



**2004 Full year results  
and strategic update**

**March 31, 2005**

# Agenda

## ■ Edison restructuring process

### ■ Edison today :

- competitive position
- full year 2004 results

### ■ Edison business strategy :

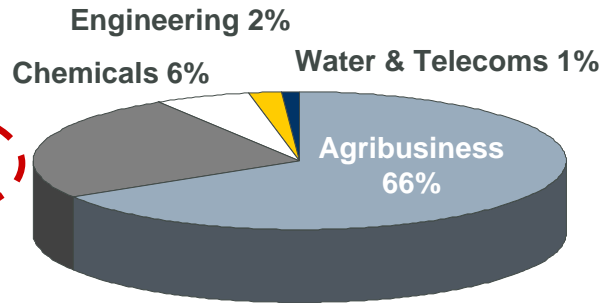
- dynamics in electricity and gas markets
- growth strategy in electricity and gas
- commercial strategy
- overview on capex and cash flow trends

### ■ Capital and shareholding structure

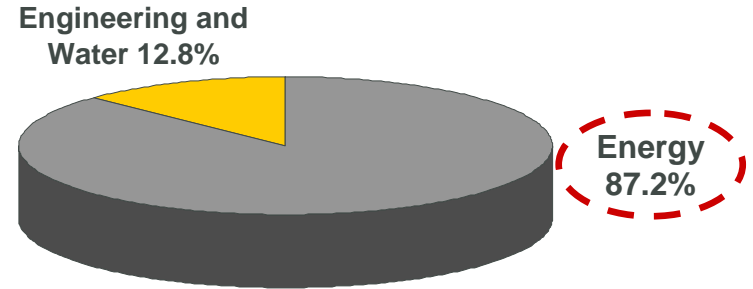
# Restructuring program completed

## REFOCUS ON CORE BUSINESS

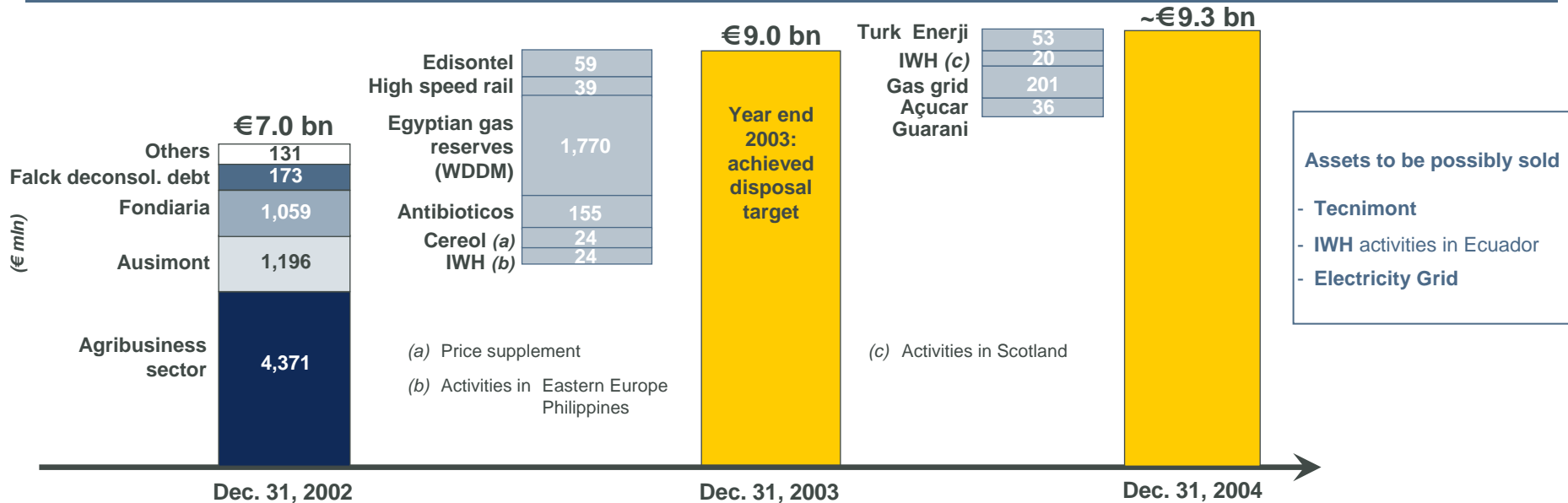
2001 Revenues



2004 Revenues

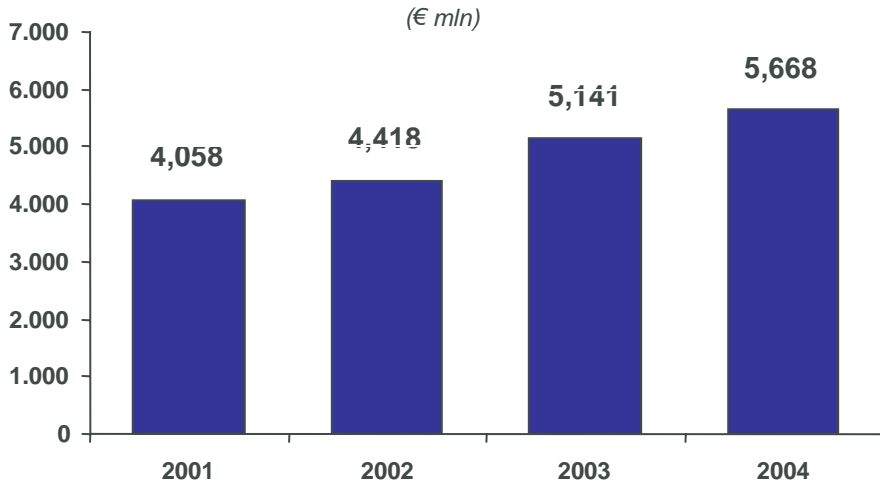


## NON CORE ASSETS DIVESTITURE PROGRAM COMPLETED

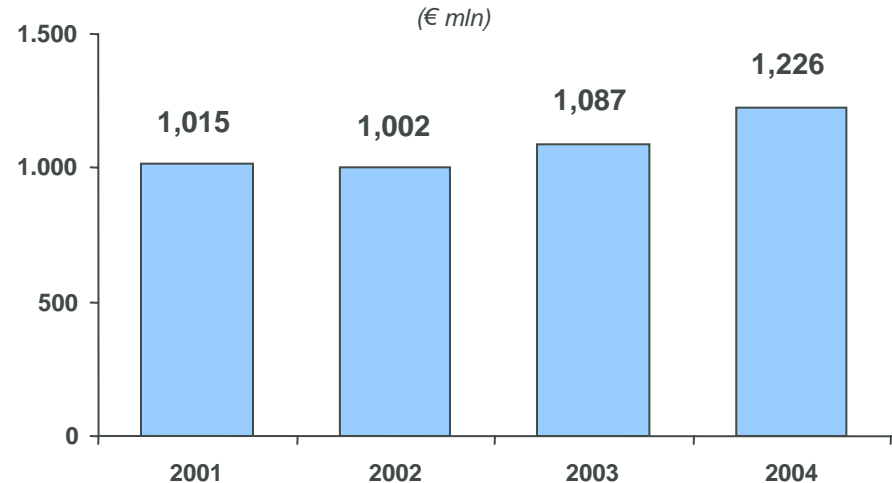


# Financial highlights 2001 - 2004

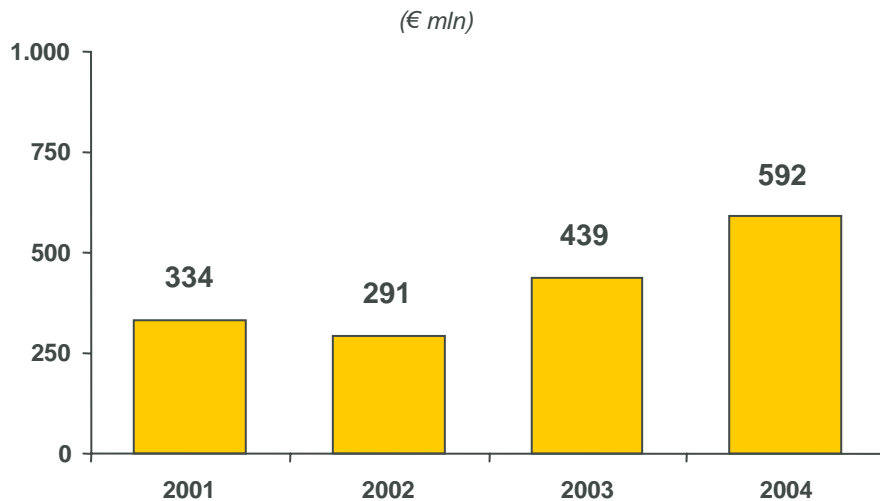
## Core business net revenues



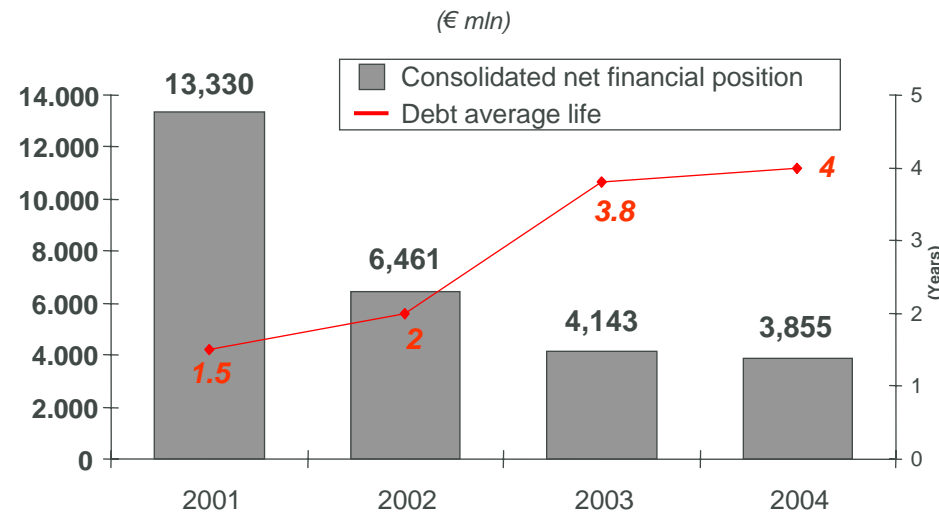
## Core business EBITDA



## Core business EBIT



## Consolidated net financial position



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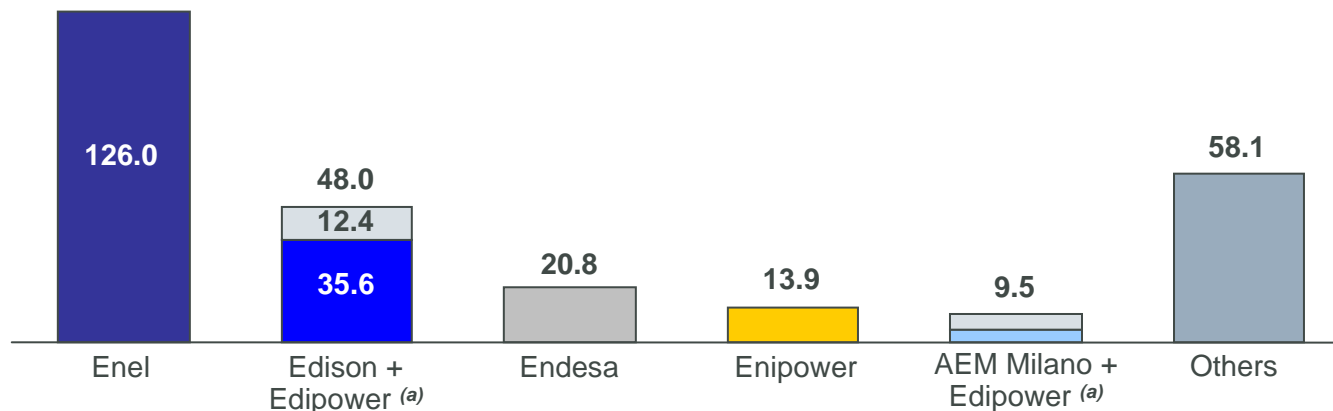
## ■ Edison business strategy :

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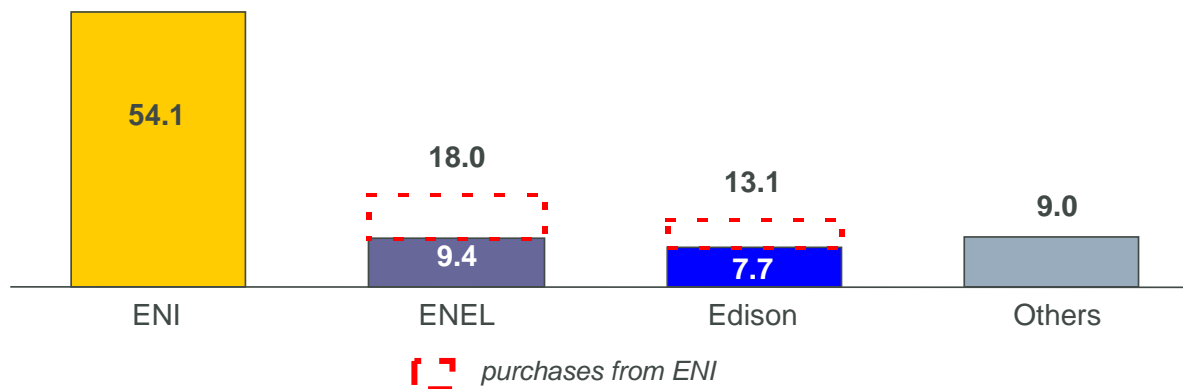
