# QUARTERLY REPORT
# AT MARCH 31, 2007

EDISON

# CONTENTS

# QUARTERLY REPORT AT MARCH 31, 2007

# SIMPLIFIED STRUCTURE OF THE GROUP AT MARCH 31, 2007

EDISON

## Energy

| Electric Power Operations | Hydrocarbons Operations | Energy Management/ Gas Supply & Logistics | Marketing & Distribution |
|---|---|---|---|

### EDISON Spa [1]

| Electric Power Operations | Hydrocarbons Operations | Energy Management/ Gas Supply & Logistics | Marketing & Distribution |
|---|---|---|---|
| **Edison Energie Speciali**<br>Production of Electric Power | **Edison International**<br>Hydrocarbon Expl. & Prod. | **Edison Trading**<br>Energy Management | **Edison Energia**<br>Sales of Energy & Gas |
| **Edipower** [2]<br>Production of Electric Power | **Edison Stoccaggio**<br>Natural Gas Storage | | |
| | **Edison DG**<br>Natural Gas Distribution | | |

## Other Operations

**IWH** [2]
Water

- Electric Power Operations
- Hydrocarbons Operations

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

(2) Edipower and IWH are joint ventures consolidated at 50% by the proportional method.

# KEY EVENTS

## Growing Our Business

### Edison and Depa: a Major Step Forward in the IGI Project to Build an Italy-Greece Natural Gas Pipeline

On January 31, 2007, meeting in Athens, Italy's Minister of Economic Development, and Greece's Minister of Development signed a Protocol of Understanding whereby, acting in unison with each country's national energy authorities, they granted Edison and Depa the right to use 8 billion cubic meters a year for 25 years in transmission capacity provided by the IGI natural gas pipeline that will link Italy and Greece. The IGI pipeline will enable Italy to import natural gas from the Caspian Sea basin and the Middle East, which between them have more than 20% of the world's reserves (30,000 billion cubic meters of natural gas).
Under an agreement executed by the two companies, 80% of the transmission capacity will be reserved for Edison, with Depa utilizing the remaining 20%.

### Edison Is Awarded Five New Hydrocarbon Explorations Licenses in Norway

On February 12, 2007, Edison International, an Edison Group subsidiary, was awarded five new hydrocarbon exploration licenses in the Norwegian Continental Shelf, which had been put out for bids by the Norwegian Oil and Energy Ministry.
Specifically, the Company acquired three licenses in the North Sea and two in the Norwegian Sea. Edison's interest in these blocks, which it owns through joint ventures with major international operators, varies between 50% and 15%. The contracts call for an initial exploration period of five to six years that will be divided into three to four operating phases. If no commercial deposits are discovered at the end of each phase, the joint ventures will have the right to relinquish their licenses.

### Edison Closes the Sale of Its Interest in Serene to BG Italia

On February 14, 2007, after the transaction was approved by the relevant antitrust authorities, Edison closed the sale of its 66.3% interest in Serene Spa to BG Italia, which already owned the remaining 33.7%. The price paid by BG Italia to Edison for the Serene shares, which amounted to 98 million euros, was substantially the same as the value at which Edison carried this investment. The price includes a component, which may not exceed 13 million euros, the payment of which is predicated on the enactment of certain changes to the CIP6/92 regulations that concern Kyoto emission rights. This transaction improved the consolidated net financial position of the Edison Group by about 117 million euros.

### Edison and Petrobras Form an Alliance for a Hydrocarbon Exploration Project in Senegal

On February 27, 2007, Edison International, an Edison Group subsidiary, and Petrobras, Brazil's national hydrocarbon company, signed an agreement according to which Petrobras will join Edison in a project to explore the Rufisque Offshore Profond block, off the Senegal coast, acquiring a 40% interest in the project. Following this transaction, the interest held by Edison, that is the project's operator, will decrease to 55%, while Petrosen, Senegal's national hydrocarbon company, will continue to own a 5% interest.
Under the agreement, Petrobras will help defray the exploration costs incurred until the end of 2006 and will bear 70% of the cost of acquiring and processing new seismic data for the permit.

### The Facility that Will Produce LNG for the Rovigo Terminal Is Inaugurated in Qatar

On March 20, 2007, a natural gas liquefaction train that will produce LNG for Edison's LNG Adriatic Terminal, a regasification facility with a capacity of 8 billion cubic meters per year that is being built offshore Porto Levante (RO), in the Adriatic, was inaugurated in Qatar.
Ras Laffan Liquefied Natural Gas Company II (RasGas II) - a joint venture of Qatar Petroleum and ExxonMobil, who are also Edison's partners in the development of the regasification terminal - will operate the newly commissioned facility, called Train 5, and will supply LNG to Edison. Train 5, one of the most technologically advanced systems of this kind in the world, has a capacity of 4.7 million tons of LNG per year, equal to about 6.4 billion cubic meters of natural gas per year.
Under existing agreements, Ras Gas II will supply Edison with 6.4 billion cubic meters on natural gas per year for 25 years, thus significantly diversifying and increasing the reliability of Italy's natural gas sources.

# FINANCIAL HIGHLIGHTS - FOCUS ON RESULTS

## Edison Group

(in millions of euros)

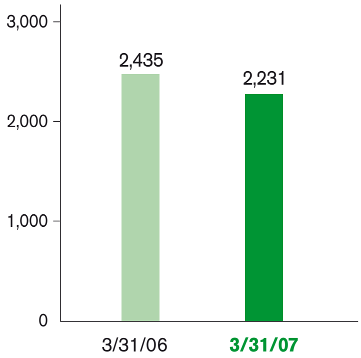
| 2006 | | 1st quarter 2007 | 1st quarter 2006 (*) | % change |
|---|---|---|---|---|
| 8,523 | Sales revenues | 2,231 | 2,435 | *(8.4%)* |
| 1,536 | EBITDA | 397 | 329 | *20.7%* |
| *18.0%* | *as a % of sales revenues* | *17.8%* | *13.5%* | |
| 752 | EBIT | 228 | 184 | *23.9%* |
| *8.8%* | *as a % of sales revenues* | *10.2%* | *7.6%* | |
| 559 | Profit before taxes | 170 | 112 | *51.8%* |
| 654 | Group interest in net profit | 87 | 68 | *27.9%* |
| 489 | Capital expenditures | 128 | 73 | *75.3%* |
| 41 | Investments in exploration | 7 | 11 | *(36.4%)* |
| 11,146 | Net invested capital (A + B)(1) | 10,845 | 11,349 | *(2.7%)* |
| 4,256 | Net borrowings (A)(1) | 3,368 | 4,856 | *(20.9%)* |
| 6,890 | Shareholders' equity before minority interest (B)(1) | 7,477 | 6,493 | *8.5%* |
| 6,743 | Group interest in shareholders' equity (1) | 7,347 | 6,340 | *9.0%* |
| 6.81% | ROI (3) | 8.43% | 6.59% | |
| 10.05% | ROE (4) | 4.94% | 4.31% | |
| 0.62 | Debt / Equity ratio (A/B) | 0.45 | 0.75 | |
| 38% | Gearing (A/A+B) | 31% | 43% | |
| 2,923 | Number of employees (1) (2) | 2,921 | 2,957 | *(0.1%)* |
| | - including: | | | |
| 6 | employees of discontinued operations | - | - | |
| | Stock market prices (in euros) (5) | | | |
| 1.9483 | common shares | 2.1420 | 1.6676 | |
| 2.2385 | savings shares | 2.3460 | 2.0604 | |
| 1.1132 | warrants | 1.2460 | 0.8704 | |
| | Profit (Loss) per share | | | |
| 0.1522 | basic | 0.0182 | 0.0150 | |
| 0.1380 | diluted | 0.0169 | 0.0137 | |

(1) End-of-period amounts. The changes are computed against the data at December 31, 2006.
(2) Companies consolidated line by line and Group interest in companies consolidated by the proportional method.
(3) Annualized EBIT/Average net invested capital. Net invested capital does not include the value of equity investments held as fixed assets and is computed as the arithmetic average of the net invested capital at the end of the period and at the end of the previous year.
(4) Annualized Group interest in net profit/Average Group interest in shareholders' equity. Average Group interest in shareholders' equity is the arithmetic average of the Group interest in shareholders' equity at the end of the period and at the end of the previous year.
(5) Simple arithmetic average of the prices for the last calendar month of the year.
(*) Data restated following the adoption of IFRIC 4.

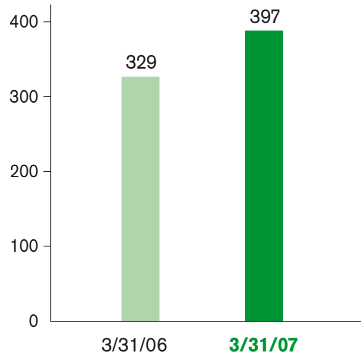
# Key Group Data

(in millions of euros)

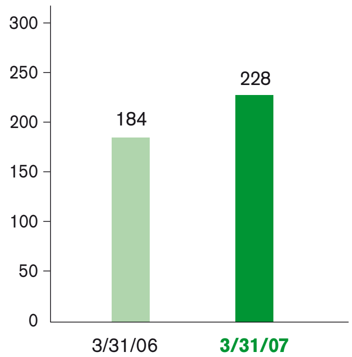
### Sales revenues



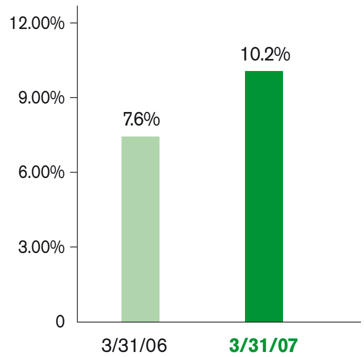

### EBITDA



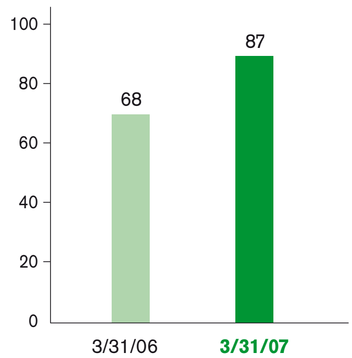

### EBIT



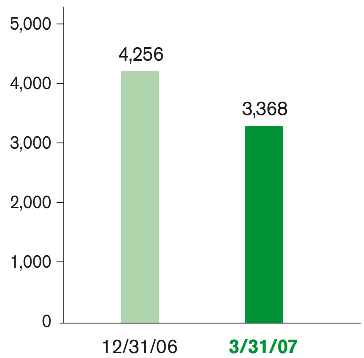

### EBIT/Sales revenues




### Group interest in net profit




### Net borrowings



## Sales Revenues and EBITDA by Type of Business

(in millions of euros)

| 2006 | | 1st quarter 2007 | 1st quarter 2006(*) | % change |
|---|---|---|---|---|
| | Core Business | | | |
| | **Electric Power Operations** (1) | | | |
| 6,945 | Sales revenues | 1,737 | 1,789 | (2.9%) |
| 1,162 | EBITDA | 291 | 285 | 2.1% |
| 16.7% | as a % of sales revenues | 16.8% | 15.9% | |
| | **Hydrocarbons Operations** (2) | | | |
| 4,171 | Sales revenues | 1,201 | 1,256 | (4.4%) |
| 434 | EBITDA | 123 | 59 | 108.5% |
| 10.4% | as a % of sales revenues | 10.2% | 4.7% | |
| | **Corporate Activities** | | | |
| 43 | Sales revenues | 11 | 11 | - |
| (70) | EBITDA | (18) | (17) | (5.9%) |
| n.m. | as a % of sales revenues | n.m. | n.m. | |
| | **Eliminations** | | | |
| (2,670) | Sales revenues | (726) | (630) | 15.2% |
| - | EBITDA | - | - | |
| | **Total core businesses** | | | |
| **8,489** | **Sales revenues** | **2,223** | **2,426** | **(8.4%)** |
| **1,526** | **EBITDA** | **396** | **327** | **21.1%** |
| **18.0%** | **as a % of sales revenues** | **17.8%** | **13.5%** | |
| | Other operations | | | |
| | **Continuing Operations** | | | |
| | **Water** | | | |
| 34 | Sales revenues | 8 | 9 | (11.1%) |
| 10 | EBITDA | 1 | 2 | (50.0%) |
| 29.4% | as a % of sales revenues | 12.5% | 22.2% | |
| | **Eliminations** | | | |
| - | Sales revenues | - | - | - |
| - | EBITDA | - | - | - |
| | **Total other operations** | | | |
| **34** | **Sales revenues** | **8** | **9** | **(11.1%)** |
| **10** | **EBITDA** | **1** | **2** | **(50.0%)** |
| **29.4%** | **as a % of sales revenues** | **12.5%** | **22.2%** | |
| | Edison Group | | | |
| **8,523** | **Sales revenues** | **2,231** | **2,435** | **(8.4%)** |
| **1,536** | **EBITDA** | **397** | **329** | **20.7%** |
| **18.0%** | **as a % of sales revenues** | **17.8%** | **13.5%** | |

(*) Data restated following the adoption of IFRIC 4.

(1) Activities carried out by the following Business Units: Electric Power Operations, Energy Management and Marketing & Distribution.

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

# REPORT ON OPERATIONS

# PERFORMANCE AND RESULTS OF THE GROUP IN THE FIRST QUARTER

## Operating Performance

In the first quarter of 2007, sales revenues were down 8.4% compared with the same period last year. The reduction is due to the lower sales volumes of electric power and natural gas and to the decrease of unit revenues of electric power, affected by the decline in raw material prices in the international markets.
Specifically, the electric power operations reported a 3.2% decrease in unit sales as the Group was able to use additional generating capacity, made possible in part by the full availability of the Torviscosa power plant, to partly offset a reduction in CIP6/92 business caused by the sale of Serene Spa (executed in December 2006 but closed in February 2007) with a gain in volumes sold on the deregulated market (+4.4%).
The decline of 11.2% in unit sales experienced by the hydrocarbons operations reflects a drop in consumption by residential users caused by the warmer weather that prevailed in the first quarter of 2007.

Despite a decrease in revenues, EBITDA rose to 397 million euros, or about 68 million euros more (+20.7%) than in the first three months of 2006. Both areas of business contributed to this gain.
For the electric power operations, this improvement reflects a streamlining of the sources and uses portfolio in the deregulated market. The higher sales on these markets more than offset the impact of the expiration of CIP6/92 incentives for some power plants and the absence of the EBITDA contribution provided in the past by Serene Spa and Edison Rete Spa.
The hydrocarbons operations were able to compensate for the impact of lower unit sales with a significant increase in profitability compared with the first quarter of 2006, when, however, margins had been reduced by a provision of about 27 million euros. Consistent with conservative accounting practices, the Group chose to recognize this provision to cover the costs that are expected to result from the enactment of Resolution No. 298/05, by which the AEEG updated customer gas rates for the first quarter of 2006 in accordance with Resolution No. 248/05. For additional information about this issue, please see the section of this Report entitled “Regulatory Framework.”

EBIT were also up significantly, rising from 184 million euros in the first quarter of 2006 to 228 million euros in the same period this year, despite an increase of 24 million euros in depreciation attributable primarily to a different method adopted in June 2006 to depreciate CIP6/92 power plants.

Consolidated profit before taxes totaled 170 million euros, up sharply from the 112 million euros reported at March 31, 2006, when, however, it was reduced by a charge for a provision set aside in connection with a fine imposed by the European Commission on the former Montedison Spa for alleged anti-competitive conduct of Ausimont Spa, a former subsidiary.

Taxes due for the period totaled 80 million euro, much more than the previous year (39 million euro), when the Group could benefit of the effect of a residual loss carryforward; moreover, the figure includes taxes due in previous periods and the effect of the depreciation of lands pertinent to plants and buildings, an item that the fiscal laws have recently turned into non tax deductible.

Net profit increased to 87 million euros, 19 million up from 68 the first quarter of 2006.

At March 31, 2007, net borrowings totaled 3,368 million euros (4,856 million euros at March 31, 2006), a significant reduction compared with the 4,256 million euros owed at December 31, 2006. The cash flow from operating activities (606 million euro), the exercise of warrants for 520 million euros, a positive operating performance and the completion of the sale of Serene Spa in February 2007, which had a positive impact of about 117 million euros on the consolidated net financial position, are the main reasons for this improvement. For a more detailed analysis of the main components of the figure, see the paragraph “Net Borrowings” in the chapter “Review of the Group’s Operating Performance and Financial Position”.

The table below provides a simplified breakdown of net borrowings:

(in millions of euros)

| 2006 | | 1/1/07-3/31/07 | 1/1/06-3/31/06 |
|---|---|---|---|
| **(4,820)** | **A. (Net borrowings) at beginnig of period** | **(4,256)** | **(4,820)** |
| 1,536 | EBITDA | 397 | 329 |
| (121) | Change in operating working capital | 114 | (139) |
| (93) | Income taxes paid (-) | - | - |
| (30) | Change in other assets (liabilities) | 95 | (87) |
| **1,292** | **B. Cash flow from operating activities** | **606** | **103** |
| (633) | Investments in property, plant and equipment, intangibles and non-current financial assets (-) | (293) | (96) |
| 373 | Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets | 113 | 9 |
| - | Dividends received | - | - |
| **1,032** | **C. Free cash flow** | **426** | **16** |
| (246) | Financial income (expense), net | (55) | (46) |
| - | Contributions of share capital and reserves | 520 | - |
| (196) | Dividends declared (-) | (3) | (6) |
| **590** | **D. Net cash flow from financial activities** | **888** | **(36)** |
| (26) | Change in the scope of consolidation | - | - |
| **564** | **E. Net cash flow for the period** | **888** | **(36)** |
| **(4,256)** | **F. (Net borrowings) at end of period** | **(3,368)** | **(4,856)** |

## Business Outlook for the Balance of the Year

The commissioning of the Simeri Crichi and Turbigo power plants in 2006 and the full availability of the facility in Torviscosa, which went on stream in the second half of 2006, coupled with the Group's efforts to optimize its energy portfolio, should produce 2007 industrial results that are in line with those reported in 2006, despite the uncertainties about the performance of the raw materials international market and the evolution of the relevant statutory and regulatory frameworks.

# THE ITALIAN ENERGY MARKET

## Demand for Electric Power in Italy

| 2006 | | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| 301.7 | Net production | 74.0 | 81.3 | (9.0%) |
| 44.7 | Imports | 13.1 | 7.4 | 76.7% |
| (8.6) | Surges | (2.0) | (2.2) | (11.4%) |
| **337.8** | **Total demand** | **85.1** | **86.5** | **(1.6%)** |

Source: Analysis of official 2006 data and preliminary 2007 Terna and AU data, before line losses.

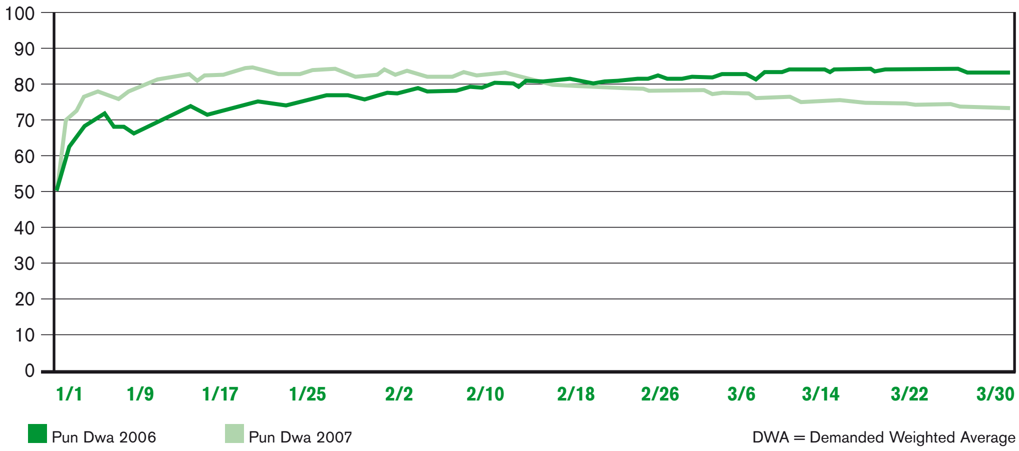
In the first quarter of 2007, gross total demand for electric power from the Italian grid amounted to 85.1 TWh (TWh = 1 billion kWh), or 1.6% less than in the same period last year. On a seasonally adjusted basis (i.e., eliminating the impact of changes in average temperature and the number of business days), the decrease is 1.7%.

