and the Compensation Committee met 5 times and 3 times, respectively.
    The Company's Board of Directors in office at the beginning of the 2012 reporting year was 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. The term of office of this Board of Directors ended with the approval of the 2011 financial statements and a new Board of Directors, with the same breakdown of executive and independent Directors, was elected. On May 24, 2012, the five Directors nominated by Delmi resigned and were replaced by five new Directors coopted at the Board meeting of June 4, 2012. Another Director resigned at the Board meeting of October 26, 2012 and was replace by a newly coopted Director.
    The term of office of the coopted Directors will end at the next Shareholders' Meeting, i.e., together with that of the Directors elected for a one-year term ending with the approval of the 2012 financial statements.
    In 2012, differently from past years, the Board of Directors agreed not carry out a self-assessment process regarding the size, composition and activities of the Board of Directors and its Committees.
    The Board of Statutory Auditors performed 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.

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 2012, there were no instances in which the members of the Board of Statutory Auditors were required to make such a disclosure.
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, 2012, 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, 2012 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 2012, 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 for the appropriation of the year's result.
The Shareholders' Meeting convened to approve the 2012 financial statements marks the end of the term of office of the Board of Directors elected by the Shareholders' Meeting of April 24, 2012. In addition replacement Alternate Auditors need to be elected and a Statutory Auditors must be confirmed/elected. The Board of Statutory Auditors therefore recommends that the shareholders take appropriate action with regard to these issues.

Milan, February 20, 2013

The Board of Statutory Auditors

Alfredo Fossati	Chairman
Leonello Schinasi	Statutory Auditor
Giuseppe Cagliero	Statutory Auditor

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