# Edison position in the electricity and gas markets

## Net electric power produced in Italy in 2004 (TWh)



(a) Pro-quota EDISON and AEM Milano through tolling agreement

## Major gas suppliers in Italy in 2004 (bcm)



# Edison core business and consolidated 2004 results

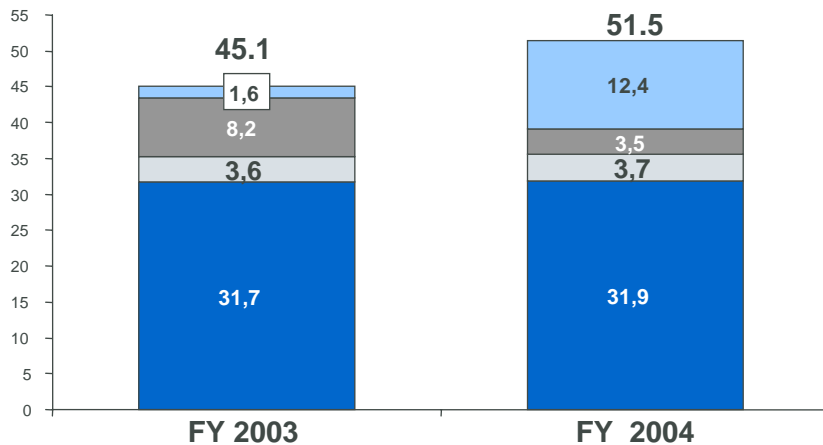
(€ mln)	Core Business		Non Core		Consolidated	
	2004	2003	2004	2003	2004	2003
<b>Net Revenues</b>	<b>5,668</b>	<b>5,141</b>	<b>829</b>	<b>1,146</b>	<b>6,497</b>	<b>6,287</b>
<b>EBITDA</b>	<b>1,226</b>	<b>1,087</b>	<b>28</b>	<b>16</b>	<b>1,254</b>	<b>1,103</b>
<i>% on revenues</i>	<i>21.6%</i>	<i>21.1%</i>	<i>3.4%</i>	<i>1.4%</i>	<i>19.3%</i>	<i>17.5%</i>
<b>EBIT</b>	<b>592</b>	<b>439</b>	<b>23</b>	<b>(24)</b>	<b>615</b>	<b>415</b>
<i>% on revenues</i>	<i>10.4%</i>	<i>8.5%</i>	<i>2.8%</i>	<i>-2.1%</i>	<i>9.5%</i>	<i>6.6%</i>
Net financial expenses	(251)	(283)	3	(4)	(248)	(287)
<b>Result before extraord. items and taxes</b>	<b>342</b>	<b>167</b>	<b>38</b>	<b>(56)</b>	<b>380</b>	<b>111</b>
<b>Net income:</b>						
Minority interests	80	90	(2)	-	78	90
<b>Group net income</b>	<b>132</b>	<b>339</b>	<b>23</b>	<b>(195)</b>	<b>155</b>	<b>144</b>