Net of surges, domestic production was sufficient to meet 84.6% of demand, compared with 91.4% in the first three months of 2006. Net imports increased from 8.6% to 15.4%, returning to a level consistent with the significant price differentials that exists between Italy and the rest of Europe. In 2006, these differentials became reversed, producing a temporary but significant reduction in net imports.

The decrease in demand and the rise in net imports resulted in a significant reduction in thermoelectric production (-6.6 TWh).
In the area of renewable resources, hydroelectric output was down 11.9% and production from geothermal and wind power facilities was about the same as in the first quarter of 2006.
Demand from captive customers continued its steady decrease, falling to 37.8 TWh (41.8 TWh in the first three months of 2006), accounting for 44.4% of domestic demand. On the other hand, the deregulated market continued to expanded at a healthy pace (+6.5% in the first three months of 2007), reaching a level equal to 49.3% of total demand. Internal consumption accounts for the balance of domestic consumption (6.3%).

As for prices, the demand-weighted average Single National Price (abbreviated PUN in Italian) decreased to euros 74.9/MWh, or about 9.2% less than in the first three months of 2006 (euros 82.5/MWh). The chart below shows a comparison of the PUN trend in the first quarter of 2006 and 2007:

## Domestic Demand Weighted Cumulative Average



## Demand for Natural Gas in Italy

| 2006 | billions of m³ | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| 29.4 | Services and residential customers | 12.2 | 15.9 | (23.3%) |
| 21.1 | Industrial users | 5.4 | 5.6 | (3.3%) |
| 32.5 | Thermoelectric power plants | 8.3 | 8.1 | 2.7% |
| 0.5 | Transportation | 0.1 | 0.1 | - |
| **83.5** | **Total demand** | **26.0** | **29.7** | **(12.4%)** |

Source: Official 2006 data and preliminary 2007 data provided by the Ministry or taken from Edison estimates, net of system usage and leaks.

In the first quarter of 2007, Italian demand for natural gas decreased by about 12.4% (3.7 billion cubic meters in absolute terms) compared with the same period last year, falling to 26 billion cubic meters (net of system usage and leaks).

The main reason for this shortfall, which is substantially consistent with the downward trend of the closing quarter of 2006, is chiefly the result of unusually mild weather, which had a strong negative impact on consumption by residential users (-20% compared with the first three months of 2006).

As for conditions in the other segments of the market in the first quarter of 2007, demand from thermoelectric power plants was up slightly (+2.7%), but usage in this area had been constrained in the same period last year by measures introduced by the Ministry of Development in response to the natural gas emergency. At the same time, consumption by industrial users contracted by 3.3%, showing that the steady decline of the last few years is continuing.

With regard to supply sources, the following developments characterized the first quarter of 2007:
- a steady reduction in domestic production (-10.3% compared with the first quarter of 2006), consistent with the downward trend of recent years, which is expected to continue in the future;
- a temporary decrease in imports (-4.2% compared with the first three months of 2006), made possible in part by the suspension of the requirement to maximize imports as of February 2007 (in 2006, this requirement had been in effect for the entire first quarter);
- a sharp drop in the volumes drawn from storage facilities (48.4%, or 2.4 billion cubic meters, less than in the first three months of 2006) that reflected a decrease in demand.

## Economic Environment

In the first quarter of 2007, the price of Brent crude decreased compared with the same period in 2006. The average price was US dollar 57.80/bbl, or about US dollar 4.00/bbl less (-6.5%) than in the first three months of 2006.
At the same time, the euro appreciated versus the US dollar, rising to an average of US dollar1.31 for one euro, or 9.0% more than in the first three months of 2006.
In the first quarter of 2007, because of the greenback's lower value, the price of Brent crude stated in euros was 14.2% lower than in the first three months of 2006. Specifically, the average price of Brent crude was euros 44.10/bbl, down from euros 51.40/bbl in the first three months of 2006.

| 2006 | | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| 65.1 | Oil price US dollar/bbl (*) | 57.8 | 61.8 | (6.5%) |
| 1.26 | US dollar/euro exchange rate | 1.31 | 1.20 | 9.0% |
| 51.9 | Oil price euro/bbl | 44.1 | 51.4 | (14.2%) |

(*) Brent Dated/IPE

# REGULATORY FRAMEWORK

Among several rate-related measures enacted in the first quarter of 2007, the resolutions concerning the prices that could be charged for natural gas were particularly significant.

In this area, Resolution No. 248/04 issued by the AEEG at the end of 2004 targeted two segments of the natural gas market: sales to end users and sales to wholesalers with the objective of containing raw material costs. The resolution also introduced an obligation to renegotiate wholesale contracts retroactively, consistent with the new updating formula applied to the end-user market. This issue gave rise to a complex series of legal actions that culminated with the final annulment of Resolution No. 284/04 by the Council of State in January 2007.

Recently, in response to this decision and after consulting with industry operators, the AEEG published Resolution No. 79/07, resetting natural gas rates for the period from January 1, 2005 to March 30, 2007. This resolution calls for the following:

- for 2005, implementation of the updates set forth in Resolution No. 195/02;
- for the first half of 2006, implementation of the updating method introduced with Resolution No. 248/04 (which means a "cut" of the raw material quota compared with the amounts of Resolution No. 195/02);
- starting on July 1, 2006, adoption of the rates set forth in Resolution No. 134/06.

Consistent with these new resolutions, wholesalers and retailers will be required to renegotiate contracts that were signed after January 1, 2005 and were still in force in the first half of 2006 (specifically, the renegotiation obligation is deemed to have been complied with if a wholesalers offers a retailer a price equal to or lower than the rates set forth in Resolution No. 79/07). There is also a renegotiation incentive, equal to 50% of the difference between the indexing parameters of Resolution No. 195/02 and those of Resolution No. 248/04 in the first half of 2006.

However, some issues, such as who should be the beneficiary of the incentive (wholesaler or retailer) and the length of time to which the renegotiation should apply (first half of 2006 or the full 2005-2006 thermal year), were not settled by the new resolution.

# PERFORMANCE OF THE GROUP'S BUSINESSES

## Electric Power Operations

### Quantitative Data

**Sources**

| 2006 | GWh (*) | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| **51,923** | **Net production of the Edison Group:** | **13,682** | **13,211** | **3.6%** |
| 35,990 | - Thermoelectric power plants | 9,985 | 8,611 | 16.0% |
| 3,050 | - Hydroelectric power plants | 535 | 470 | 13.8% |
| 458 | - Wind farms | 167 | 158 | 5.7% |
| **12,425** | **Edipower** | **2,995** | **3,972** | **(24.6%)** |
| **1,471** | **Imports** | **452** | **290** | **55.8%** |
| **12,006** | **Other domestic purchases and swaps (1)** | **1,888** | **3,057** | **(38.2%)** |
| **65,400** | **Total sources** | **16,022** | **16,558** | **(3.2%)** |

(*) One GWh is equal to one million kWh (in terms of physical quantities).
(1) Net of line losses.

**Uses**

| 2006 | GWh (*) | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| 19,964 | CIP 6/92 dedicated | 4,848 | 5,586 | (13.2%) |
| 4,948 | Captive and other industrial customers | 1,116 | 1,289 | (13.4%) |
| 40,425 | Deregulated market | 10,058 | 9,635 | 4.4% |
| 63 | Exports | - | 48 | n.m. |
| **65,400** | **Total uses** | **16,022** | **16,558** | **(3.2%)** |

(*) One GWh is equal to one million kWh.

### Financial Highlights

| 2006 | (in millions of euros) | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| 6,945 | Sales revenues | 1,737 | 1,789 | (2.9%) |
| 1,162 | EBITDA | 291 | 285 | 2.1% |
| 16.7% | as a % of sales revenues | 16.8% | 15.9% | |
| | | | | |
| 347 | Capital expenditures | 81 | 60 | 35.0% |
| 1,962 | Number of employees (1) | 1,942 | 1,989 | (2.3%) |
| 6 | Employees of discontinued operations | - | - | |

(1) End-of-period amounts. The changes are computed against the data at December 31, 2006.
(*) Amounts restated due to the adoption of IFRIC 4.

Sales revenues grew to 1,737 million euros in the first quarter of 2007, down slightly (-2.9%) compared with the same period last year. As explained earlier in this Report, the absence of the contribution provided by Edison Rete Spa and Serene Spa in previous years and an across-the-board decline in energy prices account for this decrease.
EBITDA totaled 291 million euros, for a gain of 2.1% compared with the 285 million euros earned in the first three months of 2006.
This improvement in profitability reflects a strategy of optimizing the customer/sales channel portfolio in the deregulated markets. Gains in this area more than offset the loss of incentives for some CIP6/92 power plants and the absence of the EBITDA contribution provided in the past by the two divested companies Edison Rete Spa and Serene Spa.

### Sales and Marketing

In the first quarter of 2007, sales of electric power totaled 16,022 GWh, or 3.2% less than in the same period last year, as gains in the deregulated markets (+4.4%) were offset by lower CIP6/92 sales (-13.2%) attributable mainly to the abovementioned sale of Serene Spa.

During the first three months of 2007, ongoing trading activity on foreign power exchanges generated gains; these volumes (about 0.6 TWh) are not included in the "Sources" and "Uses" tables shown above.

### Production and Procurement

The Group's net production totaled 13,682 GWh in the first quarter of 2007, or 3.6% more than in the same period a year ago. The increase of 16.0% in thermoelectric production, which reflects the commissioning of the Torviscosa power plant and the full availability of the Altomonte facility, accounts for this improvement. On the other hand, the output of the Edipower power plants, whose oil fueled plants were no longer required to help address the natural gas emergency, decreased by 24.6%.
The power generated by the Group's hydroelectric power plants and wind farms increased by 13.8% and 5.7%, respectively.
During the first three months of 2007, as part of its source optimization strategy and as a consequence of an increase in internal production, imports of electric power decreased to 2,340 GWh, or 30.1% less than in the first quarter of 2006.

### Capital Investments

Capital expenditures totaled 81 million euros (including 13 million euros by Edipower) at March 31, 2005. The lion's share went for the construction of the Simeri (CZ) power plant. Edipower's capital expenditures, which the Group's recognizes at 50%, were used mainly for the repowering of the Turbigo (MI) power plant.

## Hydrocarbons Operations

### Quantitative Data

**Sources**

| 2006 | millions of m³ of natural gas | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| **1,068** | **Total net production:** | **237** | **298** | **(20.5%)** |
| 712 | - Production in Italy | 174 | 187 | (7.0%) |
| 356 | - Production outside Italy | 63 | 111 | (43.2%) |
| **7,705** | **Pipeline imports** | **1,821** | **2,188** | **(16.7%)** |
| **62** | **LNG imports** | **-** | **62** | **n.m.** |
| **4,804** | **Domestic and other purchases [1]** | **1,862** | **1,866** | **(0.2%)** |
| **13,639** | **Total sources** | **3,920** | **4,414** | **(11.2%)** |

[1] Includes inventory changes and pipeline leaks.

**Uses**

| 2006 | millions of m³ of natural gas | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| 3,306 | Residential use | 1,110 | 1,778 | (37.6%) |
| 1,164 | Industrial use | 303 | 337 | (10.1%) |
| 8,312 | Thermoelectric fuel use | 2,374 | 2,088 | 13.7% |
| 356 | Exports | 63 | 111 | (43.2%) |
| 501 | Other sales | 70 | 100 | (30.4%) |
| **13,639** | **Total uses** | **3,920** | **4,414** | **(11.2%)** |

### Financial Highlights

| 2006 | (in millions of euros) | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| 4,171 | Sales revenues | 1,201 | 1,256 | (4.4%) |
| 434 | EBITDA | 123 | 59 | 108.5% |
| 10.4% | as a % of sales revenues | 10.2% | 4.7% | |
| | | | | |
| 133 | Capital expenditures | 45 | 11 | n.m. |
| 41 | Investments in exploration | 7 | 11 | (36.4%) |
| 433 | Number of employees [1] | 448 | 437 | 2.5% |

[1] End-of-period amounts. The changes are computed against the data at December 31, 2006.

In the first quarter of 2007, sales revenues totaled 1,201 million euros, compared with 1,256 million euros a year ago. This modest decrease reflects primarily a reduction in unit sales caused by milder winter weather than in 2006.
On the other hand, EBITDA were up sharply, rising from 59 million euros in the first three months of 2006 to 123 million euros in the same period this year.
The profitability of the hydrocarbons operations benefited form the improved margins generated by the renegotiated price paid for natural gas purchased under some long-term contracts. At the same time, it was not diminished by the conservative decision to set aside a provision of about 27 million euros to recognize the potential impact of Resolution No. 298/05, by which the AEEG updated customer gas rates for the first quarter of 2006 in accordance with Resolution No. 248/05.

## Sales and Marketing

In the first quarter of 2007, unit sales of natural gas totaled 3,920 million cubic meters, or 11.2% less than in the same period last year. The reasons explained earlier in this Report account for this decrease. Specifically, sales to residential users were down 37.6% and those to industrial users decreased by 10.1%. On the other hand, deliveries to thermoelectric users grew by 13.7% to 2,374 million cubic meters, due to increased demand from the Group's new thermoelectric power plants.

Wholesalers bought 70 million cubic meters of natural gas, compared with 100 million cubic meters in the first three months of 2006.

## Production and Procurement

In the first quarter of 2007, net production of natural gas totaled 237 million cubic meters, or 20.5% less than in the same period last year, with decreases of 7.0% in Italy due to the natural depletion of the fields and 43.2% abroad, due to some technical difficulties in the Egyptian Rosetta fields.

Volumes were also down on the procurement side. Natural gas imports decreased to 1,821 million cubic meters, compared with 2,250 million cubic meters in the first quarter of 2006, when operators were required to maximize imports. Domestic purchases were roughly the same as in the first three months of 2006.

Production of crude oil totaled 718,000 barrels, up 35.7% compared with the first quarter of 2006.

## Capital Investments

Capital expenditures totaled about 45 million euros in the first quarter of 2007. The main projects carried out in Italy involved building the Cavarzere-Minerbio gas pipeline (23 million euros), expanding the Collalto storage facility (7 million euros) and drilling new production wells in the Emma field in the Adriatic Sea (about 5 million euros). In Egypt, about 3 million euros were invested in the additional work needed to continue the development of the Rosetta concession.

## Exploration Activities

During the first quarter of 2007, the Group invested about 7 million euros in hydrocarbon exploration. Of this amount, 5 million euros were used for projects outside Italy, the largest of which involved 3-D seismic mapping in connection with exploration activities in Senegal. The Group was also awarded a new exploration block in Egypt (Sidi Abd el Rahman, with Edison as operator), a formal contract for which will be signed later this year, and, working through joint ventures with other partners, obtained five exploration permits in Norway.

# Corporate Activities

## Financial Highlights

| 2006 | (in millions of euros) | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| 43 | Sales revenues | 11 | 11 | - |
| (70) | EBITDA | (18) | (17) | (5.9%) |
| n.m. | as a % of sales revenues | n.m. | n.m. | |
| | | | | |
| 1 | Capital expenditures | - | - | n.m. |
| 525 | Number of employees (1) | 528 | 527 | 0.2% |

(1) End-of-period amounts. The changes are computed against the data at December 31, 2006.

Corporate Activities, which consist of those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature and of certain holding companies and real estate companies, had revenues of 11 million euros, about the same as in the first quarter of 2006.

EBITDA were negative by 18 million euros, also roughly in line with the loss reported a year ago.

## Capital Increases

The capital increases carried out during the first three months of 2007 (519,564,810 euros) reflect conversions of outstanding Edison warrants. These warrants can be exercised at any time until December 31, 2007 to buy Company shares. At March 31, 2007, there were 499,052,114 warrants outstanding.

# Other Continuing Operations

## Water Distribution and Treatment (IWH)

## Financial Highlights

| 2006 | (in millions of euros) | 1st quarter 2007 | 1st quarter 2006 | % change |
|---|---|---|---|---|
| **34** | **Sales revenues** | **8** | **9** | **(11.1%)** |
| 10 | EBITDA | 1 | 2 | (50.0%) |
| 29.4% | as a % of sales revenues | 12.5% | 22.2% | |
| | | | | |
| 8 | Capital expenditures | 2 | 2 | - |
| 3 | Number of employees (1) | 3 | 4 | - |

(1) End-of-period amounts. The changes are computed against the data at December 31, 2006.
Note: The data in the table above reflect the Group's interest in operations that are consolidated at 50% by the proportional method.

Revenues for the first three months of 2007 totaled 8 million euros. They were generated by operations carried out in Guayaquil (Ecuador) under license. EBITDA amounted to 1 million euros.

# Management and Types of Financial Risks

Information about the activities carried out by the Edison Group to manage risk is provided in the section of the Notes to the Financial Statements entitled "Types of Financial Risks and Hedging Strategies."