- **Core business** revenues for the full year were up 10.3% due to the combined effect of higher sales volumes and higher average unit prices in electricity and higher sales volumes and slightly decreasing average unit prices in gas.
- Year on year **core business** EBITDA increased by 12.8% due to the combined effect of :
  - increase in electricity EBITDA by almost 20% mainly due to the sales optimisation made possible by the opening of new markets (Power Exchange and wholesalers);
  - decrease in gas EBITDA by around 10% due to the negative conditions of the spread between purchasing and selling prices originated by the indexation mechanism. The negative spread has significantly narrowed in the second half of the year.
- **Core business Group net income is higher for 113 million euros** than the 2003 net income excluding the extraordinary net gains stemming from the sale of the Egyptian gas reserves (320 million).
- In 2004 **non core** activities (mainly engineering) recorded a positive impact on operating earnings and net income, while in 2003 non core results still included the negative impact of telecom activities for 6 months.

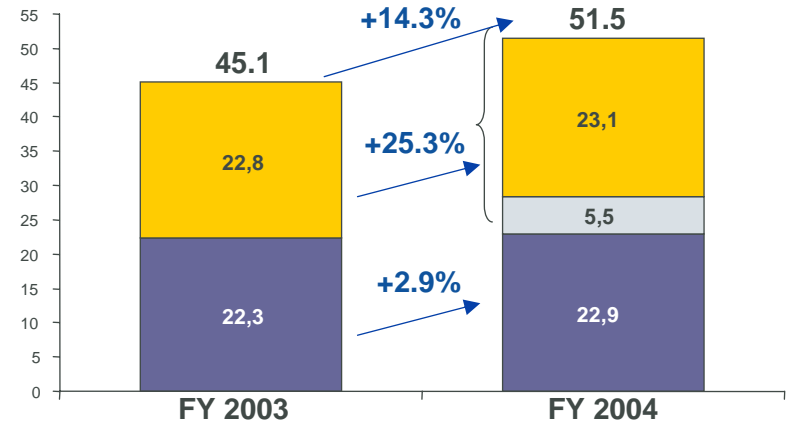
# Electric power – key financial and operating data

(€ mln)	FY04	FY03	Δ % FY04 / FY03
<b>Net Revenues</b>	<b>4,581</b>	<b>3,889</b>	<b>+ 17.8</b>
<b>EBITDA</b>	<b>989</b>	<b>826</b>	<b>+ 19.7</b>
% on revenues	21.6	21.2	
<b>EBIT</b>	<b>486</b>	<b>309</b>	<b>+ 57.3</b>
% on revenues	10.6	7.9	

## Power availability mix (TWh) (a)



## Power sales mix (TWh) (a)



**Edison share in domestic net power production 17% including Edipower**

(a) Net of losses and settlements with National Grid Operator (GRTN)

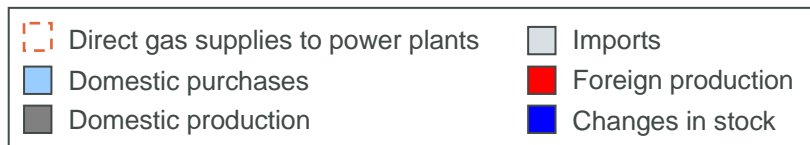
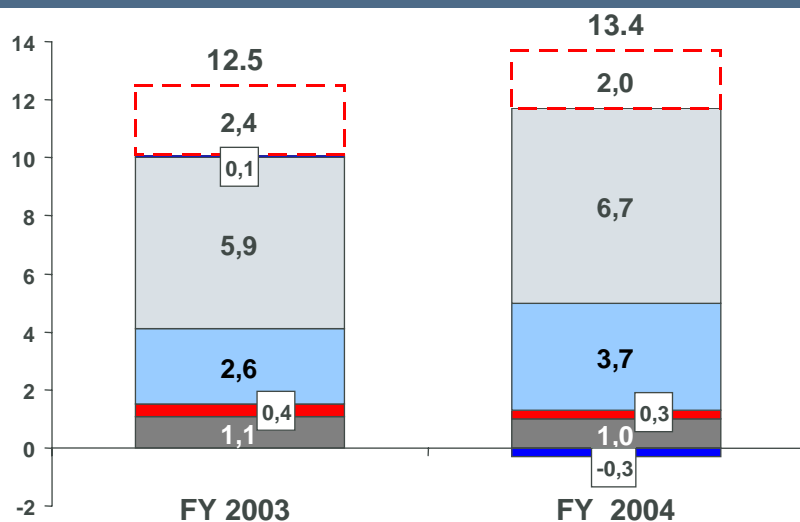


# Hydrocarbons – key financial and operating data

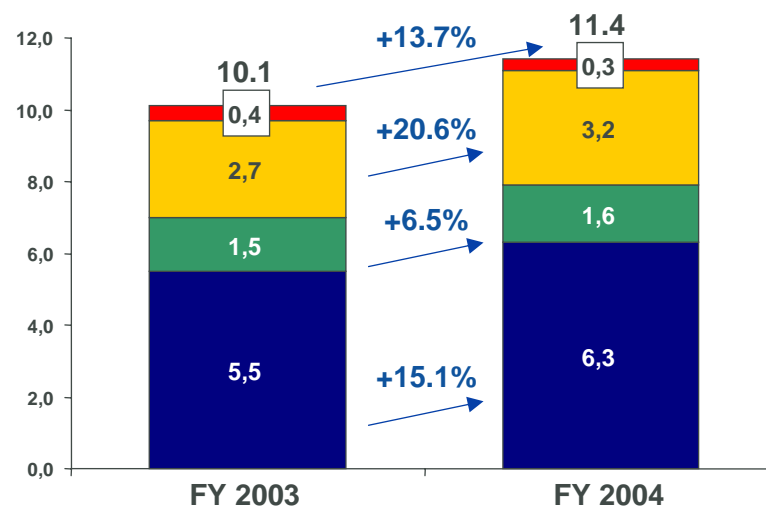
(€ mln)	FY04	FY03	$\Delta$ % FY04 / FY03
<b>Net Revenues</b>	<b>2,291</b>	<b>2,097</b>	<b>+ 9.3</b>
<b>EBITDA</b>	<b>325</b>	<b>362</b>	<b>- 10.2 (a)</b>
% on revenues	14.2	17.3	
<b>EBIT</b>	<b>205</b>	<b>244</b>	<b>- 16.0 (a)</b>
% on revenues	8.9	11.6	

(a) Mainly due to the negative spread in 1H2004 between import and selling prices originated by the lag effect in the computation formula; the negative spread has narrowed in 2H2004 and has continued to reverse in 1Q2005