# CONSOLIDATED FINANCIAL STATEMENTS

at March 31, 2007

# Consolidated Balance Sheet

| 3/31/06 restated as per IFRIC 4 | (in millions of euros) | See Note | 3/31/2007 | 12/31/2006 |
|---|---|---|---|---|
| | **ASSETS** | | | |
| 8,527 | Property, plant and equipment | 1 | 8,023 | 8,057 |
| 48 | Investment property | *2* | 40 | 40 |
| 3,505 | Goodwill | *3* | 3,518 | 3,518 |
| 332 | Hydrocarbon concessions | *4* | 317 | 323 |
| 36 | Other intangible assets | *5* | 42 | 44 |
| 59 | Investments in associates | *6* | 45 | 44 |
| 85 | Available-for-sale investments | *6* | 142 | 122 |
| 126 | Other non-current financial assets | *7* | 145 | 130 |
| 121 | Deferred-tax assets | *8* | 109 | 102 |
| 282 | Other assets | *9* | 49 | 85 |
| **13,121** | **Total non-current assets** | | **12,430** | **12,465** |
| 172 | Inventories | | 133 | 387 |
| 2,068 | Trade receivables | | 1,579 | 1,943 |
| 6 | Current-tax assets | | 42 | 15 |
| 350 | Other receivables | | 326 | 276 |
| 66 | Current financial assets | | 221 | 42 |
| 478 | Cash and cash equivalents | | 439 | 298 |
| **3,140** | **Total current assets** | 10 | **2,740** | **2,961** |
| **-** | **Assets held for sale** | 11 | **-** | **231** |
| **16,261** | **Total assets** | | **15,170** | **15,657** |
| | **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| 4,273 | Share capital | | 4,793 | 4,273 |
| 612 | Equity reserves | | 606 | 606 |
| 944 | Other reserves | | 1,135 | 1,116 |
| 1 | Reserve for currency translations | | (4) | (3) |
| 442 | Retained earnings (Loss carryforward) | | 730 | 97 |
| 68 | Profit (Loss) for the period | | 87 | 654 |
| **6,340** | **Total Group interest in shareholders' equity** | | **7,347** | **6,743** |
| 153 | Minority interest in shareholders' equity | | 130 | 147 |
| **6,493** | **Total shareholders' equity** | 12 | **7,477** | **6,890** |
| 75 | Provision for employee severance indemnities and provisions for pensions | *13* | 73 | 72 |
| 1,091 | Provision for deferred taxes | *14* | 757 | 752 |
| 948 | Provision for risks and charges | *15* | 879 | 881 |
| 2,858 | Bonds | *16* | 1,201 | 1,207 |
| 1,702 | Long-term borrowings and other financial liabilities | *17* | 1,323 | 502 |
| 246 | Other liabilities | *18* | 7 | 2 |
| **6,920** | **Total non-current liabilities** | | **4,240** | **3,416** |
| - | Bonds payable | | 1,477 | 1,457 |
| 902 | Short-term borrowings | | 106 | 1,461 |
| 1,468 | Trade payables | | 1,072 | 1,576 |
| 58 | Current taxes payable | | 45 | 26 |
| 420 | Other liabilities | | 753 | 694 |
| **2,848** | **Total current liabilities** | 19 | **3,453** | **5,214** |
| **-** | **Liabilities held for sale** | 20 | **-** | **137** |
| **16,261** | **Total liabilities and shareholders' equity** | | **15,170** | **15,657** |

# Consolidated Income Statement

| (in millions of euros) | See note | 1/1/2007-3/31/2007 | 1/1/2006-3/31/06 restated as per IFRIC 4 |
|---|---|---|---|
| Sales revenues | 21 | 2,231 | 2,435 |
| Other revenues and income | 22 | 94 | 192 |
| **Total net revenues** | | **2,325** | **2,627** |
| Raw materials and services used (-) | 23 | (1,876) | (2,248) |
| Labor costs (-) | 24 | (52) | (50) |
| **EBITDA** | 25 | **397** | **329** |
| Depreciation, amortization and writedowns (-) | 26 | (169) | (145) |
| **EBIT** | | **228** | **184** |
| Net financial income (expense) | 27 | (55) | (46) |
| Income from (Expense on) equity investments | 28 | (4) | 2 |
| Other income (expense), net | 29 | 1 | (28) |
| **Profit before taxes** | | **170** | **112** |
| Income taxes | 30 | (80) | (39) |
| **Profit (Loss) from continuing operations** | | **90** | **73** |
| Profit (Loss) from discontinued operations | 31 | - | - |
| **Profit (Loss) for the period** | | **90** | **73** |
| Breakdown: | | | |
| Minority interest in profit (loss) | | 3 | 5 |
| **Group interest in profit (loss)** | | **87** | **68** |
| Earnings per share (in euros) | 32 | | |
| basic | | 0.0182 | 0.0150 |
| diluted | | 0.0169 | 0.0137 |

## Cash Flow Statement

The table below analyzes the **cash flow** as it applies to short-term liquid assets at March 31, 2007 and provides a comparison with the corresponding data at March 31, 2006.
The information provided below is supplemented by the data presented in a separate statement, included in the Report on Operations, which shows the changes in net financial position. The latter statement is designed to offer a better understanding of the Group's cash generation and utilization dynamics.

| 2006 Full year | (in millions of euros) | 1/1/2007-3/31/2007 | 1/1/2006-3/31/2006 restated as per IFRIC 4 |
|---|---|---|---|
| 542 | Group interest in profit (loss) from continuing operations | 87 | 68 |
| 112 | Group interest in profit (loss) from discontinued operations | - | - |
| **654** | **Total Group interest in profit (loss)** | **87** | **68** |
| 8 | Minority interest in profit (loss) | 3 | 5 |
| 700 | Amortization and depreciation | 167 | 145 |
| (2) | Interest in the result of companies valued by the equity method (-) | - | (1) |
| - | Dividends received from companies valued by the equity method | - | - |
| 1 | (Gains) Losses on the sale of non-current assets | (3) | - |
| 84 | (Revaluations) Writedowns of intangibles and property, plant and equipment | 2 | - |
| 2 | Change in the provision for employee severance indemnities | 1 | 1 |
| (413) | Change in other operating assets and liabilities | 246 | (143) |
| **1,034** | **A. Cash flow from operating activities of continuing operations** | **503** | **75** |
| (548) | Additions to intangibles and property, plant and equipment (-) | (135) | (85) |
| (85) | Additions to non-current financial assets (-) | (158) | (11) |
| 28 | Proceeds from the sale of intangibles and property, plant and equipment | 15 | 9 |
| 345 | Proceeds from the sale of non-current financial assets | 98 | - |
| - | Capital grants received during the year | - | - |
| 29 | Change in the scope of consolidation | - | - |
| 34 | Other current assets | (179) | (10) |
| **(197)** | **B. Cash used in investing activities** | **(359)** | **(97)** |
| 1,203 | Receipt of new medium-term and long-term loans | 935 | 40 |
| (1,712) | Redemption of new medium-term and long-term loans (-) | (1,274) | (140) |
| - | Capital contributions provided by controlling companies or other shareholders | 520 | - |
| (196) | Dividends paid to controlling companies or minority shareholders (-) | (3) | (6) |
| (181) | Change in short-term debt | (181) | 245 |
| **(886)** | **C. Cash used in financing activities** | **(3)** | **139** |
| **4** | **D. Cash and cash equivalents of discontinued operations** | **-** | **-** |
| **-** | **E. Net currency translation differences** | **-** | **-** |
| **(45)** | **F. Net increase in cash and cash equivalents (A+B+C+D+E)** | **141** | **117** |
| **361** | **G. Cash and cash equivalents at beginning of period** | **298** | **361** |
| **316** | **H. Cash and cash equivalents at end of period (F+G)** | **439** | **478** |
| **316** | **I. Total cash and cash equivalents at end of period (H)** | **439** | **478** |
| **(18)** | **L. (-) Cash and cash equivalents of discontinued operations** | **-** | **-** |
| **298** | **M. Cash and cash equivalents of continuing operations (I-L)** | **439** | **478** |

## Changes in Consolidated Shareholders' Equity

| (in millions of euros) | Share capital (a) | Reserves and retained earn. (loss carryforward (b) | Reserve for currency translations (c) | Profit for the period (d) | Group interest in sharehold. equity (a+b+c+d)=(e) | Minority inter. in sharehold. equity (f) | Total shareholders' equity (e)+(f) |
|---|---|---|---|---|---|---|---|
| **Balance at 12/31/05 restated as per IFRIC 4** | **4,273** | **1,492** | **3** | **504** | **6,272** | **159** | **6,431** |
| Share capital increase for conversion of warrants | - | - | - | - | - | - | - |
| Appropriation of the 2005 profit | - | 504 | - | (504) | - | - | - |
| Restatements for adoption of IAS 32 and IAS 39 | - | (10) | - | - | (10) | - | (10) |
| Change in the scope of consolidation | - | - | - | - | - | (6) | (6) |
| Dividend distribution | - | (183) | - | - | (183) | (13) | (196) |
| Difference from translation of financial statements in foreign currencies and sundry items | - | 16 | (6) | - | 10 | (1) | 9 |
| Profit at December 31, 2006 | - | - | - | 654 | 654 | 8 | 662 |
| **Balance at 12/31/2006** | **4,273** | **1,819** | **(3)** | **654** | **6,743** | **147** | **6,890** |
| Share capital increase for conversion of warrants | 520 | - | - | - | 520 | - | 520 |
| Reclassification of prior period earnings | - | 654 | - | (654) | - | - | - |
| Restatements for adoption of IAS 32 and IAS 39 | - | 19 | - | - | 19 | - | 19 |
| Change in the scope of consolidation | - | - | - | - | - | - | - |
| Dividend distribution | - | - | - | - | - | (10) | (10) |
| Difference from translation of financial statements in foreign currencies and sundry items | - | (21) | (1) | - | (22) | (10) | (32) |
| Profit at March 31, 2007 | - | - | - | 87 | 87 | 3 | 90 |
| **Balance at 3/31/2007** | **4,793** | **2,471** | **(4)** | **87** | **7,347** | **130** | **7,477** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT MARCH 31, 2007

The Edison Group's quarterly report at March 31, 2007 was prepared in accordance with Article 82 of Consob Regulation No. 11971 of May 14, 1999 and is consistent with the provisions of IAS 34 "Interim Financial Reporting," which provides guidelines for the preparation of interim financial statements. When preparing its financial statements, including those for its quarterly report, the Edison Group applies the International Financial Reporting Standards (IAS/IFRS), as approved by the European Union.

The principles of consolidation, the criteria used to translate financial statements denominated in foreign currencies, the accounting principles and the valuation criteria and estimates used are consistent with those applied in the preparation of the Annual Report at December 31, 2006, which should be consulted for more detailed information.

In addition, the data at March 31, 2006 have been restated to reflect the impact of adopting the interpretation provided in IFRIC 4 "Determining Whether an Arrangement Contains a Lease." In the first quarter of 2006, this interpretation had not been adopted, as its impact on the entire Group was still being assessed. The main changes that the adoption of IFRIC 4 produced on the quarterly financial statements at March 31, 2006 are reviewed below:

- On the balance sheet, the derecognition of certain components of property, plant and equipment and the concurrent recognition of non-current loans receivable, for a net incremental impact of 3 million euros on shareholders' equity;
- On the income statement, a reduction in sales revenues, a decrease in service costs, lower depreciation and recognition of financial income, for a net positive effect of 1 million euros.

With regard to additional international accounting principles and interpretations published in the *Official Journal of the European Union*, the following principles will be applicable starting in 2007:

- IFRS 7 "Financial Instruments: Disclosures," which requires additional disclosures concerning the nature and extent of risks arising from financial instruments.
- IFRIC 8 "Scope of IFRS 2;"
- IFRIC 9 "Reassessment of Embedded Derivatives."

These principles have no impact on the valuation of the Group's accounts in that they merely expand the disclosures that have to be provided in the notes with regard to financial instruments.
Unless otherwise stated, the amounts listed in this quarterly report are in millions of euros.
The quarterly financial statements at March 31, 2007 have not been audited.

## Presentation Formats of the Financial Statements Adopted by the Group

The presentation formats chosen by the Group have the following characteristics:

- **Balance Sheet**: Assets and liabilities are analyzed by maturity. Current and non-current items, which are due within or after 12 months from the balance sheet date, respectively, are shown separately.
- **Income Statements**: The Company has selected a step-by-step income statement, with the different components analyzed by type.
- **Cash Flow Statement**: The cash flow statement was prepared in accordance with the indirect method.

## Changes in the Scope of Consolidation Compared with December 31, 2006

The main changes in the scope of consolidation that occurred in the first three months of 2007 are reviewed below:

**Electric Power Operations:**

- In the first quarter of 2007, Thisvi Power Generation Plant Sa was consolidated line by line, following the Group's purchase of a 65% interest in its share capital at a price of about 100,000 euros.

**Corporate Activities:**

- In January 2007, upon the exercise of a put option held by the seller, Edison Spa purchased from EDF International the 20% of Finel Spa's share capital it did not own at a cost of about 137 million euros. Finel was already consolidated at 100%. At the end of 2006, the value of the put, which had already been exercised, was recognized as a financial liability.

**Assets Held for Sale**

- On February 14, 2007, after receiving the requisite approval of the relevant antitrust authority, Edison Spa completed the sale of a 66.2% interest in Serene Spa to BG Italia Spa. This sale had no financial impact in the first quarter of 2007, and a positive impact of 117 million euros on net borrowings.

# TYPES OF RISKS AND HEDGING STRATEGIES

In 2006, as required by the provisions of the Code of Conduct for Listed Companies, Edison began to implement an integrated risk control model based on international enterprise risk management standards and on the definition of a global corporate risk management model and risk mapping and risk scoring methods.

The risk model adopted classifies risks in accordance with two fundamental criteria:
- The origin of the risk, which, consistent with the guideline of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management (ERM) – Integrated Framework; is used to classify risks as external risks, process risks and strategic and business objective risks;
- The method most frequently used to quantify risk, which divides risks into market risk, credit risk, operational risks and other risks, which consist primarily of strategic and reputational risks, in accordance with the guidelines of Basel II.

## Market Risk

This category includes all of the risks that are linked directly or indirectly with price fluctuations in the markets for physical goods or in the financial markets in which the Company operates. These risks are:
- commodity risk, which is caused by volatility in the prices of energy commodities and environmental securities;
- foreign exchange risk;
- interest rate risk;
- liquidity risk, which arises from a potential lack of financial resources to meet short-term obligations.

With a few minor exceptions that concern mainly Edipower, Edison manages the risk linked with the price of energy commodities and the related foreign exchange risk through a process based on the principle of segregating and separating the risk control and management function, which is handled centrally by Edison Spa under the direct supervision of the Chief Financial Officer, from the transaction activity in the financial markets, which is handled by Edison Trading Spa for the commodity markets and by the Finance Department for exchange rates.

Specifically, the Energy Risk Policies adopted to manage the commodity price risk and the related foreign exchange risk allow the ongoing monitoring of the Group's net exposure, which is computed, for the Group's entire portfolio of assets and contracts, as the sum of the transactions executed by all Group entities, and compares the total level of financial risk assumed (Profit at Risk) against a predetermined ceiling approved by the Board of Directors concurrently with the annual Budget.
The Risk Management Committee, which is headed by a senior executive, reviews monthly the Group's net exposure and, if the Profit at Risk is higher then the predetermined ceiling, defines the appropriate hedging strategies, which may involve the use of derivatives.

## Commodity Risk and Exchange Rates Risk Related to Commodity Transactions

The Group is exposed to price risk, including the related currency risk, for all of the energy commodities with which it is involved, including electric power, natural gas, coal, oil and refined products. This risk exists because both purchases and sales are affected by fluctuations in the prices of energy commodities (mainly affecting fuels priced in US dollars). The effect of these fluctuations can be felt both directly and indirectly, through pricing formulas and indexing mechanisms included in pricing structures.

In its management of price risk, the Group uses the financial markets for hedging purposes only to a limited degree, relying instead on exploiting the vertical and horizontal integrations of its different business operations. The first step toward achieving this goal is to plan how to physically balance the volumes of the Group's actual market sales of energy commodities among the various delivery deadlines by using proprietary production assets and the existing portfolio of medium/long-term contracts and spot contracts.

In addition, the Group pursues a policy designed to achieve homogeneity of physical sources and uses, so that the formulas and indexing mechanisms that affect revenues from the sale of energy commodities reflect, as closely as possible, the formulas and indexing mechanisms that have an impact on the costs the Group incurs to purchase energy commodities in the market and acquire supplies for its production assets.

To manage the residual risk, the Group can use the structured hedges that are available in the financial markets, in accordance with a cash flow hedging strategy. Hedging transactions can be used to lock in the margin on an individual transaction or a limited number of like transactions (operational hedging), or to protect a maximum level of exposure to price risk, computed in a centralized manner for the Group's entire net portfolio, for a legal entity that is part of the Group or a group of physical and contractual assets that, taken as a whole, are significant for the Group (strategic hedging). Transactions in financial derivative hedges are executed in a manner consistent with the Group's risk management policy and procedures and with the support of a special internal deal capture system. Edison does execute speculative derivative contracts unless they include close and specific stop-loss limits.

## Foreign Exchange Risk not Related to Commodity Risk

With the exception of issues reviewed above in the paragraph that discusses the commodity risk, the Group does not have a significant exposure to currency risks. Whatever exposure there is, it is concentrated in the translation of the financial statements of certain foreign subsidiaries, since most of the Group's operating companies use the same currency for invoices issued and invoices received.

## Interest Rate Risk

Edison is exposed to fluctuations in interest rates because they affect the fair value of financial assets and liabilities and the amount of its net financial expense. The strategy pursued by the Group is to have substantially balanced positions in its fixed- and variable-interest exposure, with the goal of minimizing the impact of market-rate fluctuations.

At March 31, 2007 the Group's exposure to the risk of changes in interest rates is about 28% of its total exposure; despite the fact that some no substantial changes have occurred in the existing hedges, the exposure to fluctuations in interest rates has decreased, due mainly to a reduction in average indebtedness. Once the bonds due in 2007 will arrive to maturity and the concerning hedges will be extinguished, the percentage will increase again.

## Liquidity Risk

The liquidity risk represents the risk that the Company may not have access to sufficient financial resources to meet its financial obligations in accordance with agreed terms and maturities.
Edison follows a conservative policy in its management of liquidity risk, which requires the Company to adopt a strategy specifically designed to ensure that unexpected cash disbursements will not create a problem for the Group. The minimum goal is to make certain that, at all times, the Company has access to sufficient committed financing facilities to repay indebtedness that will come due over the following 12 months.
In addition, the Group's funding needs are provided by long-term financing, consisting mainly of bond issues.

## Credit Risk

The credit risk represents Edison's exposure to potential losses that could be incurred if a counterpart fails to meet its obligations.
This risk can arise from several factors that are technical/commercial or administrative/legal in nature (disputes over the type/quantity of goods supplied, the interpretation of contractual clauses, supporting invoices, etc.) or as a result of strictly financial issues that, in essence, reflect the credit standing of the counterparty.
Edison's exposure to credit risk is due mainly to its growing commercial activity as a seller of electric power and natural gas in the deregulated market.
To control this risk, the Group has adopted an organization and, having established credit management guidelines, implemented procedures and programs designed to evaluate customer credit wor-

thiness (using specially designed scoring grids) and subsequently monitor the projected cash flows and any collection actions.
Lastly, when it comes to choosing counterparties for transactions to manage temporary excess liquidity or execute financial hedging contracts (derivatives), the Group deals only with, reliable entities that enjoy a high standing in the international markets.

## Operational Risks

Operational risks are the risks that the Company or third parties could incur due to the inadequacy or dysfunction of procedures, human resource and systems. They include legal risks and risks posed by external events.

In this area, Edison's operations include building and operating power plants and hydrocarbon facilities that are technologically complex and interconnected along the entire value chain. The risk of losses or damages can arise as a result of the sudden unavailability of one or more pieces of equipment that are critical for the production processes due to material damages to the equipment or components thereof, which cannot be fully covered or transferred through insurance policies. Prevention and control programs designed to contain the frequency of these events or reduce their impact entail the adoption of stringent safety standards and frequent overhaul plans, contingency planning and scheduled maintenance. When appropriate, effective risk management policies and customized industrial insurance programs can be used to minimize the consequences of these damages.

A major source of risk is the ongoing evolution of the reference statutory and regulatory framework, which has an impact mainly on the rates charged, the quality of the service provided and the level of technical and operational compliance. Edison constantly monitors changes in this area to comply promptly with any changes, while working to minimize any resulting financial impact.

In the area of operational risk, the information systems that help manage the technical, commercial and administrative aspects of the Group's operations are especially significant. In order to limit the risk of an interruption of activity due to a system fault, Edison has adopted hardware and software architectures with a high reliability configuration for those applications that support critical activities. In addition, the services provided by the Group's outsourcer, include a disaster recovery service that guarantees short recovery times.

## Analysis of Forward Transactions and Derivatives

The Edison Group uses financial derivatives as part of a cash flow hedge strategy to protect its physical and contractual assets from fluctuations in the price risk factors to which it is exposed, especially the prices of energy commodities (natural gas, oil and its by-products, coal, and electric power) and the euro/US dollar exchange rate.
When disclosing hedging transactions in the financial statements, care is used to ensure compliance with the requirements of IAS 39 for hedge accounting purposes.

More specifically:

1) **Transactions that qualify as hedges in accordance with IAS 39.** They can be cash flow hedges or fair value hedges. In the case of cash flow hedges, which are the only ones used by the Group, results are included in EBITDA when realized. Their projected value is reflected in shareholders' equity.
2) **Transactions that do not qualify as hedges in accordance with IAS 39.** They can be:
   a. Margin hedges. For all hedging transactions that comply with internal risk policies and procedures, realized results and expected value are included in EBITDA.
   b. Trading transactions. For all remaining transactions, realized results and expected value are recognized as financial income or expense and included in EBITDA.

Absent a market forward curve, the fair value of financial derivatives related to electric power is computed on the basis of internal estimates using models that incorporate best industry practices.

### Instruments Outstanding at March 31, 2007

The data shown in the tables below provide the following information:

- Derivatives that were outstanding at December 31, classified by maturity;
- The value at which these contracts are reflected on the balance sheet, which is their fair value on the date of the financial statements.
- The pro rata share of the fair value referred to above that was recognized on the income statement from the date of execution to the reporting date.

The difference, if any, between the value on the balance sheet and the fair value recognized on the income statement is the fair value of contracts that qualify as cash flow hedges, which, in accordance with the reference accounting principles, is posted directly to equity reserves.

## A) Interest Rates and Foreign Exchange Rates

| (in millions of euros) | Notional amount (*) | | Notional amount (*) | | Notional amount (*) | Balance sheet value (**) | Cumulative impact on the income statement at 3/31/2007 (***) |
|---|---|---|---|---|---|---|---|
| | due within 1 year | | due between 2 and 5 years | | due after | | |
| | receivable | payable | receivable | payable | 5 years | | |
| **Interest rate risk management** | | | | | | | |
| - cash flow hedges in accordance with IAS 39 | - | 765 | - | 200 | 14 | 2 | - |
| - contracts that do not qualify as hedges in accordance with IAS 39 | - | 1,301 | - | 2,230 | 124 | (19) | (19) |
| **Total interest-rate derivatives** | **-** | **2,066** | **-** | **2,430** | **138** | **(17)** | **(19)** |
| **Foreign exchange rate risk management** | | | | | | | |
| - contracts that qualify as hedges in accordance with IAS 39 | | | | | | | |
| • On commercial transactions | 1,059 | 333 | | | | (8) | - |
| • On financial transactions | - | 12 | | | | - | - |
| - contracts that do not qualify as hedges in accordance with IAS 39 | | | | | | | |
| • On commercial transactions | 35 | - | | | | - | - |
| • On financial transactions | - | - | - | | | - | - |
| **Total foreign exchange rate derivatives** | **1,094** | **345** | **-** | | | **(8)** | **-** |

(*) Represent the sum of the notional amounts of the basic contracts that would result from an unbundling of complex contracts.
(**) Represent the net credit (+) or debit (-) recognized on the balance sheet following the measurement of derivatives at fair value.
(***) Represent the cumulative adjustment to fair value recognized on the income statement from the inception of the contract until the date of the financial statements.

## B) Commodities

| | Unit of measure of notional amount | Notional amount due within one year (*) | Notional amount due within two years (*) | Notional amount due after two years (*) | Balance sheet value (**) (in millions of euros) | Cumulative impact on the income statement at 3/31/07 (***) (in millions of euros) |
|---|---|---|---|---|---|---|
| **Price risk management for energy products** | | | | | | |
| **A. Cash flow hedges pursuant to IAS 39, broken down as follows:** | | | | | **25** | **-** |
| - Electric power | TWh | (5.0) | | | - | - |
| - LNG, oil | Barrels | 4,572,250 | | | 25 | - |
| - Other commodities | - | - | | | - | - |
| **B. Contracts that qualify as fair value hedge pursuant to IAS 39** | | | | | **-** | **-** |
| **C. Contracts that do not qualify as fair value hedges pursuant to IAS 39, broken down as follows** | | | | | **2** | **2** |
| **C.1 Margin hedges** | | | | | **2** | **2** |
| - Electric power | TWh | (1.4) | | | 3.0 | 3.0 |
| - LNG and oil | Barrels | - | | | - | - |
| - Coal | Millions of tons | - | | | - | - |
| - $CO_2$ | Millions of tons | 1.0 | 1.0 | 1.5 | (1.0) | (1.0) |
| **C.2 Trading contracts** | | | **-** | **-** | | |
| - Electric power | TWh | - | | | - | - |
| - LNG and oil | Barrels | - | | | - | - |
| **Total** | | | | | **27** | **2** |

(*) + for net purchases, - for net sales.
(**) Represents the net credit (+) or debit (-) recognized on the balance sheet following the measurement of derivatives at fair value.
(***) Represents the cumulative adjustment to fair value recognized on the income statement from the inception of the contract until the date of the financial statements.

### Valuation of the "CIP 6/92 2007" Contract

As explained in the notes to the consolidated financial statements at December 31, 2006, this instrument could not be measured at fair value because the indexing percentage required to measure it at fair market value was not available as of March 31, 2006. In any case, the gain realized on this instrument in the first quarter of 2007 amounted to about 4 million euros.

## Financial Results Generated by Derivative Transactions in the First Quarter of 2007

The table below provides an analysis of the financial results generated by derivative transactions in the first quarter of 2007. The income statement line "Materials and services used" includes the impact of the effective portion of commodity related foreign exchange hedges, which had a negative impact of about 1 million euros.

| (in millions of euros) | Realized in 2007 (A) | Fair value recognized for contracts outstanding at 12/31/06 (B) | Portion of (B) contracts realized in 2007 | Fair value recognized for contracts outstanding at 3/31/07 (C) | Change in fair value in 2007 (D=C-B) | Amounts recognized in earnings (A+D) |
|---|---|---|---|---|---|---|
| **Other revenues and income** | | | | | | |
| **Price risk hedges for energy products** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) | - | - | - | - | - | - |
| - not definable as hedges pursuant to IAS 39 | 18 | 5 | 5 | 5 | - | 18 |
| **Exchange risk hedges for commodities** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) | - | - | - | - | - | - |
| - not definable as hedges pursuant to IAS 39 | - | - | - | - | - | - |
| **Total (A)** | **18** | **5** | **5** | **5** | **-** | **18** |
| **Raw materials and services used** | | | | | | |
| **Price risk hedges for energy products** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) | - | - | - | - | - | - |
| - not definable as hedges pursuant to IAS 39 | (22) | (3) | (1) | (3) | - | (22) |
| **Exchange risk hedges for commodities** | | | | | | |
| - definable as hedges pursuant to IAS 39 (CFH) | (1) | - | - | - | - | (1) |
| - not definable as hedges pursuant to IAS 39 | - | - | - | - | - | - |
| **Total (B)** | **(23)** | **(3)** | **(1)** | **(3)** | **-** | **(23)** |
| **TOTAL INCLUDED IN EBITDA (A+B)** | **(5)** | **2** | **4** | **2** | **-** | **(5)** |
| **Net financial income (expense)** | | | | | | |
| **Price risk hedges for energy products** | | | | | | |
| - Gains on trading transactions | - | 1 | 1 | 1 | - | - |
| - Losses on trading transactions | - | (1) | (1) | (2) | (1) | (1) |
| **Margin on commodity trading transactions (C)** | **-** | **-** | **-** | **(1)** | **(1)** | **(1)** |
| **Interest rates hedges, broken down as follows:** | | | | | | |
| **Financial income** | | | | | | |
| - definable as hedges pursuant to IAS 39 | 4 | - | - | 2 | 2 | 6 |
| - not definable as hedges pursuant to IAS 39 | 7 | (12) | - | (2) | 10 | 17 |
| **Total financial income (D)** | **11** | **(12)** | **-** | **-** | **12** | **23** |
| **Financial expense** | | | | | | |
| - definable as hedges pursuant to IAS 39 | (4) | - | - | (2) | (2) | (6) |
| - not definable as hedges pursuant to IAS 39 | (8) | (8) | - | (18) | (10) | (18) |
| **Total financial expense (E)** | **(12)** | **(8)** | **-** | **(20)** | **(12)** | **(24)** |
| **Margin on interest rate hedging transactions (D+E) = (F)** | **(1)** | **(20)** | **-** | **(20)** | **-** | **(1)** |
| **Foreign exchange rates hedges, broken down as follows:** | | | | | | |
| **Foreign exchange gains** | | | | | | |
| - definable as hedges pursuant to IAS 39 | - | - | - | - | - | - |
| - not definable as hedges pursuant to IAS 39 | - | - | - | - | - | - |
| **Total foreign exchange gains (G)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Foreign exchange losses** | | | | | | |
| - definable as hedges pursuant to IAS 39 | - | - | - | - | - | - |
| - not definable as hedges pursuant to IAS 39 | - | - | - | - | - | - |
| **Total foreign exchange losses (H)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Margin on foreign exchange hedging transactions (G+H) = (I)** | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE) (C+F+I)** | **(1)** | **(20)** | **-** | **(21)** | **(1)** | **(2)** |

# SEGMENT INFORMATION

The table below provides information broken down by type of business operation. Detailed information about the performance of the different business operations is provided in a separate section of the Report on Operations.

*Please note that the data for the first quarter of 2006 used for comparison purposes have been restated for the adoption of IFRIC 4.*

| INCOME STATEMENT | Electric Power | | Hydrocarbons | | Corporate Activities | | Adjustments | | Core Business | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 |
| **Sales revenues** | **1,737** | **1,789** | **1,201** | **1,256** | **11** | **11** | **(726)** | **(630)** | **2,223** | **2,426** |
| - intra-Group Revenues | 1 | 1 | 716 | 620 | 9 | 9 | (726) | (630) | - | - |
| **EBITDA** | **291** | **285** | **123** | **59** | **(18)** | **(17)** | **-** | **-** | **396** | **327** |
| as a % of revenues | 16.8% | 15.9% | 10.2% | 4.7% | ns | ns | - | - | 17.8% | 13.5% |
| Depreciation, amortization and writedowns | (141) | (116) | (26) | (27) | (2) | (2) | - | - | (169) | (145) |
| **EBIT** | **150** | **169** | **97** | **32** | **(20)** | **(19)** | **0** | **0** | **227** | **182** |
| as a % of revenues | 8.6% | 9.4% | 8.1% | 2.5% | ns | ns | - | - | 10.2% | 7.5% |
| Net financial income (expense) | | | | | | | | | (57) | (46) |
| Interest result of companies valued by equity method | | | | | | | | | (4) | 2 |
| Income taxes | | | | | | | | | (79) | (38) |
| **Profit from continuing operations** | | | | | | | | | **88** | **72** |
| **Profit (loss) from discontinued operations** | | | | | | | | | **-** | **-** |
| **Minority interest in profit (loss) for the period** | | | | | | | | | **3** | **5** |
| **Group interest in pfrofit (loss) for the period** | | | | | | | | | **85** | **67** |

| BALANCE SHEET | Electric Power | | Hydrocarbons | | Corporate Activities | | Adjustments | | Core Business | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 03/31/07 | 12/31/06 | 03/31/07 | 12/31/06 | 03/31/07 | 12/31/06 | 03/31/07 | 12/31/06 | 03/31/07 | 12/31/06 |
| **Total assets** | **11,346** | **12,521** | **2,260** | **2,434** | **3,779** | **2,988** | **(2,247)** | **(2,466)** | **15,138** | **15,477** |
| **Total liabilities** | **3,604** | **4,189** | **1,011** | **1,090** | **3,755** | **4,248** | **(705)** | **(918)** | **7,665** | **8,609** |
| **Net borrowings** | | | | | | | | | **3,378** | **4,220** |

| OTHER INFORMATION | Electric Power | | Hydrocarbons | | Corporate Activities | | Adjustments | | Core Business | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 |
| Capital expenditures | 81 | 60 | 45 | 11 | - | - | - | - | 126 | 71 |
| Investments in intangibles | - | 1 | - | - | - | - | - | - | - | 1 |
| Investments in exploration | - | - | 7 | 11 | - | - | - | - | 7 | 11 |
| **Total capital investments** | **81** | **61** | **52** | **22** | **-** | **-** | **-** | **-** | **133** | **83** |

| | Electric Power | | Hydrocarbons | | Corporate Activities | | Adjustments | | Core Business | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31/3/07 | 12/31/06 | 31/3/07 | 12/31/06 | 31/3/07 | 12/31/06 | 31/3/07 | 12/31/06 | 31/3/07 | 12/31/06 |
| Number of employees | 1,942 | 1,956 | 448 | 433 | 528 | 525 | - | - | 2,918 | 2,914 |

| Water | | Adjustments | | Total other operations | | Discontinued operations | | Edison Group | |
|---|---|---|---|---|---|---|---|---|---|
| 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 |
| **8** | **9** | **-** | **-** | **8** | **9** | **-** | **-** | **2,231** | **2,435** |
| - | - | - | - | - | - | - | - | - | - |
| **1** | **2** | **-** | **-** | **1** | **2** | **-** | **-** | **397** | **329** |
| 12.5% | 22.2% | n.m. | n.m. | 12.5% | 22.2% | - | - | 17.8% | 13.5% |
| - | - | - | - | - | - | - | - | (169) | (145) |
| **1** | **2** | **-** | **-** | **1** | **2** | **-** | **-** | **228** | **184** |
| 12.5% | 22.2% | - | - | 12.5% | 22.2% | - | - | 10.2% | 7.6% |
| - | - | - | - | 2 | - | - | - | (55) | (46) |
| - | - | - | - | - | - | - | - | (4) | 2 |
| - | - | - | - | (1) | (1) | - | - | (80) | (39) |
| **-** | **-** | **-** | **-** | **2** | **1** | **-** | **-** | **90** | **73** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3** | **5** |
| **-** | **-** | **-** | **-** | **2** | **1** | **-** | **-** | **87** | **68** |

| Water | | Adjustments | | Total other operations | | Discontinued operations | | Edison Group | |
|---|---|---|---|---|---|---|---|---|---|
| 03/31/07 | 12/31/06 | 03/31/07 | 12/31/06 | 03/31/07 | 12/31/06 | 03/31/07 | 12/31/06 | 03/31/07 | 12/31/06 |
| **45** | **44** | **(13)** | **(95)** | **32** | **(51)** | **-** | **231** | **15,170** | **15,657** |
| **28** | **31** | **-** | **(10)** | **28** | **21** | **-** | **137** | **7,693** | **8,767** |
| **-** | **-** | **-** | **-** | **(10)** | **(10)** | **-** | **46** | **3,368** | **4,256** |

| Water | | Adjustments | | Total other operations | | Discontinued operations | | Edison Group | |
|---|---|---|---|---|---|---|---|---|---|
| 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 | 1/1/07 - 31/3/07 | 1/1/06 - 31/3/06 |
| 2 | 2 | - | - | 2 | 2 | - | - | 128 | 73 |
| - | - | - | - | - | - | - | - | - | 1 |
| - | - | - | - | - | - | - | - | 7 | 11 |
| **2** | **2** | **-** | **-** | **2** | **2** | **-** | **-** | **135** | **85** |

| Water | | Adjustments | | Total other operations | | Discontinued operations | | Edison Group | |
|---|---|---|---|---|---|---|---|---|---|
| 31/3/07 | 12/31/06 | 31/3/07 | 12/31/06 | 31/3/07 | 12/31/06 | 31/3/07 | 12/31/06 | 31/3/07 | 12/31/06 |
| 3 | 3 | - | - | 3 | 3 | - | 6 | 2,921 | 2,923 |

# NOTES TO THE BALANCE SHEET

## Assets

## Non-current Assets

### 1. Property, Plant and Equipment

Property, plant and equipment, which comprise the Group's production assets, totaled 8,023 million euros, or 34 million euros less than at December 31, 2006. The amount by which depreciation for the period exceeded additions accounts for most of this decrease.

| (in millions of euros) | Land and buildings | Plant and machinery | Manufact. and distrib. equipment | Other assets | Constr. in progress and advances | Total |
|---|---|---|---|---|---|---|
| **Balance at 12/31/06 (A)** | **937** | **6,431** | **24** | **11** | **654** | **8,057** |
| Changes at March 31, 2007: | | | | | | |
| - Additions | 5 | 4 | - | - | 119 | 128 |
| - Disposals (-) | (11) | - | - | - | - | (11) |
| - Depreciation (-) | (12) | (138) | (1) | (1) | - | (152) |
| - Other changes | - | 6 | - | 1 | (6) | 1 |
| **Total changes (B)** | **(18)** | **(128)** | **(1)** | **-** | **113** | **(34)** |
| **Balance at 3/31/07 (A+B)** | **919** | **6,303** | **23** | **11** | **767** | **8,023** |

The total value of the assets, virtually all of which are located in Italy, includes construction in progress and advances totaling 767 million euros, which are attributable primarily to the electric power operations (556 million euros) and the hydrocarbons operations (209 million euros).

**Additions** amounted to 128 million euros. The main capital expenditures included the following:

- The investments of the **electric power operations**, which totaled 81 million euros, were primarily used for a new thermoelectric power plant in Simeri Crichi (CZ) (54 million euros) and for the repowering of Edipower's Turbigo (MI) power plant. In the area of wind power, the group invested a total of 6 million euros.
- The **hydrocarbons operations** invested 45 million euros. Projects pursued in Italy included building the Cavarzere-Minerbio gas pipeline (23 million euros), developing hydrocarbon deposits in the Adriatic (8 million euros) and expanding the Collalto storage facility (7 million euros). Outside Italy, the Group invested 5 million euros.

**Disposals,** which totaled 11 million euros, refer molstly to the sale of land and buildings appurtenant to the power lines sold to Terna. These transactions generated a gain of 9 million euros.

**Depreciation** of property, plant and equipment amounted to 152 million euros. It included 138 million euros for the electric power operations (115 million euros at March 31, 2006) and 12 million euros for the hydrocarbons operation (10 million euros at March 31, 2006). Corporate activities and the water operations account for the balance. The significant increase compared with the first three months of 2006 is due to the commissioning of new thermoelectric power plants and to a change in the method used to depreciate thermoelectric power plants and wind farms that sell energy to the GRTN under contracts the terms of which are set forth in the CIP6/92 resolution that was implemented starting with the 2006 Semiannual Report.

In addition:

- The net carrying amount of property, plant and equipment included **assets transferable at no cost** with an aggregate value of 625 million euros (641 million euros at December 31, 2006). The assets transferable at no cost are held by the Group's hydroelectric operations, which hold 70 concessions. The decrease reflects primarily the depreciation taken in the first three months of 2007.
- Property, plant and equipment includes assets acquired under finance leases totaling 125 million eu-

ros (127 million euros at December 31, 2006), which are recognized in accordance with the IAS 17 (revised) method. The balance outstanding on finance leases, which is shown under "Long-term borrowings and other financial liabilities" (17 million euros) and "Short-term borrowings" (10 million euros), amounts to 27 million euros.

Lastly, Law No. 266 of December 23, 2005 (2006 Budget Law) provided an automatic ten-year extension of concessions for large-scale diversion of public water for hydroelectric power plants, as long as the concession holder can provide evidence of significant investments made in plant modernization to energy efficiency and environmental performance. Such evidence must be provided during the six months that precede the expiration of the concession and is subject to verification by local government entities. Since the test of objective certainty cannot yet be met at this point, the useful lives of the Group's electric power assets affected by these provisions were not changed.
Article 7 ter of Law n. 17 dated February 26, 2007, which has amended and turned into definitive the Decree Law December 23, 2006 no. 300, has determined that the above mentioned ten year extension of the concessions is not applicable to the provinces of Trento and Bolzano.

## 2. Investment Property

The Group's investment property, which consists of land and buildings that are not used for production purposes, totaled 40 million euros, virtually unchanged from December 31, 2006, as the depreciation for the period amounted to less than 1 million euros.
No properties were sold and no new assets were acquired during the first quarter of 2007.