## Gas availability mix (bcm)



## Gas sales mix (bcm)

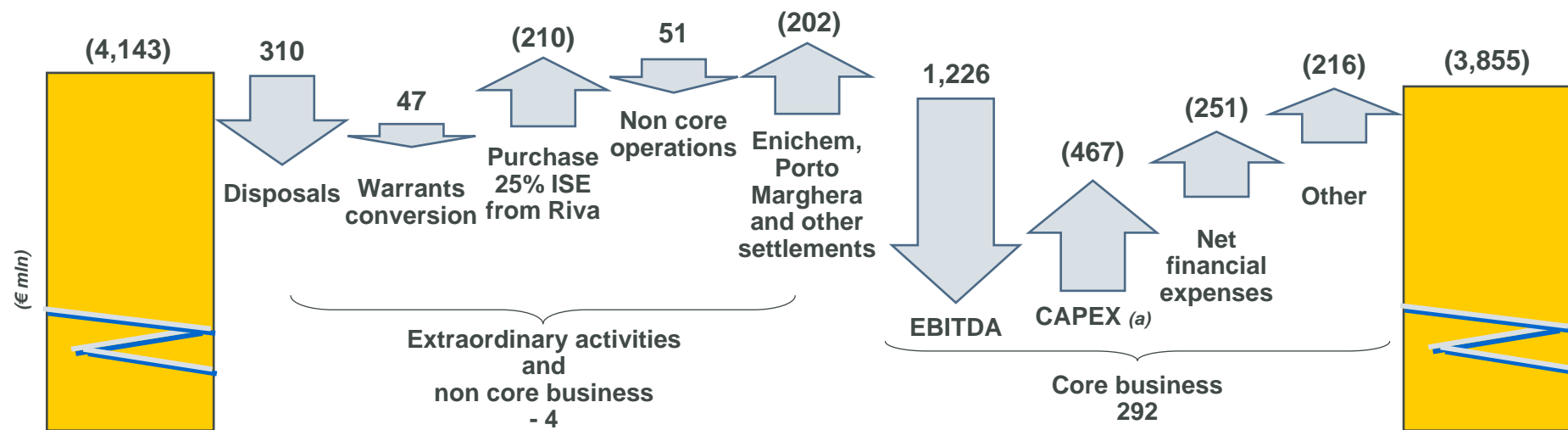


**Edison share of total Italian gas sales 14%**

# Edison group consolidated balance sheet and debt evolution

Consolidated balance sheet (€ mln)	FY04	FY03
Net invested capital	9,795	10,156
Financed by :		
Shareholders' equity (of which minorities)	5,940 528	6,013 800
Net financial debt	3,855	4,143

## Changes in consolidated net financial position



Dec. 31, 2003

Dec. 31, 2004

(a) including 25 million of exploration costs

# Major impacts of IFRS on Edison accounts starting 2005

## EDIPOWER

- Edipower accounts will be consolidated line-by-line at 50% (corresponding to Edison stake in the Tolling Agreement)

## NON ALLOCATED GOODWILL AMORTIZATION

- Non allocated Goodwill will no longer be amortized as the adequacy of Goodwill has been certified through the impairment test

## FINANCIAL INSTRUMENTS

- Fair value evaluation of financial instruments might introduce some volatility in the net result
- ➔ Edison has applied Mark to Market evaluation to financial instruments since 31.12.2003.

# Agenda

- **Edison restructuring process**

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- **full year 2004 results**

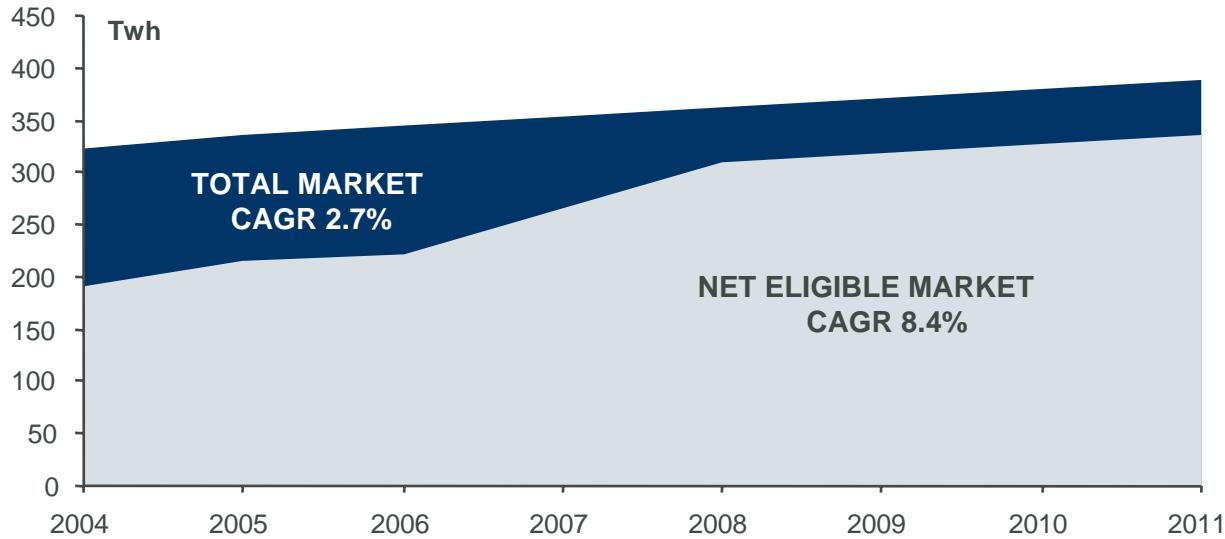
- **Edison business strategy :**

- **dynamics in electricity and gas markets**
- **growth strategy in electricity and gas**
- **commercial strategy**
- **overview on capex and cash flow trends**

- **Capital and shareholding structure**

# Business overview - dynamics in the electricity market

## A fast growing liberalising market

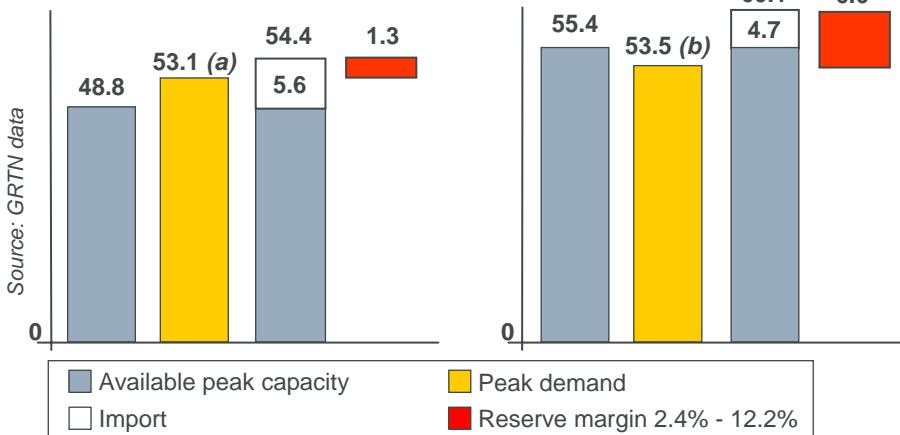


Source: Edison estimates based on GRTN data

## Energy balance at peak

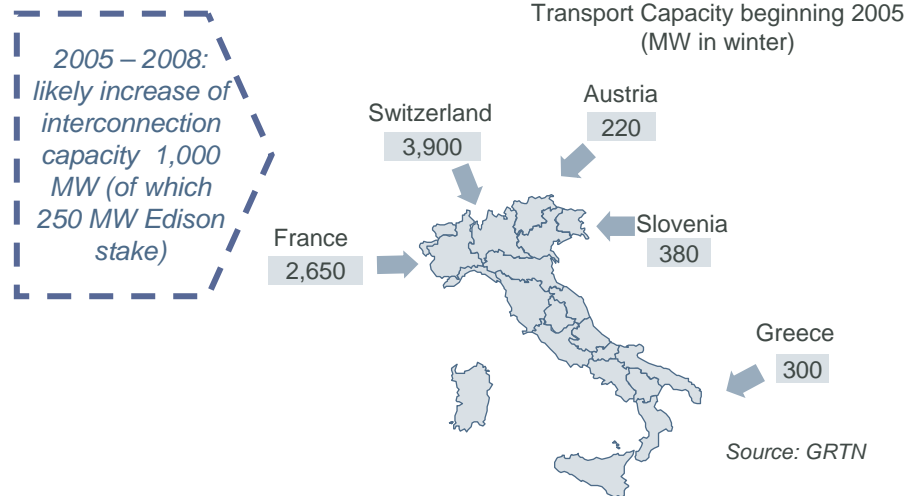
### July 2003 (GW)

### July 2004 (GW)



(a) Record peak demand 17-07-'03 h. 11.00 am  
 (b) Record peak demand 23-07-'04 h. 11.00 am

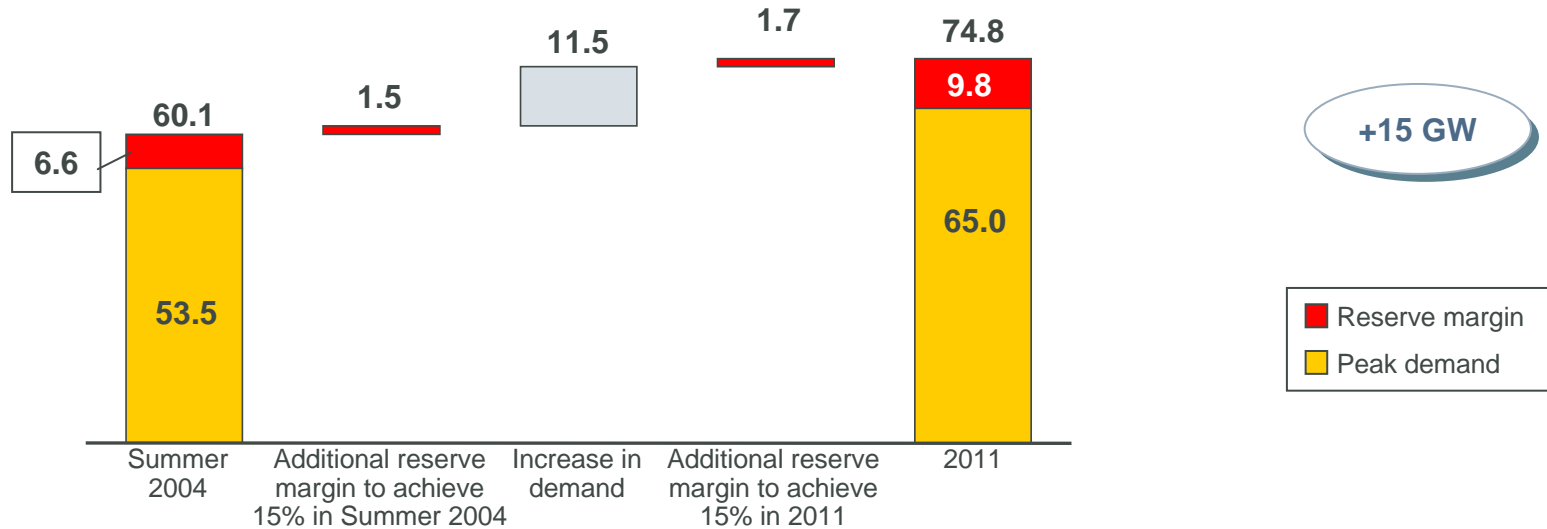
## Interconnection capacity



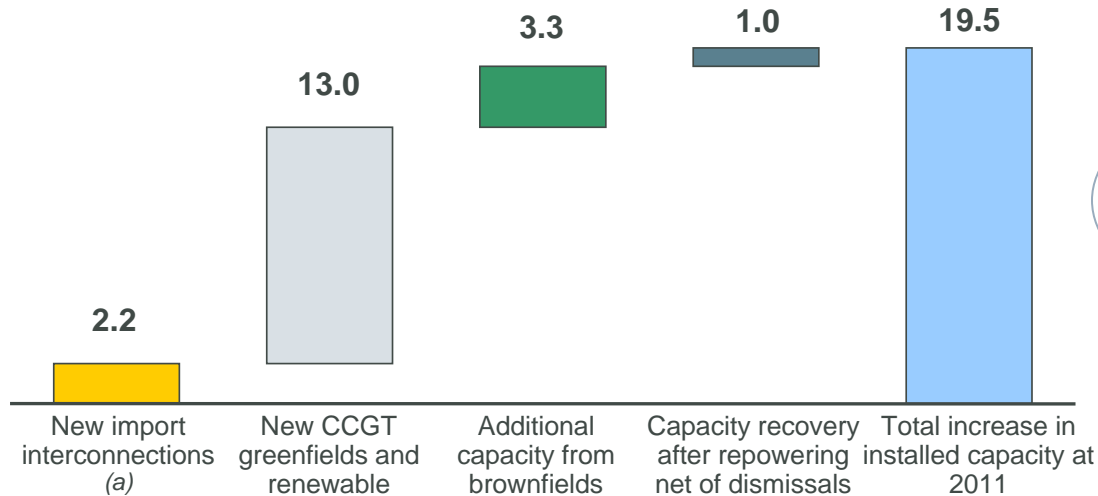
Source: GRTN

# Business overview - dynamics in the electricity market

## Increasing capacity requirements 2004 – 2011 (GW)



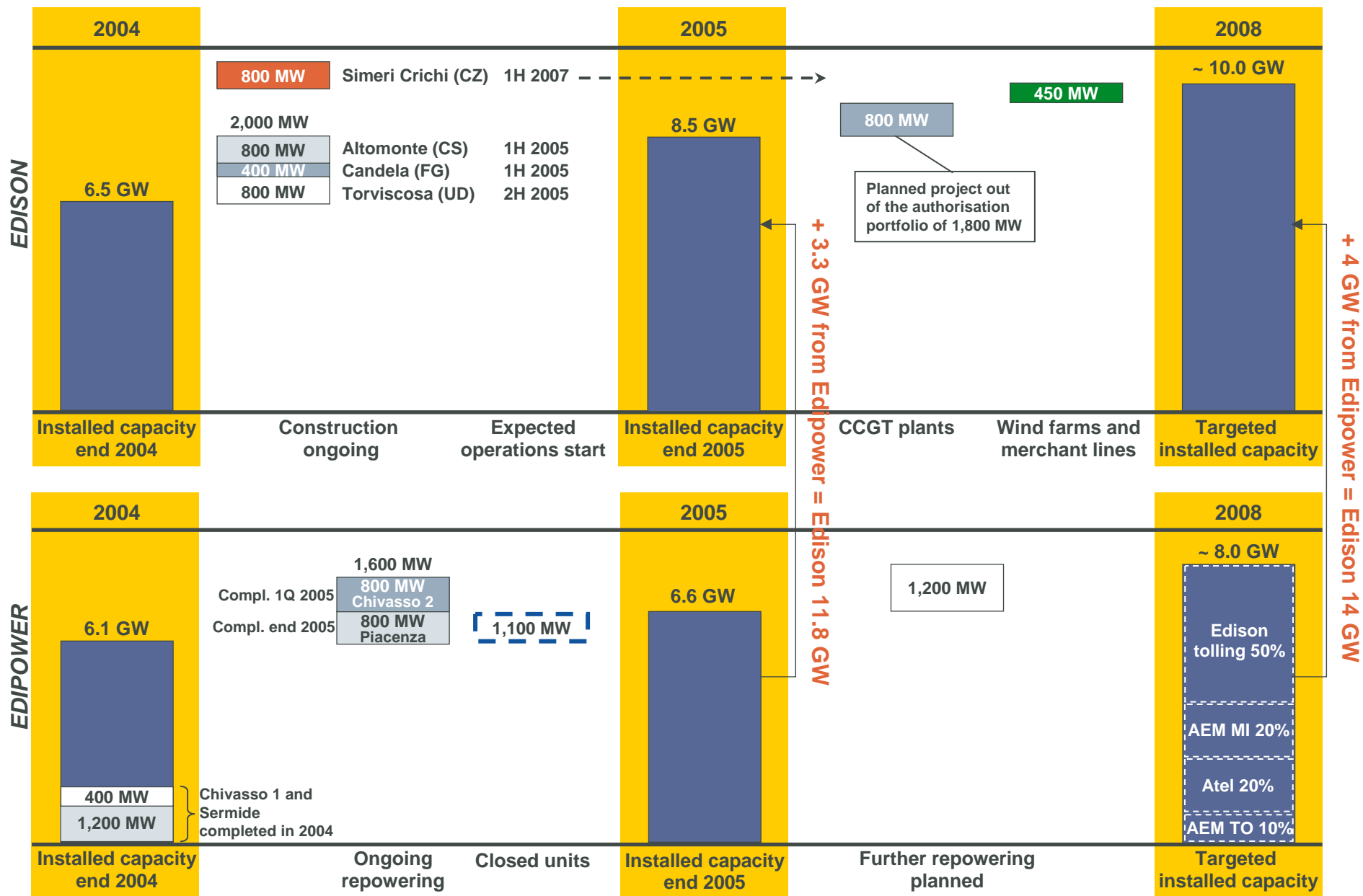
## Increase in capacity 2004 – 2011 (GW)