## 3. Goodwill

Goodwill totaled 3,518 million euros, unchanged since December 31, 2006. The remaining balance is an intangible asset with an indefinite useful life. As such, it cannot be amortized in regular installments but should be tested for impairment at least once a year.
A breakdown of goodwill by type of business is as follows:

| **Allocation of goodwill** (in millions of euros) | **3/31/07** | 12/31/06 |
|---|---|---|
| - Electric power operations | 2,836 | 2,836 |
| - Hydrocarbons operations | 682 | 682 |
| **Total** | **3,518** | **3,518** |

No impairment indicators were detected in the first three months of 2007.

## 4. Hydrocarbons Concessions

Concessions for the production of hydrocarbons, which include 80 mineral leases in Italy and abroad and two storage concessions, were valued at 317 million euros. The amortization for the period accounts for the decrease of 6 million euros compared with December 31, 2006.

### Information About the Group's Concessions

The table below shows a breakdown of the concessions held by the Group. As explained earlier, the corresponding carrying amounts are included under "Intangibles" and "Hydrocarbon concessions."

| | | Remaining life | |
|---|---|---|---|
| | Number | from | to |
| Storage concessions | 2 | 8 | 18 |
| Hydroelectric concessions | 70 | 2 | 25 |
| Distribution concessions | 63 | 1 | 13 |
| Hydrocarbon concessions | 78 | (*) "unit of production" | |

(*) The amortization and the remaining life of mineral deposits is computed as a ratio of the quantity extraacted to the available reserves.

During the first quarter of 2007, the Group acquired five new hydrocarbon exploration licenses in Norway.

## 5. Other Intangible Assets

The balance of 42 million euros refers to patents, licenses and similar rights (32 million euros), work in progress (9 million euros) and $CO_2$ emission trading certificates valued at 1 million euros, which were purchased in excess of amounts required by the needs of Group companies. Hydrocarbon research and exploration costs, which are charged in full to income in the period they are incurred, totaled 7 million euros.

## 6. Investments in Associates and Available-for-sale Investments

The total includes 45 million euros in companies valued by the equity method and 142 million euros in investments valued at fair value. These investments consist of an investment in RCS Mediagroup (about 30 million euros) and in Terminale GNL Adriatico (about 103 million euros). The table below shows the main changes that occurred in the first three months of 2007:

| (in millions of euros) | Investments in associates | Available-for-sale investments | Total |
|---|---|---|---|
| **Balance at 12/31/06 (A)** | **44** | **122** | **166** |
| Changes in the first nine months of 2007: | | | |
| - Changes in capital | 2 | 19 | 21 |
| - Revaluations and valuations at equity | - | 1 | 1 |
| - Derecogniton of dividends | (1) | - | (1) |
| **Total changes (B)** | **1** | **20** | **21** |
| **Balance at 3/31/07** | **45** | **142** | **187** |

An analysis of the changes is as follows:

- **Changes in share capital** of 21 million euros consist of capital contributions provided to the investee companies Terminale GNL Adriatico (19 million euros) and Galsi (2 million euros);
- **Revaluations and valuations at equity** of 1 million euros reflect the valuation at market value of the investment in RCS;
- The **derecognition of dividends** refers to companies that are valued by the equity method in the consolidated financial statements.

## 7. Other Non-current Financial Assets

Other non-current financial assets of 145 million euros include the following loans receivable due in more than one year and long-term equity investments:

- 79 million euros for a loan receivable from Ibiritermo valued in accordance with IFRIC 4;
- 38 million euros for a restricted deposit earmarked for IPSE 2000, which is offset by a provision for risks of the same amount due to uncertainty about its recovery;
- 13 million euros for an interest-bearing restricted deposit posted in connection with the sale of Serene Spa, the collection of which is predicated on changes in CIP 6/92 rules;
- 15 million euros in sundry long-term loans receivable, which include 4 million euros in bank deposits posted in connection with project financing facilities.

## 8. Deferred-tax Assets

**Deferred-tax assets** of 109 million euros reflect a tax-loss carryforward (43 million euros), taxed provisions for risks (34 million euros) and differences in the valuation of property, plant and equipment (26 million euros). Differences arising from the adoption of IAS 39 account for the balance.
With regard to the recognition of these assets, their valuation was made based on expectations of actual utilization over the limited time horizon of the industrial plans approved by the Company. Consequently, the theoretical deferred-tax assets computed on provisions for risks were partially written down.

## 9. Other Assets

Other assets totaled 49 million euros, or 36 million euros less than at December 31, 2006. They consisted mainly of income tax refunds receivable and accrued interest (about 40 million euros, net of a provision for writedowns of 4 million euros). Security deposits account for the balance.

## 10. Current Assets

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Inventories | 133 | 387 | (254) |
| Trade receivables | 1,579 | 1,943 | (364) |
| Current-tax assets | 42 | 15 | 27 |
| Other receivables | 326 | 276 | 50 |
| Current financial assets | 221 | 42 | 179 |
| Cash and cash equivalents | 439 | 298 | 141 |
| **Total current assets** | **2,740** | **2,961** | **(221)** |

A review of the individual components is provided below:

### Inventories

| (in millions of euros) | Engineering consumables | Stored natural gas | Green certificates | Fuel oil | Other materials | Total at 3/31/07 | Total 12/31/06 | Change |
|---|---|---|---|---|---|---|---|---|
| Electric power operations | 37 | - | 2 | 33 | - | 72 | 151 | (79) |
| Hydrocarbons operations | 6 | 28 | - | 22 | - | 56 | 233 | (177) |
| Corporate activities | - | - | - | - | 2 | 2 | - | 2 |
| **Total core businesses** | **43** | **28** | **2** | **55** | **2** | **130** | **384** | **(254)** |
| Diversified operations | - | - | - | - | 3 | 3 | 3 | - |
| **Total for the Group** | **43** | **28** | **2** | **55** | **5** | **133** | **387** | **(254)** |

A breakdown is as follows:
The decrease of 254 million euros compared with December 31, 2006 includes 177 million euros attributable to the hydrocarbons operations, for use of stored natural gas, and 79 million euros attributable to the electric power operations, for the use of green certificates by Group companies.
Inventories also include strategic reserves of natural gas, the use of which is restricted.

### Trade Receivables

Trade receivables totaled 1,579 million euros. A breakdown by type of business is as follows:

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Electric power operations | 1,266 | 1,649 | (383) |
| Hydrocarbons operations | 374 | 325 | 49 |
| Corporate activities and eliminations | (72) | (41) | (31) |
| **Total core businesses** | **1,568** | **1,933** | **(365)** |
| Diversified operations | 11 | 10 | 1 |
| **Total trade receivables** | **1,579** | **1,943** | **(364)** |

Trade receivables stem from contracts to supply energy and steam, contracts to supply natural gas, contracts to sell natural gas and Power Exchange transactions. The above amounts are net of an allowance for doubtful accounts totaling 72 million euros.
The electric power operations account for most of the significant decrease compared with the balance at December 31, 2006.

### Current-tax Assets

The balance of 42 million euros includes amounts owed by the tax authorities for overpayments of corporate income taxes (IRES) and local taxes (IRAP). The above amount is owed to Group companies that are not included in the consolidated tax return filed by the controlling company (Transalpina di Energia).

### Other Receivables

The main components of other receivables, which totaled 326 million euros, are amounts owed by partners and associates in hydrocarbon exploration projects (37 million euros), advances paid to suppliers (31 million euros), receivables from public institutions and local entities (36 million euros, including 19 million euros for hydroelectric concession fees), prepaid insurance premiums (9 million euros), credits arising from the valuation of commodity derivatives (47 million euros), receivables from the tax administration (28 million euros, including 10 million euros for excise taxes) and amounts owed by the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (29 million euros).
The above amounts are net of an allowance for doubtful accounts totaling 23 million euros.

### Current Financial Assets

A breakdown of current financial assets, which totaled 221 million euros, is as follows:

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Equity investments held for trading | 12 | 11 | 1 |
| Loans receivable | 203 | 27 | 176 |
| Derivatives | 6 | 4 | 2 |
| **Total current financial assets** | **221** | **42** | **179** |

A review of these financial assets, which are included in the computation of the Group's net borrowings, is provided below.

### Equity Investments Held for Trading

The balance of 12 million euros consists of investments in publicly traded companies. They include the following: ACEGAS Spa (7 million euros), ACSM Spa (4 million euros) and American Superconductor Corporation (1 million euros). The valuation of these investments at fair value produced a gain of about 1 million euros.

### Loans Receivable

Loans receivable of 203 million euros includes 198 million euros in reverse repurchase agreements backed by treasury securities executed as short-term investments of liquid assets and 1 million euros representing the short-term portion of a finance lease provided to build the Ibiritermo power plant. Sundry loans to Group companies account for the balance.

### Derivatives Recognized as Current Assets

The table below provides a breakdown of receivables recognized on the balance sheet to reflect the fair value measurement in accordance with IAS 39 of derivatives outstanding at March 31, 2007:

| (in millions of euros) | 3/31/07 | 12/31/06 |
|---|---|---|
| Foreign exchange transactions | 5 | 8 |
| Interest rate transactions | 6 | 4 |
| Commodities transactions | 42 | 31 |
| **Fair value recognized in current assets** | **53** | **43** |
| allocated as follows: | | |
| - to Other receivables | 47 | 39 |
| - to Current financial assets | 6 | 4 |

The portion of these receivables, that represents cash flow hedges (43 million euros) is offset, net of deferred-taxes, by a reserve included in shareholders' equity.

### Cash and Cash Equivalents

The balance of 439 million euros includes amounts deposited in bank and postal accounts (193 million euros) and reverse repurchase agreements backed by treasury securities due in less than three months (247 million euros).

## 11. Discontinued Operations

The change compared with December 31, 2006 reflects the sale of Serene Spa in February 2007.

# Liabilities and Shareholders' Equity

## 12. Shareholders' Equity

The Group's interest in shareholders' equity increased to 7,347 million euros, or 604 million euros more than at December 31, 2006, due mainly to the exercise of 520 million warrants in the first three months of 2007 and the profit of 87 million euros earned during the period.

Minority interest in shareholders' equity was 130 million euros. The decrease of 17 million euros compared with December 31, 2006 reflects the distribution of dividends by Group companies with minority shareholders.

At March 31, 2007, the subscribed and paid-in share capital of Edison Spa totaled 4,793 million euros. It consisted of shares with a par value of 1 euro each, regular ranking for dividends, and was broken down as follows:

| Share class | Number of shares | Millions of euros |
|---|---|---|
| Common shares | 4,682,111,843 | 4,682 |
| Savings shares | 110,592,420 | 111 |
| **Total shares** | **4,792,704,263** | **4,793** |

The aggregate value of share capital and additional paid-in capital increased by 520 million euros due to the exercise of 519,564,810 warrants. A total of 499,052,114 warrants was outstanding at March 31, 2007. Each warrant can be exercised until December 2007, to subscribe one new share at a price of 1 euro per share. No change affected the savings shares.

In keeping with the goal to provide full disclosure, the table below shows a breakdown of the reserve for cash flow hedges established upon the adoption of IAS 32 and IAS 39, which is included in shareholders' equity:

### Reserve for cash flow hedge transactions

| (in millions of euros) | Gross reserve | Deferred taxes | Net reserve |
|---|---|---|---|
| - Reserve at January 1, 2007 | (8) | 3 | (5) |
| - Changes in the first three months of 2007 | 27 | (10) | 17 |
| **- Reserve at March 31, 2007** | **19** | **(7)** | **12** |

# Non-current Liabilities

## 13. Provision for Employee Severance Indemnities and Provisions for Pensions

This provision, which amounted to 73 million euros, reflects the accrued severance indemnities and other benefits owed to employees at March 31, 2007, computed in accordance with IAS 19 actuarial criteria. The operating and financial parameters used for valuation purposes, which are the same as those used in 2006, are listed below:

| | |
|---|---|
| - Technical annual discount rate | min. 4.00%, max. 4.50% |
| - Annual inflation rate | up to a max. 2.00% |
| - Estimated annual increase of the provision for severance indemnities | min. 2.00%, max. 3.00% |
| - Estimated annual increase of the wages used to compute the provision | min. 2.00%, max. 3.00% |

The computation process also resulted in the recognition of financial expense totaling 1 million euros. The table below shows the changes that occurred in the first three months of 2007:

| (in millions of euros) | Provision for sever. indemn. | Provision for pensions | Total |
|---|---|---|---|
| **Balance at 12/31/06 (A)** | **63** | **9** | **72** |
| Changes in the first three months of 2007: | | | |
| - Additions | 2 | - | 2 |
| - Financial expense (+) | 1 | - | 1 |
| - Discounting gains (losses) (+/-) | (1) | - | (1) |
| - Utilizations (-) | (1) | - | (1) |
| - Change in scope of consolidation (-/+) | - | - | - |
| **Total changes (B)** | **1** | **-** | **1** |
| **Total at 3/31/07 (A+B)** | **64** | **9** | **73** |

At March 31, 2007, the Group companies that are consolidated line by line or by the proportional method had 2,921 employees, about the same as at the end of 2006.

A breakdown by type of business is as follows:

| (number of employees) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Electric Power operations | 1,942 | 1,956 | (14) |
| Hydrocarbons operations | 448 | 433 | 15 |
| Corporate activities | 528 | 525 | 3 |
| **Total core businesses** | **2,918** | **2,914** | **4** |
| Diversified operations | 3 | 3 | - |
| Discontinued operations | - | 6 | (6) |
| **Total for the Group** | **2,921** | **2,923** | **(2)** |

## 14. Provision for Deferred Taxes

The balance of 757 million euros reflects mainly the deferred tax liability from the use during the transition process of fair value as deemed cost to value property, plant and equipment.
The following table shows a breakdown of this reserve by type of underlying temporary difference, keeping in mind that certain Group companies that met the requirements of IAS 12 offset their deferred-tax liability against prepaid taxes:

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| **Deferred-tax liabilities:** | | | |
| - Differences in the valuation of property, plant and equipment | 795 | 791 | 4 |
| - Adoption of the standard on finance leases (IAS 17) | 43 | 43 | - |
| - Adoption of the standard on financial instruments (IAS 39) with impact on: | | | |
| - the income statement | 1 | 2 | (1) |
| - shareholders' equity | 8 | 2 | 6 |
| - Other deferred taxes | 15 | 12 | 3 |
| **Total deferred-tax liabilities (A)** | **862** | **850** | **12** |
| **Deferred-tax assets usable for offset purposes:** | | | |
| - Taxed provisions for risks | 93 | 83 | 10 |
| - Tax loss carryforward | 2 | - | 2 |
| - Adoption of the standard on financial instruments (IAS 39) | 6 | 10 | (4) |
| - Valuation differences on property, plant and equipment | 4 | 5 | (1) |
| - Other prepaid taxes | - | - | - |
| **Total deferred-tax assets (B)** | **105** | **98** | **7** |
| **Total provision for deferred taxes (A-B)** | **757** | **752** | **5** |

## 15. Provisions for Risks and Charges

The provisions for risks and charges, which are established to cover contingent liabilities, totaled 879 million euros at March 31, 2007. The decrease of 2 million euros compared with the end of 2006 reflects the elimination of risks and the settlement of legal disputes that required the payment of compensation to the opposing parties.
The table below shows the changes that occurred in the first three months of 2007:

| (in millions of euros) | 12/31/06 | Additions | Utiliz. | Other | 3/31/07 |
|---|---|---|---|---|---|
| - Disputed tax items | 23 | - | - | - | 23 |
| - Risks for disputes, litigation and contracts | 170 | 2 | (2) | - | 170 |
| - Charges for contractual guarantees on the sale of equity investments | 151 | - | (5) | - | 146 |
| - Provisions for decommissioning and remediation of industrial sites | 261 | 3 | - | - | 264 |
| - Environmental risks | 69 | - | - | - | 69 |
| - Risks on the sale of equity investments | 16 | 5 | - | - | 21 |
| - Other risks and charges | 191 | 4 | (8) | (1) | 186 |
| **Total for the Group** | **881** | **14** | **(15)** | **(1)** | **879** |

The following changes occurred in the first three months of 2007:
- **Additions** of 14 million euros included 5 million euros for a charge related to uncertainties as to the value of certain assets, 4 million euros for legal and contractual risks, 3 million euros for interest expense incurred with the decommissioning and remediation of industrial sites and 2 million euros for accrued statutory interest on existing provisions;
- **Utilizations** of 15 million euros reflect settlements of pending disputes (10 million euros) and amounts drawn from provisions established in connection with asset sales (5 million euros).

More detailed information about the changes in the provisions for risks and charges is provided in the section of this Report entitled "Update of the Main Legal and Tax Disputes at March 31, 2007."

## 16. Bonds

The balance of 1,201 million euros represents the non-current portion of the bond issues valued at amortized cost floated by Edison Spa. A breakdown is as follows:

| (in millions of euros) | Market where traded | Currency | Par value outstanding | Coupon | Rate | Maturity | Amortized cost | Fair value |
|---|---|---|---|---|---|---|---|---|
| **Euro Medium Term Notes:** | | | | | | | | |
| Edison Spa | Luxembourg Securities Exchange | EUR | 700 | Annual in arrears | 5.125% | 12/10/10 | 698 | 729 |
| Edison Spa | Luxembourg Securities Exchange | EUR | 500 | Quarterly in arrears | 3.747% | 7/19/11 | 503 | 513 |
| **Total for the Group** | | | **1,200** | | | | **1,201** | **1,242** |

## 17. Long-term Borrowings and Other Financial Liabilities

The main component of this item, which totaled 1,323 million euros (502 million euros at December 31, 2006), is bank debt of 1,261 million euros, which includes new borrowings by Edipower amounting to about 900 million euros. A breakdown is as follows:

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Due to banks | 1,261 | 440 | 821 |
| Due to leasing companies | 17 | 19 | (2) |
| Due to subsidiaries in liquidation | 28 | 28 | - |
| Due to other lenders | 17 | 15 | 2 |
| **Total for the Group** | **1,323** | **502** | **821** |

## 18. Other Liabilities

The balance of 7 million euros includes a liability of 2 million euros related to the call options for the purchase of a 30% interest in Eneco Energia Spa and 5 million euros for security deposits and amounts owed to employees.

### Breakdown of Indebtedness by Maturity

The table below provides a breakdown of indebtedness due after one year:

| (in millions of euros) | 3/31/09 | 3/31/10 | 3/31/11 | 3/31/12 | After 5 years | Total |
|---|---|---|---|---|---|---|
| Bonds | - | - | 698 | 503 | - | 1,201 |
| Borrowings and other financial liab.: | | | | | | |
| - Bank debt | 84 | 260 | 153 | 655 | 109 | 1,261 |
| - Due to other lenders | 6 | 8 | 1 | 30 | 17 | 62 |
| Other liabilities | 7 | - | - | - | - | 7 |
| **Total** | **97** | **268** | **852** | **1,188** | **126** | **2,531** |

## 19. Current Liabilities

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Bonds | 1,477 | 1,457 | 20 |
| Short-term borrowings | 104 | 1,461 | (1,357) |
| Trade payables | 1,072 | 1,576 | (504) |
| Current taxes payable | 45 | 26 | 19 |
| Other liabilities | 753 | 694 | 59 |
| **Total current liabilities** | **3,451** | **5,214** | **(1,763)** |

The main current liability accounts are reviewed below:

- **Bonds** totaled 1,477 million euros, consisting mainly of the following bond issues valued at amortized cost due within one year:

| (in millions of euros) | Market where traded | Currency | Par value outstanding | Coupon | Rate | Maturity | Amortized cost | Fair value |
|---|---|---|---|---|---|---|---|---|
| **Euro Medium Term Notes:** | | | | | | | | |
| Edison Spa | Luxemboug Securities Exchange | EUR | 600 | Annual in arrears | 7.375% | 7/20/07 | 630 | 637 |
| Italenergia | Retail | EUR | 830 | Semiannual in arrears | 3.971% | 8/26/07 | 832 | 836 |
| **Total for the Group** | | | **1,430** | | | | **1,462** | **1,473** |

The above balance includes 15 million euros in interest accrued at March 31, 2007 on bond issues that mature after one year.