**Total authorizations granted by Ministry of Industry : 19,700 MW at February 2005**

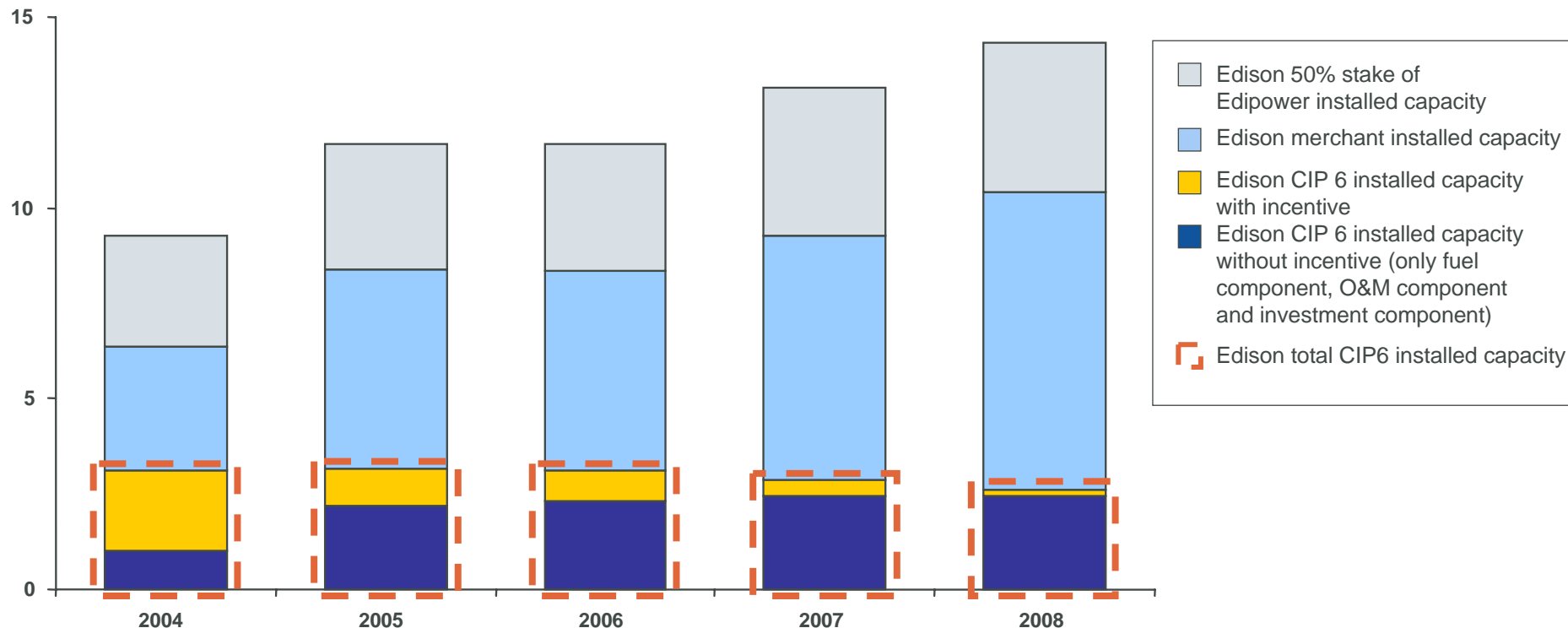
(a) including San Fiorano – Robbia line for 1.1 GW

# Edison growth strategy – progress in the investment program



# Key drivers in the evolution of Edison Group production mix

(GW at year end)

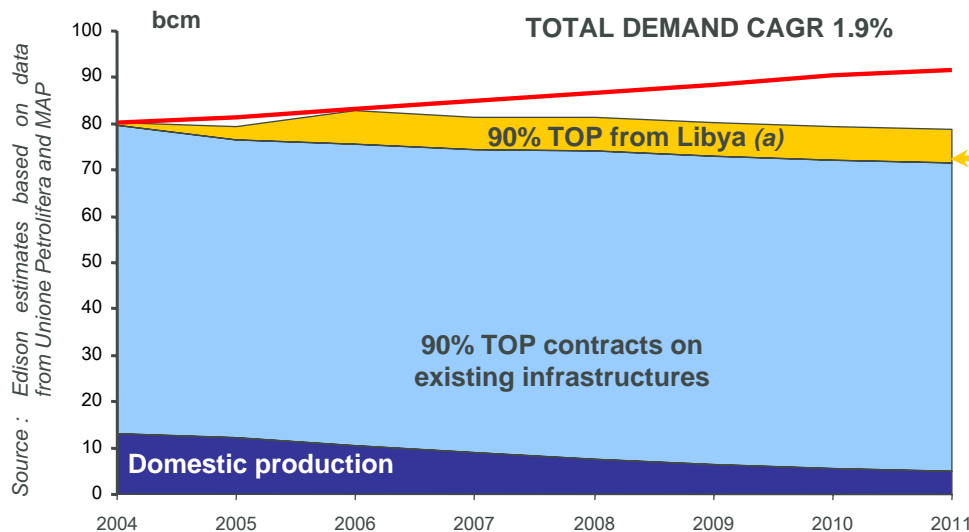


- In the period 2004 - 2008 Edison CIP6 installed capacity is expected to decrease by approx. 20% and the incentives will expire almost completely.
- Edison installed capacity for the free market (including 50% of Edipower) will almost double.
- The increase of more than 50% in the production for the free market and the more favourable sales mix are expected to increase operating margins despite the reduction of the weight of CIP 6 EBITDA on total electricity EBITDA from around 55% to around 25%.