- **Short-term borrowings** of 106 million euros include 72 million euros due to banks, 22 million euros generated by measuring at fair value interest rate derivatives and 10 million euros owed to leasing companies. The change compared with the previous year is related to new bank financing obtained by Edipower, which is a long-term facility and, consequently, is included among long-term borrowings and other financial liabilities.

- **Trade payables**

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Electric power operations | 799 | 1,157 | (358) |
| Hydrocarbons operations | 348 | 466 | (118) |
| Corporate activities and eliminations | (77) | (50) | (27) |
| **Totale core businesses** | **1,070** | **1,573** | **(503)** |
| | | | |
| Diversified operations | 2 | 3 | (1) |
| **Total trade payables** | **1,072** | **1,576** | **(504)** |

Trade payables reflect mainly purchases of electric power, natural gas and other utilities, as well as services related to scheduled and extraordinary plant maintenance. The electric power operations account for most of the decrease of 504 million euros compared with December 31, 2006.

- **Current taxes payable** of 45 million euros represent the liability for income taxes payable at the balance sheet date, net of pre-payments made. This item concerns mainly Group companies that were not included in the consolidated tax return filed by the controlling company (Transalpina di Energia).

- The main components of **other liabilities** of 753 million euros include the following: the liability arising from the put-and-call options related to the purchase of a 10% interest in Edipower (252 million euros), the amount owed to the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (178 million euros), amounts owed to joint holders of permits and concessions for the production of hydrocarbons (60 million euros), payables owed for miscellaneous consulting and other services (37 million euros), liabilities generated by the valuation of commodity derivatives (28 million euros), amounts owed to shareholders (26 million euros), amounts owed to employees and social security institutions (36 million euros), excise taxes and withholding taxes due to tax authorities (45 million euros).

### Disclosure of Derivative Positions on the Liability Side of the Balance Sheet

The table below provides a breakdown of the liabilities recognized on the balance sheet upon measurement at fair value of derivative positions outstanding on the date of the financial statements, as required by IAS 39.

| (in millions of euros) | 3/31/07 | 12/31/06 |
|---|---|---|
| Foreign exchange transactions | 13 | 10 |
| Interest rate transactions | 22 | 27 |
| Commodity transactions | 15 | 35 |
| **Fair value recognized under current liabilities** | **50** | **72** |
| Posted to: | | |
| - Other liabilities | 28 | 45 |
| - Short-term borrowings | 22 | 27 |

The portion of these receivables that represents cash flow hedges (24 million euros) is offset, net of deferred-taxes, by a reserve included in shareholders' equity.

## 20. Liabilities Held for Sale

The change compared with December 31, 2006 is due to the sale of Serene Spa in February 2007.

## Net Borrowings

(Pursuant to Consob Resolution No. DEM/6064293 of July 28, 2006)

At March 31, 2007, net borrowings totaled 3,368 million euros, a significant reduction compared with the 4,256 million euros owed at December 31, 2006. Proceeds of 520 million euros generated by the exercise of warrants and a positive operating cash flow (397 million euros), which more than offset outlays for capital investments (135 million euros) and net borrowing costs (55 million euros) are the main reasons for this improvement. In addition, the sale of Serene Spa in February 2007 had a positive impact of 117 million euros. A breakdown of indebtedness by maturity shows that the medium- and long-term component has increased, due to Edipower's new financing facilities.

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| **Long-term debt** | | | |
| Bonds - non-current portion | 1,201 | 1,207 | (6) |
| Non-current bank loans | 1,261 | 440 | 821 |
| Amounts due to other lenders - non-current portion | 62 | 62 | - |
| Other non-current financial assets (*) | (79) | (77) | (2) |
| **Total long-term debt** | **2,445** | **1,632** | **813** |
| | | | |
| **Short-term debt** | | | |
| Bonds - current portion | 1,477 | 1,457 | 20 |
| Current loans payable | 106 | 1,461 | (1,355) |
| Current financial assets | (221) | (42) | (179) |
| Cash and cash equivalents (**) | (439) | (298) | (141) |
| Loans payable of divested operations | - | 64 | (64) |
| Loans receivable of divested operations | - | (18) | 18 |
| **Total short-term debt** | **923** | **2,624** | **(1,701)** |
| **Net borrowings** | **3,368** | **4,256** | **(888)** |

(*) Includes financial receivables applicable to the long-term portion upon the adoption of IFRIC 4.

**(**) Cash and cash equivalents**

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Bank and postal accounts | (192) | (298) | 106 |
| Reverse repurchase agreements backed by treasury securities | (247) | - | (247) |
| **Cash and cash equivalents** | **(439)** | **(298)** | **(141)** |

Transactions with related parties do not have a material impact on net borrowings. Transactions with Group subsidiaries and affiliates amounted to 28 million euros.

### Default Risk and Loan Agreement Covenants

With regard to the Group's indebtedness, it is important to note that a deterioration of Edison's credit rating or the loss of rating would not automatically trigger a repayment obligation. This applies both to bonds and bank debt. As for the obligations to maintain certain financial indicators above or below maximum or minimum levels (financial covenants), they do not apply to any of the Group's bond issues or to the portion of the bank debt attributable to Edison. However, some of Edison's subsidiaries are still bound by certain contractual obligations concerning compliance with certain financial ratios that were undertaken in connection with project financing bank credit lines. This type of indebtedness amounts to about 102 million euros. Moreover, on January 29, 2007, Edipower and a group of banks executed a new financing agreement that replaces an older facility that was cancelled ahead of schedule. Under the new contract, Edison is no longer obligated to comply with financial covenants or to meet rating or other requirements. As a result, all of the guarantees to provide contributions to Edipower have been cancelled. Edipower's entire credit line (total provided of 2 billion euros) is subject to compliance with certain financial ratios.

Edison has also provided negative pledges, which are discussed in the section of this Report entitled "Contingent Commitments and Risks."

# NOTES TO THE INCOME STATEMENT

The profit earned by the Edison Group in the first three months of 2007 totaled 87 million euros, up from 68 million euros in the same period last year, restated in accordance with IFRIC 4.
This improvement was made possible by a positive performance at the operating level: EBITDA increased by 68 million euros, due to both electric power and hydrocarbons operations. In particular, the electric power operations results are due to the streamlining of the sources and uses portfolio in the deregulated markets, where the volumes sold have registered a significant increase.
The hydrocarbons operations also reported better results than in the first quarter of 2006, when earnings were reduced by a conservative decision to set aside a provision to cover the estimated cost (about 27 million euros) that will result from the enactment of Resolution No. 298/05, by which the AEEG updated customer gas rates for the first quarter of 2006 in accordance with Resolution No. 248/04.
Lastly, the bottom line was adversely affected by an increase of about 20 million euros, compared with the first quarter of 2006, in depreciation of CIP6/92 power plants, non-recurring provisions and an increase in the tax rate, which the Group incurred having exhausted its tax loss carryforward.

## 21. Sales Revenues

Sales revenues totaled 2,231 million euros, for an overall decrease of 204 million euros (-8.4%) compared with the first three months of 2006.
The table below provides a breakdown of sales revenues, which were booked for the most part in Italy:

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change | % change |
|---|---|---|---|---|
| Revenues from the sales of: | | | | |
| - Electric power | 1,441 | 1,596 | (155) | (9.7%) |
| - Natural gas | 499 | 620 | (121) | (19.5%) |
| - Steam | 43 | 46 | (3) | (6.5%) |
| - Oil | 21 | 22 | (1) | (4.5%) |
| - Green certificates | 74 | 43 | 31 | n.m. |
| - Water and other utilities | 8 | 10 | (2) | (20.0%) |
| - Other revenues | 8 | 10 | (2) | (20.0%) |
| **Total sales revenues** | **2,094** | **2,347** | **(253)** | **(10.8%)** |
| | | | | |
| Revenues from managing the electric network | - | 9 | (9) | (100.0%) |
| Revenues from services provided | 4 | 3 | 1 | 33.3% |
| Storage services | 5 | 1 | 4 | n.m. |
| Transmission revenues | 128 | 75 | 53 | 70.7% |
| **Total for the Group** | **2,231** | **2,435** | **(204)** | **(8.4%)%** |

### Sales Revenues by Type of Business

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change | % change |
|---|---|---|---|---|
| Electric power operations | 1,737 | 1,789 | (52) | (2.9%) |
| Hydrocarbons operations | 1,201 | 1,256 | (55) | (4.4%) |
| Corporate activities | 11 | 11 | - | n.m. |
| Eliminations | (726) | (630) | (96) | n.m. |
| **Core businesses** | **2,223** | **2,426** | **(203)** | **(8.4%)** |
| | | | | |
| Diversified operations | 8 | 9 | (1) | (11.1%) |
| **Total for the Group** | **2,231** | **2,435** | **(204)** | **(8.4%)** |

The revenues generated by the Group's core businesses decreased by 203 million euros (-8.4%) compared with the first three months of 2006. The performance of the main business operations is reviewed below:

- The revenues generated by the electric power operations were down 2.9% compared with the first quarter of 2006, due mainly to the sale of Serene and Edison Rete. If the data are restated on a comparable scope-of-consolidation basis, the decrease is less than 1%.
- As for the hydrocarbons operations, revenues decreased by 4.4% year over year, as milder weather in the first three months of 2006 caused a reduction in unit sales compared with last year's first quarter.

## 22. Other Revenues and Income

Other revenues and income totaled 94 million euros. A breakdown is as follows:

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change | % change |
|---|---|---|---|---|
| Commodity derivatives | 18 | 81 | (63) | (77.8%) |
| Recovery of costs from Edipower's Tollers | 30 | 50 | (20) | (40.0%) |
| Recovery of costs from partners in hydrocarbon exploration projects | 6 | 4 | 2 | 50.0% |
| Utilizations of provisions for risks | 8 | 4 | 4 | 100.0% |
| Swaps and exchanges of oil and natural gas | 5 | 16 | (11) | (68.8%) |
| Out of period income | 11 | 28 | (17) | (60.7%) |
| Sundry items | 16 | 9 | 7 | 77.8% |
| **Total for the Group** | **94** | **192** | **(98)** | **(51.0%)** |

Income from commodity derivatives reflects the impact of transactions that qualify as hedges (18 million euros fully realized). An overall view of the impact of commodity derivatives is disclosed in a special section provided earlier in this Report.

## 23. Raw Materials and Services Used

The cost of raw materials and services used, which decreased in tandem with sales revenues, totaled 1,876 million euros, or 16.5% less than in the first quarter of 2006. A breakdown is as follows:

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change | % change |
|---|---|---|---|---|
| Purchases of: | | | | |
| - Natural gas | 775 | 1,023 | (248) | (24.2%) |
| - Electric power | 167 | 292 | (125) | (42.8%) |
| - Dispatching and balancing market | 34 | 76 | (42) | (55.3%) |
| - Blast furnace, recycled and coke furnace gas | 90 | 94 | (4) | (4.3%) |
| - Fuel oil | 67 | 111 | (44) | (39.6%) |
| - Demineralized industrial water | 9 | 8 | 1 | 12.5% |
| - Green certificates | - | 44 | (44) | n.m. |
| - Emissions rights charges | 1 | - | 1 | n.m. |
| - Other materials and utilities | 42 | 34 | 8 | 23.5% |
| **Total purchases** | **1,185** | **1,682** | **(497)** | **(29.5%)** |
| | | | | |
| - Facilities design, construction and maintenance | 45 | 56 | (11) | (19.6%) |
| - Transmission of electric power | 182 | 105 | 77 | 73.3% |
| - Transmission and treatment of natural gas | 62 | 78 | (16) | (20.5%) |
| - Professional services | 15 | 18 | (3) | (16.7%) |
| - Insurance services | 7 | 7 | - | n.m. |
| - Commodity derivatives | 22 | 59 | (37) | (62.7%) |
| - Additions to the provisions for risks | 3 | 36 | (33) | (91.7%) |
| - Writedowns of trade receivables | 7 | 4 | 3 | 75.0% |
| - Change in inventory of work in progress, semifinished goods and finished goods | 180 | 126 | 54 | n.m. |
| - Sundry charges | 168 | 77 | 91 | 118.2% |
| **Total for the Group** | **1,876** | **2,248** | **(372)** | **(16.5%)** |

## Breakdown by Type of Business

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change | % change |
|---|---|---|---|---|
| Electric Power operations | 1,487 | 1,623 | (136) | (8.4%) |
| Hydrocarbons operations | 1,092 | 1,119 | (27) | (2.4%) |
| Corporate activities | 20 | 19 | 1 | 5.3% |
| Eliminations | (727) | (518) | (209) | 40.3% |
| **Core businesses** | **1,872** | **2,243** | **(371)** | **(16.5%)** |
| Diversified operations | 4 | 5 | (1) | (20.0%) |
| **Total for the Group** | **1,876** | **2,248** | **(372)** | **(16.5%)** |

This expense item, which totaled 1,185 million euros (-29.5% compared with the first three months of 2006), consists mainly of purchases of natural gas, electric power and dispatching and balancing services. It also includes the cost of blast furnace, recycled and coke oven gases, fuel oil, demineralized water, green certificates, emission rights charges, other material and utilities; 244 million euros refer to electric power and natural gas transmission costs (182 million euros and 62 million euros, respectively), which increased by 33.3% compared with the first quarter of 2006, reflecting a rise in volumes used and the costs incurred to import natural gas.

This expense item's overall decrease is also due to a reduction of 30 million euros in charges related to $CO_2$ risks, which in the first three months of 2006 were recognized by means of an addition to the provisions for risks.

The charges shown for commodity derivatives reflects the impact of transactions that qualify as hedges in accordance with IAS 39 and of transactions executed as margin hedges. An overall view of the impact of commodity derivatives is disclosed in a special section provided earlier in this Report.

## 24. Labor Costs

With the Group's staff holding at about the same level as in the first three months of 2006, labor costs totaled 52 million euros, little changed from the same period a year ago.

## 25. EBITDA

At March 31, 2007, EBITDA amounted to 397 million euros, or 20.7% more than in the same period last year.
A breakdown by type of business is as follows:

| (in millions of euros) | 1/1/07-3/31/07 | as a % of sales revenues | 1/1/06-3/31/06 | as a % of sales revenues | EBITDA % change |
|---|---|---|---|---|---|
| Electric power operations | 291 | 16.8% | 285 | 15.9 | 2.1% |
| Hydrocarbons operations | 123 | 10.2% | 59 | 4,8% | 108.5% |
| Corporate activities | (18) | n.m. | (17) | n.m. | 5.9% |
| **Core businesses** | **396** | **17.8** | **327** | **13.5%** | **21,1%** |
| Diversified operations | 1 | 12.5% | 2 | 22.2% | (50.0%) |
| **Total for the Group** | **397** | **17.8** | **329** | **13.5%** | **20.7%** |

EBITDA were up both in the electric power and hydrocarbons operations:

- The increase reported by the **electric power operations** (+2.1%) reflects higher unit sales in the deregulated markets (+4.4%) and an expansion in installed generating capacity made possible by the full availability of the Altomonte and Torviscosa power plants, which more than offset the margin reduction of the industrial segment of the operations (-13.2%) and the absence of the contribution provided in 2006 by the divested operations.
- The EBITDA increase reported by the hydrocarbons operations is due mainly to the higher margins earned following the renegotiation of the price paid for natural gas under some long-term supply contracts. Moreover, the hydrocarbons operations reported better results than in the first quarter of 2006,

because of the conservative decision to set aside a provision to cover the estimated cost due to the enactment of Resolution No. 298/05, by which the AEEG updated customer gas rates for the first quarter of 2006 in accordance with Resolution No. 248/05.

## 26. Depreciation, Amortization and Writedowns

A breakdown of depreciation, amortization and writedowns, which totaled 169 million euros, is provided below:

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change | % change |
|---|---|---|---|---|
| Depreciation of property, plant and equipment | 152 | 125 | 27 | 21.6% |
| Depreciation of investment property | - | 1 | (1) | n.s. |
| Amortization of hydrocarbon concessions | 6 | 7 | (1) | (14.3%) |
| Amortization of other intangible assets | 9 | 12 | (3) | (25.0%) |
| Writedowns of intangible assets | 2 | - | 2 | n.s. |
| **Total for the Group** | **169** | **145** | **24** | **16.6%** |

### Breakdown by Type of Business

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change | % change |
|---|---|---|---|---|
| Electric power operations | 141 | 116 | 25 | 21.6% |
| Hydrocarbons operations | 26 | 27 | (1) | (3.7%) |
| Corporate activities | 2 | 2 | - | - |
| **Core businesses** | **169** | **145** | **24** | **16.6%** |
| Diversified operations | - | - | - | n.m. |
| **Total for the Group** | **169** | **145** | **24** | **16.6%** |

The increase in depreciation reported by the **electric power operations** reflects the combined impact of a change in the method used to compute depreciation for CIP 6/92 power plants (about 20 million euros) and of the full availability of new power plants in Piacenza, Altomonte (in the first quarter of 2006) and Torviscosa (in the third quarter of 2006).

The decrease in amortization of other intangible assets is dues entirely to a reduction in exploration costs by the **hydrocarbons operations** (7 million euros, compared with 11 million euros in the first quarter of 2006).

Writedowns of intangible assets refers to $CO_2$ emissions certificates held by the Group in excess of actual needs.

## 27. Net Financial Income (Expense)

Net financial expense came to 55 million euros, or 9 million euros more than in the first three months of 2006 for a new method to recognize financial derivatives and positive non recurrent items. On a comparable basis, net financial expense would have decreased, owing in part to a reduction in average indebtedness.

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change |
|---|---|---|---|
| **Financial income** | | | |
| Financial income from commodity derivatives | - | 9 | (9) |
| Financial income from financial derivatives | 23 | 23 | - |
| Interest earned on finance leases | 5 | 4 | 1 |
| Interest earned on bank and postal accounts | 4 | 3 | 1 |
| Interest earned on amounts due from the tax administration | - | 1 | (1) |
| Other financial income | 7 | 8 | (1) |
| **Total financial income** | **39** | **48** | **(9)** |
| **Financial expense** | | | |
| Interest paid on bond issues | (37) | (37) | - |
| Financial expense from commodity derivatives | (1) | (12) | 11 |
| Financial expense from financial derivatives | (24) | (11) | (13) |
| Interest paid to banks | (19) | (21) | 2 |
| Bank fees | (3) | (4) | 1 |
| Interest paid on decommissioning projects | (3) | (2) | (1) |
| Interest paid on finance leases | - | - | - |
| Interest paid in connection with employee severance benefits | (1) | (1) | - |
| Interest paid to other lenders | - | (2) | 2 |
| Other financial expense | (5) | (1) | (4) |
| **Total financial expense** | **(93)** | **(91)** | **(2)** |
| **Foreign exchange translation gains (losses)** | | | |
| Foreign exchange translation gains | 2 | 2 | - |
| Foreign exchange translation losses | (3) | (5) | 2 |
| **Net foreign exchange translation gain (loss)** | **(1)** | **(3)** | **2** |
| **Net financial income (expense) for the Group** | **(55)** | **(46)** | **(9)** |

A breakdown of net financial expense is as follows:

- **Interest earned on finance leases** of 5 million euros reflects the adoption of IFRIC 4, as explained in the relevant note earlier in this Report.
- **Interest paid on decomissioning projects,** which amounted to 3 million euros, is offset by a provision for decommissioning and remediation of industrial sites by the hydrocarbons operations.
- **Other financial expense** of 5 million euros includes 4 million euros related to Edipower put and call transactions.