# Business Overview - Dynamics in the gas market

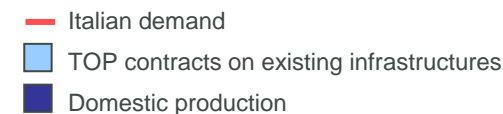
## Expected trend in gas demand and supply



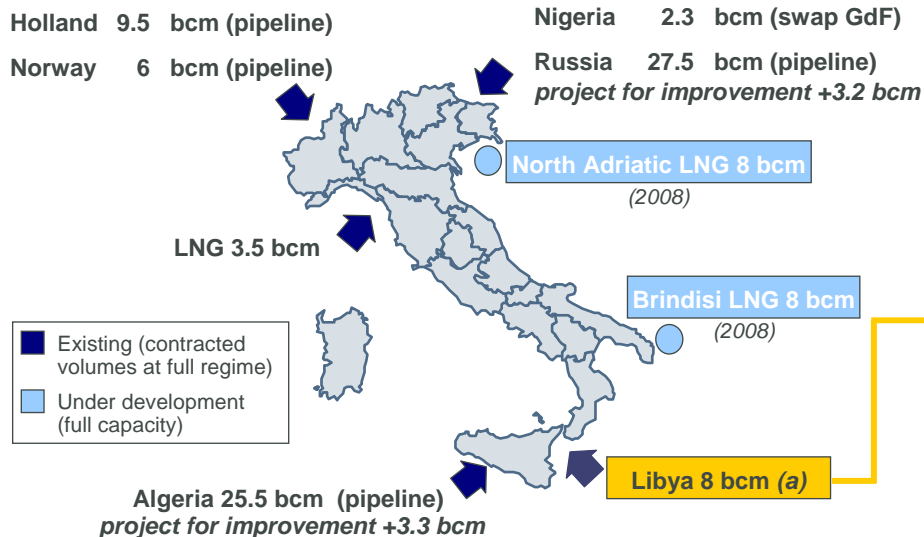
Italian gas market fully liberalised since January 1st, 2003

### Supply balance 2004E

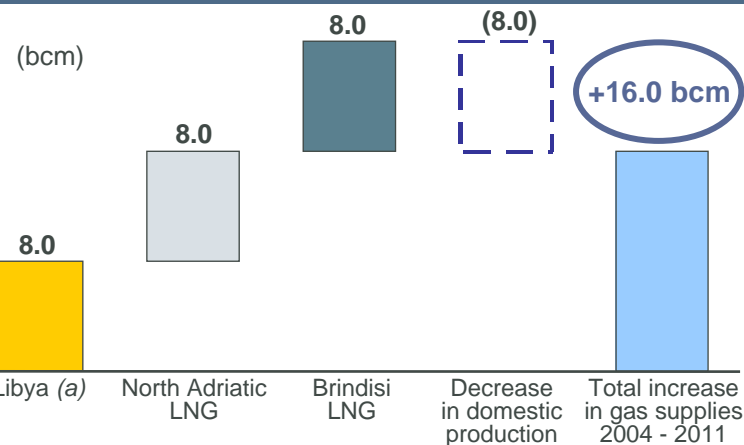
Domestic production	13.0 bcm
Net import	67.2 bcm
<b>Total supply</b>	<b>80.2 bcm</b>



## Current and projected gas availability in Italy



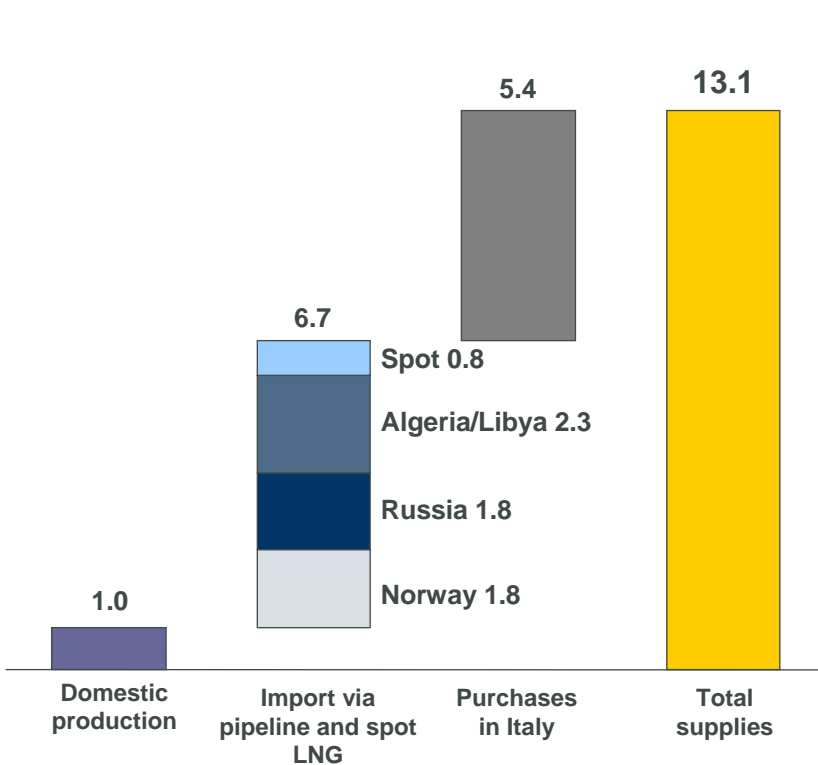
## Increase in Italian gas supplies 2004 - 2011



(a) Project completed in Oct 2004. In 2004 imports from Libya through this pipeline were 0.5 bcm. The pipeline is expected to operate at full capacity in 2006.

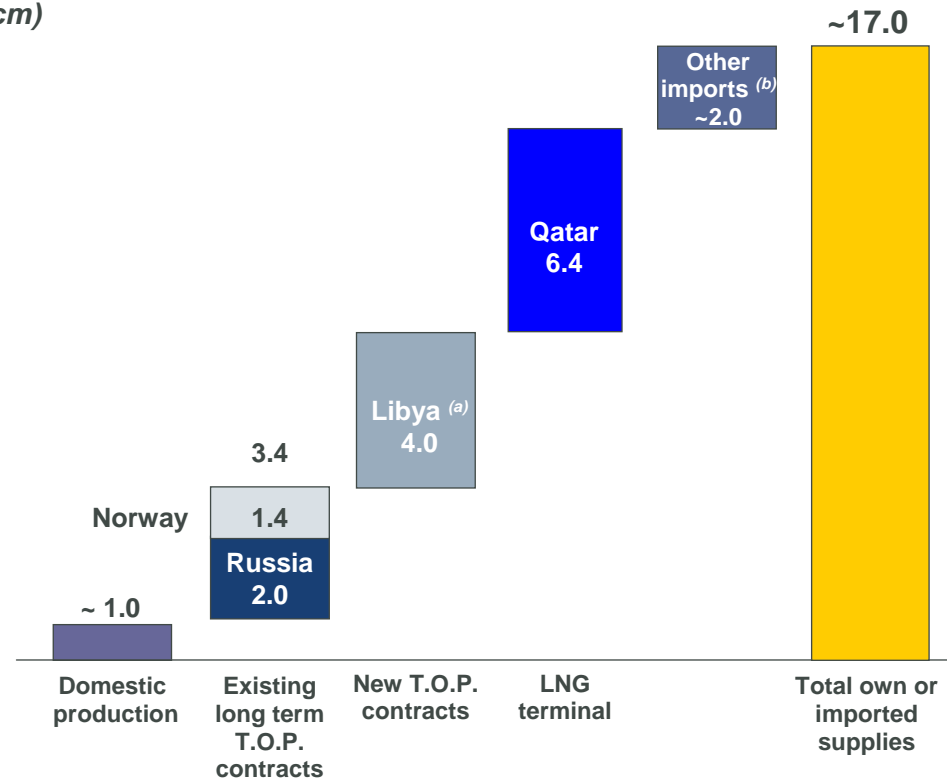
# Development of Edison gas sources in Italy

Edison gas supply mix in 2004



Edison gas supply mix at 2008

(Bcm)



(a) The contract, already effective for 0.4 bcm in 2004, is expected to operate at full capacity in 2006.

(b) and / or domestic purchases.