Additional disclosures about other transactions involving financial and commodity derivatives are provided in a special section of this Report.

## 28. Income from (Expense on) Equity Investments

A breakdown of the debit balance of 4 million euros is as follows:

*Income:*

- 1 million euros from the valuation of trading securities;

*Expense:*

- 5 million euros added to the provisions for risks in connection with the investments in some Group companies.

## 29. Other Income (Expense), Net

Other income of 1 million euros is the net result of certain nonrecurring items that are not related directly to the Group's industrial operations. The main items included in this account are:

- **income** for 6 million euros mainly from the recognition in earnings of existing provisions, made possible by the cancellation of guarantees provided upon the sale of equity investments and the settlement of certain disputes;
- **expense** for 5 million euros, including 3 million euros added to other provisions for risks and 2 million euros in extraordinary charges.

## 30. Income Taxes

The income tax liability recognized in the income statement amounted to 80 million euros, a significant increase in comparison with the first quarter 2006 (39 million euros), when the Group could benefit of the effect of a residual loss carry forward; moreover, the figure includes taxes due in previous periods and the effect of the depreciation of lands pertinent to plants and buildings, an item that the fiscal laws have turned into non tax deductible. The figure is broken down as follows:

| (in millions of euros) | 1/1/07-3/31/07 | 1/1/06-3/31/06 | Change |
|---|---|---|---|
| Current taxes | 96 | 67 | 29 |
| Net deferred-tax liabilities (assets) | (16) | (28) | 12 |
| **Total for the Group** | **80** | **39** | **41** |

**Current taxes** include 83 million euros for IRES, 15 million euros for IRAP and 2 million euros for foreign taxes. The benefit of using a national consolidated return, which starting in 2006 is being filed by Transalpina di Energia, the Group's controlling company, amounts to 4 million euros.

**Net deferred-tax assets** amounted to 16 million euros (28 million euros in 2006). This amount is the net result of the following:

- Recognition of deferred-tax liabilities totaling 19 million euros attributable mainly to the use of the maximum depreciation rate allowed for tax purposes.
- Utilizations of deferred-tax liabilities totaling 25 million euros, due mainly to the impact of depreciation of property, plant and equipment generated by the adoption of fair value measurement upon transition, which is not deductible for tax purposes.
- Deferred-tax assets related primarily to reversals of taxed provisions for risks account for the balance.

## 31. Profit (Loss) from Discontinued Operations

No entries were posted to this account during the first quarter of 2007.

## 32. Profit (Loss) per Share

The table below provides a breakdown of the computation of earnings or loss per share in accordance with IAS 33, which are shown at the bottom of the income statement.

Earnings per share have been computed taking into account the potential common shares represented by the outstanding portion of the warrants issued in 2003 and the stock options awarded to Group executives.

| 2006 full year | (in millions of euros) | 3/31/07 | 3/31/06 restated in accordance with IFRIC 4 |
|---|---|---|---|
| 654 | Group interest in profit (loss) | 87 | 68 |
| (3) | Profit (loss) attributable to convertible and nonconvertible savings shares [1] | (3) | (3) |
| 651 | Group interest in profit (loss) attributable to the common shares (A) | 84 | 65 |
| | Weighted average number of shares outstanding (common and savings) determined for the purpose of computing profit (loss) per share: | | |
| 4,273,118,191 | - basic (B) | 4,613,739,940 | 4,273,111,031 |
| 4,711,479,810 | - diluted (C)[2] | 4,975,243,981 | 4,692,129,629 |
| | Profit (Loss) per share (in euros) | | |
| 0.1522 | - basic (A/B) | 0.0182 | 0.0150 |
| 0.1380 | - diluted (A/C)[2] | 0.0169 | 0.0137 |

(1) 3% of par value for the higher dividend paid to the savings shares compared with the common shares. Savings shares are treated as common shares, since the portion of net income attributable to the savings shares has been deducted from Group interest in net income.
(2) When the Group reports a loss, the potential shares are deemed to have no dilutive effect.

# CONTINGENT COMMITMENTS AND RISKS

| (in millions of euros) | 3/31/07 | 12/31/06 | Change |
|---|---|---|---|
| Guarantees provided | 1,818 | 2,300 | (482) |
| Collateral provided | 1,924 | 2,054 | (130) |
| Other commitments and risks | 528 | 634 | (106) |
| **Total for the Group** | **4,270** | **4,988** | **(718)** |

## Guarantees Provided

Guarantees provided totaled 1,818 million euros. This figure is equal to the undiscounted amount of potential commitments on the balance sheet date. A portion (amounting to 425 million euros) of the significant reduction shown by this item compared with December 31, 2006 is attributable to the expiration of the rights held by Edipower's lender banks to enforce commitments undertaken by Edipower's industrial shareholders to contribute funds to Edipower. These rights, which the banks held under the terms of a financing facility repaid on January 29, 2007, were cancelled and were not reinstated in a new loan agreement executed by Edipower on the same date.

The figure includes the following:

- 755 million euros in guarantees provided by Edison Spa to the Milan tax office on behalf of subsidiaries for offsetting VAT credits and those provided to subsidiaries in connection with the intra-Group assignment of tax credits.
- 368 million euros for guarantees provided by Edison Spa to customers of the former subsidiary Tecnimont Spa. These guarantees are offset by an obligation undertaken by Tecnimont's buyer, which has agreed to take over these guarantees (provided the beneficiary agrees) and to hold Edison harmless if the abovementioned guarantees are enforced.
- 44 million euros for a commitment to hold the seller (EDF International Sa) harmless and replace it as soon as possible in the guarantees it provided on behalf of EDF Energia Italia, later absorbed by Edison Energia.
- 35 million euros for guarantees provided to outsiders by EDF Energia Italia, later absorbed by Edison Energia.
- 18 million euros in sureties provided by Edison Spa to banks to secure financing facilities and credit lines provided to Group companies.

## Collateral Provided

Collateral provided, which came to 1,924 million euros, reflects the carrying amounts of the assets or rights pledged as collateral on the balance sheet date. This account includes collateral provided for liabilities listed on the balance sheet, including the value of Edipower shares (810 million euros) pledged to a pool of banks to secure financing facilities.

Collateral provided also includes additional collateral for liabilities listed on the balance sheet (1,114 million euros), which generally consist of mortgages and encumbrances granted on thermoelectric facilities to secure financing. A total of 561 million euros refers to repaid mortgages that are in the process of being cancelled.

## Other Commitments and Risks

Other commitments and risks of 528 million euros reflect commitments undertaken to complete construction of the Simeri Crichi power plant and other commitments undertaken by Edison Stoccaggio for gas storage facilities and pipelines (115 million euros) and Edipower's commitments toward suppliers for purchase and construction contracts (Edison's pro rata share was 294 million euros). This item also includes the contractual value of cross-border electric power transmission capacity for a total of 630 MW that was awarded to Edison for 2007 and for which the Company has agreed to pay about 16 million euros for all of 2007.

In addition, the Group is exposed to the following commitments and risks that were not included in the amounts discussed above:

1) The Group's **hydrocarbons** operations have entered into contracts for the importation of natural gas. As is usually the case, contracts of this magnitude and of these durations contain take-or-pay

clauses that obligate the buyer to pay for any shortage between the stipulated maximum quantities and the quantity actually used (unless the shortage is due to causes not provided for in the contract), with the option for the buyer to make up, at certain conditions, the paid but unused volume over the life of the contract. The import contracts with Russia, Libya and Norway, which are already operational, provide total supplies of 7.4 billion cubic meters of natural gas a year.
In addition, the Group signed three new contracts to import additional quantities of natural gas in future years:
- The first of these supply contracts is with RasGas (Qatar). It calls for deliveries to begin upon completion by Terminale GNL Adriatico Srl of the Isola di Porto Viro LNG terminal, which is currently being built and is expected to go on stream in 2008. When this agreement is fully operational, RasGas will supply a total of 6.4 billion cubic meters of natural gas per year.
- The second contract, which was signed with Sonatrach, involves importing 2 billion cubic meters of natural gas a year from Algeria. Deliveries are scheduled to start in 2008, once the first phase of the expansion of the pipeline linking Algeria and Italy through Tunisia (TTPC: Trans Tunisian Pipeline Company) is completed.
- The third contract (*Protocole d'accord*), which was signed with Sonatrach in November 2006, calls for the supply of 2 billion cubic meters of natural gas a year through the new pipeline linking Algeria with Sardinia and Tuscany that will be built by Galsi. The implementation of this agreement is subject to the construction of the pipeline, which is currently in the project development phase.

Take-or-pay payments are made at a price based on the supply contract price, indexed to current market conditions. These contracts have terms ranging between 10 and 25 years and, when all of them are fully implemented, will supply the Group with 18 billion cubic meters of natural gas per year.

The contract concerning Terminale GNL Adriatico Srl includes the following conditions:
- For all shareholders, the obligation not to transfer their equity interest until 36 months have passed from the startup of the terminal, but, in any case, not later than July 1, 2011 (lockup clause).
- For Edison, the right to buy the 90% it does not own or sell its 10% upon the occurrence of certain events, for which Edison would not be responsible, that would prevent the construction of the terminal (put-and-call clause).
- For the two majority shareholders, the right to buy the 10% interest held by Edison if the supply contract with RasGas should be cancelled for reasons for which Edison is responsible (call clause).
- A price for the sale of shares if the put or call options are exercised, which will be determined based on the sum of the capital contributions provided until the options are exercised.
- A commitment by the shareholders, each for its pro rata share, to provide the company with sufficient financial resources to build the terminal. Lastly, once the terminal that is being built in the Northern Adriatic has been completed, Edison, while owning just 10% of the infrastructure, will become its main user and will have access to about 80% of the terminal's gasification capacity for 25 years.

2) Insofar as the **electric power** operations are concerned:
   - Termica Celano granted to its lender banks a special pledge on the equipment of its cogenerating power plant and a first mortgage on its real estate assets.
   - On September 30, 2006, Termica Milazzo repaid a loan it had received from Mediobanca and is currently completing the paperwork required to cancel its collateral obligations (first mortgage and pledge). Currently, only one outstanding loan (provided by IRFIS) is secured by a mortgage and special lien, as required by Regional Law No. 50 of 12/21/73.
   - The loans received by Parco Eolico San Giorgio and Parco Eolico Foiano, now merged into Edison Energie Speciali Spa, were repaid ahead of schedule on June 30, 2006. Consequently, all of the guarantees and collateral provided will cease to be enforceable on June 30, 2008.
   - Edison has agreed to sell to Cartiere Burgo Spa a call option to purchase a 51% interest in Gever. This option is exercisable when the contract under which Gever supplies Cartiere Burgo with electric power and steam expires (in 2017) at a price equal to the corresponding pro rata interest in the company's shareholders' equity.

3) In the area of **Corporate Activities**, as part of the agreements among the shareholders of RCS Mediagroup who are members of the Blocking and Consultation Syndicate, any Participant who, in re-

sponse to a tender offer, wishes to exit the Syndicate will be required to sell the syndicated shares to the other Participants. The buyers will have the right, but not the obligation, to buy the shares that are being offered in proportion to the percentage of the shares they contributed to the Syndicate.

## Quarterly Update About the Main Legal and Tax Disputes Pending at March 31, 2007

An update, based on information currently available about the main legal and tax disputes currently outstanding is provided below. Legal disputes have been divided between those for which it was possible to develop a reliable estimate of the underlying obligation and recognize a corresponding provision for risks in the balance sheet and those for which a reliable estimate could not be developed. With regard to the latter (contingent liabilities), only a disclosure is provided in the Notes to the financial statements.
Pending disputes were subdivided further between actions involving Edison Spa and actions involving other Group companies. The 2006 Annual Report should be consulted for more detailed information.

### A) Edison Spa

**Priolo Petrochemical Complex - Criminal Proceedings for Injuries to Public Health**

An investigation by the Public Prosecutor at the Court of Syracuse, in Sicily, targeting certain former Directors and executives of Montedison (now Edison) for allegedly dumping effluents containing mercury into the sea from the Priolo plant, which allegedly poisoned the water and the marine fauna and flora, causing miscarriages and extremely serious injuries to residents of the province of Syracuse, ended with a motion for dismissal, which was granted by the Judge for Preliminary Investigations.
Edison, as a mere charitable contribution and while denying any responsibility for the abovementioned events and acts, indicated that it was willing to reach settlements with potential injured parties, as identified by the Public Prosecutor at the Court of Syracuse in the course of the investigation, for a total amount of 5 million euros, provided the abovementioned parties waive any and all demands, rights or damage claims. Edison's willingness to reach such settlements is consistent with a similar offer put forth by Enichem, who took over from Montedison (now Edison) the ownership of the Priolo factory.

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Information about **legal disputes** arising from past events that give rise to a contingent liability, the cash outlay related to which cannot be reasonably estimated based on the information currently available, is provided below.

### A) Edison Spa

**Proceeding filed by the AEEG with Resolution No. 186/06 against EdF Energia Italia (EEI) currently merged by absorption into Edison Energia Spa**

On March 15, 2007, Edison Spa received a communication setting forth the findings of an investigation carried out within the framework of the proceedings launched by the AEEG with Resolution No. 186/06. The AEEG charged EEI with violating Resolution No. 50/05, which required all operators in and users of the dispatching market to communicate the data and information necessary to evaluate control and linkage relationships that that could fit into one of the categories listed in Article 7 of Law No. 287 of October 10, 1990.
Specifically, the AEEG complained about the delay beyond the deadline set by the Operator of the Electric Power Market with which EEI filed its disclosure for 2006 and, adopting an extremely broad and highly questionable interpretation of Resolution 50/05, claimed that the disclosure submitted by EEI lacked certain information about corporate relationships between the controlling company EDF and some market operators.
Edison Spa has taken all appropriate steps to protect its interest in connection with the abovementioned proceedings and reserves the right to challenge before the Regional Administrative Court of Lombardy any fines that may be imposed.

### B) Other Group Companies

**Pizzo Sella Estate Development and Seizure of Assets in Sicily**

In the proceedings concerning a challenge to an order of attachment, which was later converted into the confiscation of the shares, partnership interests and assets of the Finsavi and Generale Impianti affiliates and of the Calcestruzzi Palermo, Frigotecnica and Poggio Mondello subsidiaries issued by the Court of Palermo on May 15, 2002 within the context of an action involving the issuance of preventive measures, the Court of Appeals of Palermo concurred with Edison's defense brief by which the Company claimed that there was no connection whatsoever between Edison and the Mafia member who was the target of the asset confiscation order. Consequently, the Court set aside the attachment and confiscation of the equity capital and assets of the Frigotecnica and Poggio Mondello subsidiaries and of the equity capital of Finsavi and Generale Impianti owned by Edison, but upheld the confiscation order for the assets of Finsavi and Generale Impianti.

**Montedison Srl - Plot of Land in Bussi sul Tirino (Pe)**

On February 14, 2007, the Public Prosecutor o the Court of Pescara served on Montedison Srl a notice of attachment fort a plot of land it owns in the municipality of Bussi sul Tirino (Pescara). Based on available information, it would seem that, following an investigation by the Public Prosecutor, a large quantity of hazardous toxic waste was discovered on the plot of land in question, which has not been used for many years and was owned by Montedison Spa (now Edison Spa). The Company is currently monitoring the situation in order to determine what course of action it should pursue.

**Proceeding filed by the AEEG with Resolution No. 186/06 against Edison Trading Spa and Edipower Spa**

Early in April 2007, Edison Trading and Edipower received communications setting forth the findings of an investigation carried out within the framework of the proceedings launched by the AEEG with Resolution No. 186/06.

The AEEG, adopting an extremely broad and highly questionable interpretation of Resolution 50/05, challenged the information contained in the disclosures that Edison Trading and Edipower filed pursuant to Resolution No. 50/05 within the deadline set by the Operator of the Electric Power Market, complaining, with regard to Edison Trading, about the lack of information about the contracts that exist between Edipower shareholders called Tolling Agreement and Sale and Purchase Agreement and, with regard to Edipower, about the failure to disclose indirect relationships that exist between Edipower, EdF Trading and EdF Energia Italia. Both companies are defending their rights within the framework of the proceedings launched by the AEEG and reserve the right to challenge any fines in the appropriate venue.

The developments that affected the status of the main **tax disputes** in the first quarter of 2007 are reviewed below:

**Old Edison Spa - Income Taxes for the 1994 to 1999 Fiscal Years**

In March 2007, the Regional Tax Commission upheld the decision of the Provincial Tax Commission, voiding the corporate income tax (IRPEG) and local income tax (ILOR) assessments for the 1995 and 1996 fiscal years.

**Assessment for the 2002 Fiscal Year Following a Tax Audit of Edison Spa**

The appeal filed against the assessments issued following a tax audit for the 2002 fiscal year, which was discussed this past November before the Milan Provincial Tax Commission, was substantively upheld and the full amount of the assessment was voided, except for an addition of 26,000 euros to taxable income.

**EDF Energia Italia Srl - Customs VAT Audit for 2001, 2002 and 2003**

The Company filed a motion before the Milan Provincial Tax Commission contesting a notice of assessment it received this past December for customs VAT due for 2001, 2002 and 2003, asking that the entire amount of the assessment be voided. The Tax Commission is expected to hold a hearing on this matter later this year.

In any case, any charges that may be incurred as a result of the abovementioned audits are covered by special guarantees provided by the seller (EDF International Sa) in connection with the sale of its interest in EDF Energia Italia for the purpose of holding the Company totally harmless in such cases.

# TRANSACTIONS AMONG GROUP COMPANIES AND WITH RELATED PARTIES

Transactions between Edison Spa and its subsidiaries and affiliated companies and its controlling company consist primarily of:

- Commercial transactions involving the buying and selling of electric power and natural gas and the use of electrical networks.
- Transactions involving the provision of services (technical, organizational and general) by headquarters staff.
- Financial transactions involving lending and current account facilities established within the framework of the Group's centralized cash management system.
- Transactions required to file a consolidated VAT return for the Group (so-called VAT Pool).

All of the transactions listed above are governed by contracts with conditions that are consistent with market terms, with the exception of those related to the VAT Pool, which are executed pursuant to law. In the area of commercial transactions, the Group's Parent Company, Edison Spa, sells natural gas and electric power to Edison Trading Spa and Edison Energia Spa, respectively, under special contracts that, taking into account the specific functions of the two buyer companies within the Group, provide the seller with adequate coverage of its fixed and variable costs. In addition, the rate earned on transactions involving intra-Group current accounts is the Deposit Rate of the European Central Bank, while the rate paid is the Marginal Refinance Rate of the European Central Bank.

**Consolidated VAT Return** - Edison Spa files a consolidated VAT return (so-called VAT Pool) that includes those companies of the Edison Group that meet the requirements of Article 73, Section 3, of Presidential Decree No. 633/72, as amended, and of the Ministerial Decree dated December 13, 1979. Under the consolidated return system, Group companies transfer to Edison Spa, either monthly or quarterly, VAT payable and receivable positions in order to allow Edison Spa to offset these positions and pay only the resulting debit balance, if any. The Group VAT return for December 2006 shows that the Group owed the tax administration about 18 million euros.

**Consolidated Corporate Income Tax (IRES) Return** - In 2006, Edison Spa and its wholly-owned subsidiaries agreed to be included in a consolidated income tax return filed by Transalpina di Energia, their controlling company, as allowed by Article 117 and following of Presidential Decree No. 917/86 (Uniform Income Tax Code, abbreviated as TUIR in Italian), for three years from 2006 to 2008.
Transactions between companies included in the consolidated IRES tax return are governed by special bilateral agreements. Under the terms of these agreements, which are identical for all consolidated companies, all consolidated companies will be held harmless from any negative effect of the change in scope of the IRES tax filing compared with their status in the 2005 consolidated return filed by Edison Spa.
During the abovementioned three-year period, consolidated taxable income will be determined as the algebraic sum of the IRES taxable incomes of all of the participating companies. After making the adjustments required by the tax law, Transalpina, in its capacity as the controlling company, will compute and pay the total tax due, with respect to both estimated payments and final payment, billing or crediting each filing company for the corresponding IRES amount.