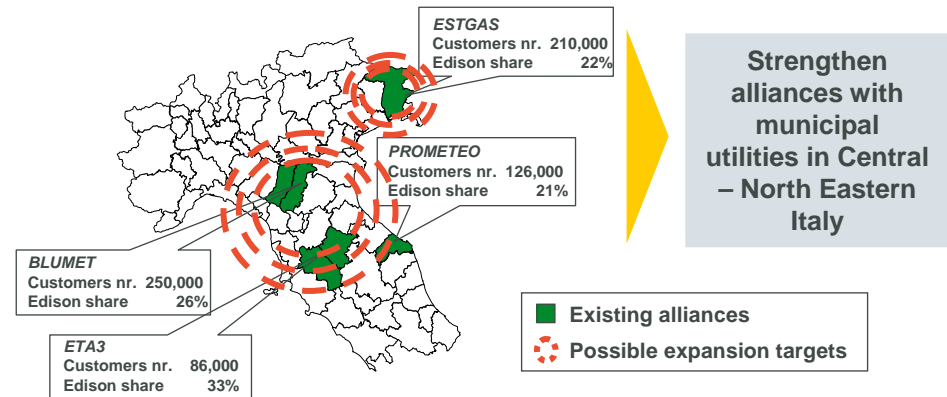
Gas supply strategy aims at creating a diversified portfolio based almost totally on own sources and long term contracted volumes

# Edison commercial strategy

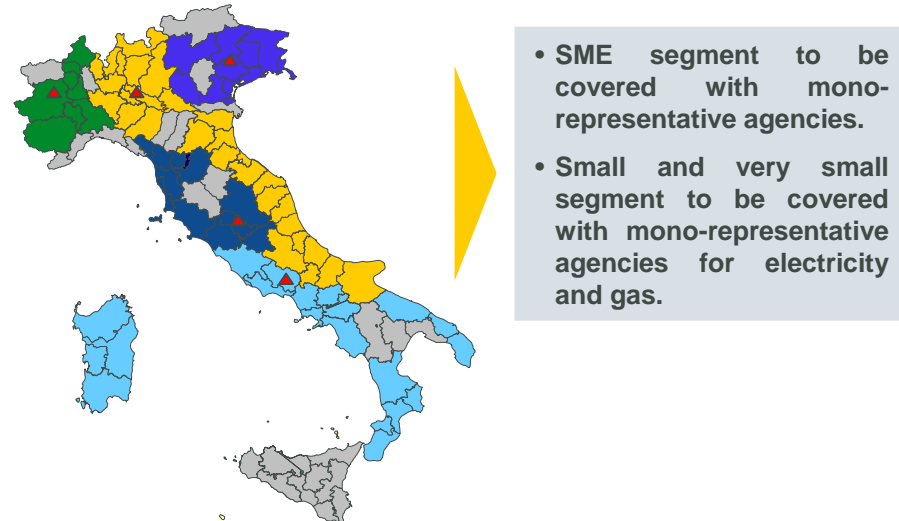
## Customer segmentation

	<b>Edison</b>	<b>Alliances with municipal utilities</b>
<b>Large</b>	Consolidate current market share	
<b>SME</b>	Primary target in electricity and gas	Complementary target
<b>Small / Very small</b>	Secondary target	Primary target
<b>Residential</b>	Not a target	Primary target for gas Cross selling target from gas to electricity
<b>Thermoelectric</b>	Captive sales for Edison and Edipower generation capacity only	

## Target areas for alliances



## 2004 Development of Edison agencies network



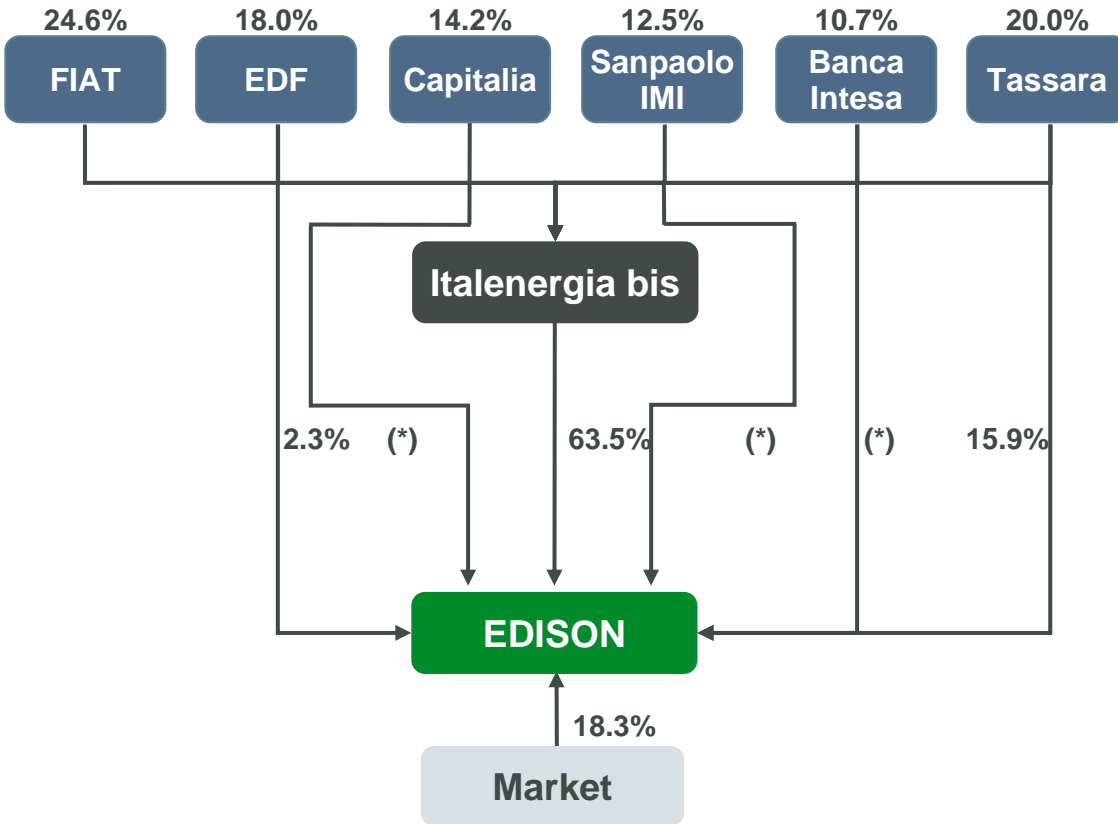
# Overview on CapEx and cash flow trends for the period 2004 - 2008

- In the five-year investment period (2004-2008) Edison and Edipower (50% share) **cumulated capex program (around €3 bn ) will be fully funded** by the cumulated EBITDA from CIP6 contracts, regulated assets and gas production
- **Free cash flow** originated by operating and investment activities **in FY2004 has been positive**, allowing Edison to comfortably service its interest payment obligations and to bring consolidated net financial position below 2003 level.
- **2005 peak capex are expected to be fully funded** by operating cash flow. From 2006 onwards the trend of the **free cash flow** is expected to be **increasingly positive**.
- Without factoring the € 1.0 bn warrants conversion, the Group **Net Financial Position** at the end of the period is expected to **decrease significantly** on a pro forma basis (Edipower included at 50%)

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# Capital and shareholding structure



(\*) Stakes under 2% included in the market figure

## CAPITAL STOCK AS OF 28.02.2005

- Ordinary shares	4,154,949,231
- Non convertible sav. shares	110,592,420
- TOTAL SHARES	4,265,541,651

## WARRANTS OUTSTANDING AS OF 28.02.2005

- 1,019.0 mln attached to IEB shareholders' and the market's shares
- Strike price €1
- Exercise period 01.09.2003 / 31.12.2007 on a permanent basis
- Ratio 1 share every warrant

## WARRANTS CONVERTED AS OF 28.02.2005

N° 75,876,191

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