## Other Transactions with Related Parties Within the Edison Group

In of the first quarter of 2007, Edison Spa and its subsidiaries engaged in a number of commercial and financial transactions with some of its current shareholders and/or companies controlled by them. An overview of these transactions, which were carried out in the normal course of business based on contractual terms mutually agreed upon by the parties that are consistent with market practice, is provided below.

| (in millions of euros) | AEM Group | EdF Group | ENIA Group | SEL Group | Banca Popolare di Milano | Mediobanca |
|---|---|---|---|---|---|---|
| **Balance sheet transactions** | | | | | | |
| Value of trade receivables | 13 | 2 | 116 | 5 | - | - |
| Value of trade payables | 17 | 7 | 8 | 1 | - | - |
| Value of loans receivable | - | - | - | - | - | - |
| Value of loans payable | - | - | - | - | 23 | 79 |
| **Income statement transactions** | | | | | | |
| Sales of goods and services | 34 | 5 | 136 | - | - | - |
| Purchases of goods and services | 13 | 20 | 11 | 3 | - | - |
| Financial income | - | - | - | - | - | - |
| Financial expense | - | - | - | - | - | 1 |

## Commercial Transactions

**Electric Power Operations** - The following transactions were executed with the EDF Group:

- A contract for the supply of electric power in France, which resulted in the purchase of electric power worth about 3 million euros and the sale of electric power valued at 5 million euros.
- The EDF Group provides technical, engineering and management services at power plants in Taranto and Piombino, and at the Milan headquarters.

During the period, Edison Spa supplied AEM Spa with steam valued at about 3 million euros from its Sesto San Giovanni power plant. Acting within the framework of the Tolling Agreement with Edipower Spa, Edison Trading Spa agreed to work on behalf of other Tollers in supplying fuel to certain production facilities. As a result, it generated revenues of 10 million euros from the sale of fuel oil to Aem Trading Srl.
In addition, Edipower booked revenues of 19 million euros (Edison's pro rata share) from the sale of electric power to Aem Trading and costs totaling 8 million euros, mainly for purchases of fuel oil. Also in the electric power area, Edison Trading made purchases of electric power amounting to 5 million euros from the ENBW Group (EDF Group), 1 million euros from Sel Edison Spa (SEL Group) and 1 million euros form Enìa Spa. Edison Energia incurred transmission costs payable to Enìa Spa totaling 1 million euros.

**Hydrocarbons Operations -** During the first half of 2006, the hydrocarbons operations purchased natural gas from the ENBW Group (EDF Group) at a cost of 4 million euros.
Transactions with Blumet, an associated company that is part of the Enìa Group, generated revenues from natural gas sales totaling 116 million euros and receivables amounting to 105 million euros. In addition, natural gas was also purchased from Blumet Spa at a cost of 11 million euros, generating accounts payable totaling 8 million euros.

**Corporate Activities -** Edison Spa received revenues totaling 2 million euros from Fenice Spa (EDF Group) for recovery of maintenance-service costs.

## Financial Transactions

The main financial transactions executed by Edison Spa in which its shareholder banks played a significant role are reviewed below:

- Banca Popolare di Milano provided a 34-million-euro revocable line of credit and an unused 40-million-euro committed line of credit. Both lines of credit accrue interest at market rates. The same bank also provided bank sureties totaling about 12 million euros.

### Other Transactions

- On December 27, 2006, Edison Spa, Enìa Spa and SAT Finanziaria Spa signed an "Agreement to Permanently Settle Disputes Concerning the Shareholder Agreement and for the Temporary Management of Blumet Spa," with which they resolved and settled certain disputes that had arisen concerning the management of Blumet Spa, a company in which all of the abovementioned parties held equity investments and which they operated jointly and exclusively to distribute, sell and supply natural gas and electric power in the Emilia Romagna Region, in accordance with the contractual and governance rules set forth in the shareholder agreement executed in 2002. With the abovementioned agreement, the parties further agreed that the shareholder agreement would expire on December 31, 2006 and undertook to renegotiate and renew the shareholder agreement by June 15, 2007. During the interim period, the commercial operations of Blumet Spa will be carried out in accordance with the governance rules set forth in the old shareholder agreement.

## Consob Communication No. DEM/6064293 of July 28, 2006

### Significant Nonrecurring Events and Transactions

With the exception of the sales of Serene Spa, which had no impact, no significant transactions that would require disclosure occurred in the first quarter of 2007 and a positive impact of 117 million euros on net borrowings.

### Positions and Entries Arising from Atypical and/or Unusual Transactions

No atypical transactions requiring disclosure occurred in the first quarter of 2007.

# SIGNIFICANT EVENTS OCCURRING SINCE MARCH 31, 2007

### Edison Spa - The Board of Directors approved the construction of a 400 Mw plant in Thisvi, Greece

Edison's Board of Directors held a meeting on May 9, approved the 250 million euro investment for the constructon of a CCGT thermoelectric plant in Thisvi, Greece. Edison, in a 65% partnership with Hellenic Energy & Development and Viohalco, two local energy development companies, will build a combined-cycle thermoelectric power plant with a capacity of about 400 MW in Thisvi, Greece. The Greek authorities have already issued an installation permit for this project.
Edison Group is planning to establish a permanent and significant presence in the Greek energy market, where also the project to build the IGI Italy-Greece natural gas pipeline has already made a major step at the beginning of the year.

Milan, May 9, 2007

The Board of Directors
by Giuliano Zuccoli
*Chairman*

# SCOPE OF CONSOLIDATION

at March 31, 2007

# SCOPE OF CONSOLIDATION AT MARCH 31, 2007

## List of Equity Investments (including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

| Name | Head office | Currency | Share capital | Consolidated Group interest % (a) 03.31.2007 | 12.31.2006 |
|---|---|---|---|---|---|

## A) Investments in Companies Included in the Scope of Consolidation

### A.1) Companies Consolidated Line by Line

| Name | Head office | Currency | Share capital | Consolidated Group interest % (a) 03.31.2007 | 12.31.2006 |
|---|---|---|---|---|---|
| **Parent Company** | | | | | |
| Edison Spa | Milan (IT) | EUR | 4,792,704,263 | | |
| **Core Business - Electric Power Operations** | | | | | |
| **Electric Power Business Unit** | | | | | |
| Consorzio di Sarmato Soc. Cons. P.A. | Milan (IT) | EUR | 200,000 | 52.500 | 52.500 |
| Ecofuture Srl (Single Shareholder) | Milan (IT) | EUR | 10,200 | 100.000 | 100.000 |
| Gever Spa | Milan (IT) | EUR | 10,500,000 | 51.000 | 51.000 |
| Hydro Power Energy Srl - Hpe Srl (Single Shareholder) | Bolzano (IT) | EUR | 50,000 | 100.000 | 100.000 |
| Jesi Energia Spa | Milan (IT) | EUR | 5,350,000 | 70.000 | 70.000 |
| Sarmato Energia Spa | Milan (IT) | EUR | 14,420,000 | 61.000 | 61.000 |
| Sondel Dakar Bv | Rotterdam (NL) | EUR | 18,200 | 100.000 | 100.000 |
| Termica Boffalora Srl | Milan (IT) | EUR | 14,220,000 | 70.000 | 70.000 |
| Termica Celano Srl | Milan (IT) | EUR | 259,000 | 70.000 | 70.000 |
| Termica Cologno Srl | Milan (IT) | EUR | 9,296,220 | 65.000 | 65.000 |
| Termica Milazzo Srl | Milan (IT) | EUR | 23,241,000 | 60.000 | 60.000 |
| Thisvi Power Generation Plant Sa | Athens (GR) | EUR | 198,000 | 65.000 | - |
| **Renewable Sources** | | | | | |
| Edison Energie Speciali Spa (Single Shareholder) | Milan (IT) | EUR | 4,200,000 | 100.000 | 100.000 |
| Monsei Esco Srl (Single Shareholder) | Milan (IT) | EUR | 100,000 | 100.000 | 100.000 |
| **Core Business - Hydrocarbons Operations** | | | | | |
| **Hydrocarbons Business Unit** | | | | | |
| Edison D.G. Spa (Single Shareholder) | Selvazzano Dentro (PD) (IT) | EUR | 460,000 | 100.000 | 100.000 |
| Edison International Spa | Milan (IT) | EUR | 17,850,000 | 100.000 | 100.000 |
| Edison Stoccaggio Spa (Single Shareholder) | Milan (IT) | EUR | 81,497,301 | 100.000 | 100.000 |
| Euroil Exploration Ltd | London (GB) | GBP | 9,250,000 | 100.000 | 100.000 |
| **Core Business - Energy Management** | | | | | |
| **Energy Management Business Unit** | | | | | |
| Edison Trading Spa (Single Shareholder) | Milan (IT) | EUR | 30,000,000 | 100.000 | 100.000 |
| Volta Spa | Milan (IT) | EUR | 130,000 | 51.000 | 51.000 |

| Interest held in share capital % (b) | By | Voting securities held % (c) | Exercisable voting rights % (d) | Type of investment relationship (e) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| 52.500 | Edison Spa | - | - | SUB |
| 100.000 | Edison Spa | - | - g | SUB |
| 51.000 | Edison Spa | - | - | SUB |
| 100.000 | Edison Spa | - | - g | SUB |
| 70.000 | Edison Spa | - | - | SUB |
| 61.000 | Edison Spa | - | - | SUB |
| 100.000 | Montedison Finance Europe NV | - | - | SUB |
| 70.000 | Edison Spa | - | - g | SUB |
| 70.000 | Edison Spa | - | - g | SUB |
| 65.000 | Edison Spa | - | - g | SUB |
| 60.000 | Edison Spa | - | - g | SUB |
| 65.000 | Edison Spa | - | | SUB |
| | | | | |
| 100.000 | Edison Spa | - | - g | SUB |
| 100.000 | Edison Spa | - | - g | SUB |
| | | | | |
| 100.000 | Edison Spa | - | - g | SUB |
| 70.000 | Edison Spa | - | - g | SUB |
| 30.000 | Selm Holding International Sa | - | | |
| 100.000 | Edison Spa | - | - g | SUB |
| 0.000 | Edison Spa | - | - | SUB |
| 100.000 | Selm Holding International Sa | | | |
| | | | | |
| 100.000 | Edison Spa | - | - g | SUB |
| 51.000 | Edison Spa | - | - | SUB |

## List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

| Name | Head office | Currency | Share capital | Consolidated Group interest % (a) 03.31.2007 | 12.31.2006 |
|---|---|---|---|---|---|
| **Core Business - Marketing and Distribution** | | | | | |
| **Marketing and Distribution Business Unit** | | | | | |
| Edison Energia Spa (Single Shareholder) | Milan (IT) | EUR | 22,000,000 | 100.000 | 100.000 |
| Eneco Energia Spa | Bolzano (IT) | EUR | 300,000 | 100.000 | - |
| **Core Business - Corporate Activities** | | | | | |
| **Italian and Foreign Holding Companies** | | | | | |
| Atema Limited | Dublino 2 (IE) | EUR | 1,500,000 | 100.000 | 100.000 |
| Edison Hellas Spa | Athens (GR) | EUR | 263,700 | 100.000 | 100.000 |
| Finanziaria di Partecipazioni Elettriche Finel Spa | Milan (IT) | EUR | 194,000,000 | 100.000 | 100.000 |
| Montedison Finance Europe NV | Amsterdam (NL) | EUR | 4,537,803 | 100.000 | 100.000 |
| Selm Holding International Sa | Luxembourg (LU) | EUR | 24,000,000 | 100.000 | 100.000 |
| **Real Estate** | | | | | |
| Montedison Srl (Single Shareholder) | Milan (IT) | EUR | 2,583,000 | 100.000 | 100.000 |
| Nuova Alba Srl (Single Shareholder) | Milan (IT) | EUR | 2,016,457 | 100.000 | 100.000 |
| **Dormant and Other Companies** | | | | | |
| Edison Treasury Services Srl (Single Shareholder) | Conegliano (TV) (IT) | EUR | 10,000 | 100.000 | 100.000 |

### A.2) Companies Consolidated by the Proportional Method

| Name | Head office | Currency | Share capital | 03.31.2007 | 12.31.2006 |
|---|---|---|---|---|---|
| **Core Business - Electric Power Operations** | | | | | |
| **Electric Power Business Unit** | | | | | |
| Bluefare Ltd | London (GB) | GBP | 1,000 | 50.000 | 50.000 |
| Ibiritermo Sa | Ibirité - Estado de Minas Gerais (BR) | BRL | 7,651,814 | 50.000 | 50.000 |
| Sel Edison Spa | Castelbello (BZ) (IT) | EUR | 84,798,000 | 42.000 | 42.000 |
| Seledison Net Srl (Single Shareholder) | Castelbello Ciardes (BZ) (IT) | EUR | 200,000 | 42.000 | 42.000 |
| **Renewable Sources** | | | | | |
| Parco Eolico Castelnuovo Srl | Castelnuovo di Conza (SA) (IT) | EUR | 10,200 | 50.000 | 50.000 |
| **Other Electric Power Assets** | | | | | |
| Edipower Spa | Milan (IT) | EUR | 1,441,300,000 | 50.000 | 50.000 |
| **Core Business - Hydrocarbons Operations** | | | | | |
| **Hydrocarbons Business Unit** | | | | | |
| Ed-Ina D.o.o. | Zagreb (HR) | HRK | 20,000 | 50.000 | 50.000 |

| Interest held in share capital % (b) | By | Voting securities held % (c) | Exercisable voting rights % (d) | Type of investment relationship (e) |
|---|---|---|---|---|
| 100.000 | Edison Spa | - | - g | SUB |
| 70.000 | Edison Spa | - | - g | SUB |
| | | | | |
| 100.000 | Edison Spa | - | - | SUB |
| 100.000 | Edison Spa | - | - | SUB |
| 80.000 | Edison Spa | - | - g | SUB |
| 100.000 | Edison Spa | - | - | SUB |
| 99.950 | Edison Spa | - | - | SUB |
| 0.050 | Montedison Srl (Single Shareholder) | | | |
| 100.000 | Edison Spa | - | - g | SUB |
| 100.000 | Edison Spa | - | - g | SUB |
| 100.000 | Edison Spa | - | - | SUB |
| | | | | |
| 50.000 | Edison Spa | - | - | JV |
| 50.000 | Edison Spa | - | - | JV |
| 42.000 | Edison Spa | - | - | JV |
| 100.000 | Sel Edison Spa | - | - (h) | JV |
| 50.000 | Edison Energie Speciali Spa (Single Shareholder) | - | - | JV |
| 40.000 | Edison Spa | - | - | JV |
| 50.000 | Edison International Spa | - | - | JV |

## List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

| Name | Head office | Currency | Share capital | Consolidated Group interest % (a) 03.31.2007 | 12.31.2006 |
|---|---|---|---|---|---|
| **Core Business - Marketing and Distribution** | | | | | |
| **Marketing and Distribution Business Unit** | | | | | |
| Ascot Srl | Bressanone (BZ) (IT) | EUR | 10,330 | 50.000 | - |
| **Other Operations** | | | | | |
| **Water** | | | | | |
| Internat. Water Serv. (Guayaquil) Interagua C. Ltda | Guayaquil (EC) | USD | 20,890,000 | 45.000 | 26.550 |
| International Water (Uk) Limited | London (GB) | GBP | 1,001 | 50.000 | 50.000 |
| International Water Holdings Bv | Amsterdam (NL) | EUR | 40,000 | 50.000 | 50.000 |
| International Water Services (Guayaquil) Bv | Amsterdam (NL) | EUR | 20,000 | 50.000 | 29.500 |
| International Water Services Ltd | Zug (CH) | CHF | 100,000 | 50.000 | 50.000 |

| Interest held in share capital % (b) | By | Voting securities held % (c) | Exercisable voting rights % (d) | Type of investment relationship (e) |
|---|---|---|---|---|
| | | | | |
| 50.000 | Eneco Energia Spa | - | - | JV |
| | | | | |
| 90.000 | International Water Services (Guayaquil) Bv | - | - | JV |
| 0.100 | International Water Services Limited | 0.000 | 0.000 | JV |
| 99.900 | Iwl Corporate Limited (in liquid.) | 100.000 | 100.000 | |
| 50.000 | Edison Spa | - | - | JV |
| 59.000 | International Water Holdings Bv | - | - | JV |
| 100.000 | International Water Holdings Bv | - | - | JV |

## List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

| Name | Head office | Currency | Share capital | Consolidated Group interest % (a) 12.31.2006 |
|---|---|---|---|---|
| **B) Investments in Companies Valued by the Equity Method** | | | | |
| **Core Business - Electric Power Operations** | | | | |
| **Electric Power Business Unit** | | | | |
| Consorzio Barchetta | Jesi (AN) (IT) | EUR | 2,000 | |
| Consorzio Montoro | Narni (IT) | EUR | 4,000 | |
| Consorzio Vicenne | Celano (IT) | EUR | 1,000 | |
| GTI Dakar Ltd | George Town Gran Caiman (GBC) | EUR | 14,686,479 | |
| Kraftwerke Hinterrhein Ag | Thusis (CH) | CHF | 100,000,000 | |
| Roma Energia Srl | Rome (IT) | EUR | 50,000 | |
| **Renewable Sources** | | | | |
| Sistemi di Energia Spa | Milan (IT) | EUR | 10,475,000 | |
| **Core Business - Hydrocarbons Operations** | | | | |
| **Hydrocarbons Business Unit** | | | | |
| Soc. Svil. Rea. Gest. Gasdot. Alg-Itav. Sardeg. Galsi Spa | Milan (IT) | EUR | 838,000 | |
| **Core Business - Marketing and Distribution** | | | | |
| **Marketing and Distribution Business Unit** | | | | |
| Blumet Spa | Reggio Emilia (IT) | EUR | 7,600,000 | |
| Eta 3 Spa | Arezzo (IT) | EUR | 2,000,000 | |
| Gasco Spa | Bressanone (BZ) (IT) | EUR | 350,000 | |
| Prometeo Spa | Osimo (AN) (IT) | EUR | 1,938,743 | |
| S.A.T. Finanziaria Spa | Sassuolo (MO) (IT) | EUR | 1,000,000 | |
| Utilità Spa | Milan (IT) | EUR | 2,307,692 | |
| **Core Business - Corporate Activities** | | | | |
| **Real Estate Companies** | | | | |
| Iniziativa Universitaria 1991 Spa | Varese (IT) | EUR | 16,120,000 | |
| Soc. per la Gest. del Palazzo Centro Congressi Srl | Assago (MI) (IT) | EUR | 10,200 | |
| **Total Equity Investments Valued with the Equity Method** | | | | |

| Interest held in share capital % (b) | By | Voting security held % (c) | Exercisable voting rights % (d) | Carrying value (in millions of euros) (f) | Type of investment relationship (e) |
|---|---|---|---|---|---|
| 50.000 | Jesi Energia Spa | - | - | | ASS |
| 25.000 | Edison Spa | - | - | | ASS |
| 50.000 | Termica Celano Srl | - | - | | ASS |
| 30.000 | Sondel Dakar Bv | - | - | 3.7 | ASS |
| 20.000 | Edison Spa | - | - | 14.9 | ASS |
| 35.000 | Edison Spa | - | - | 0.4 | ASS |
| 40.570 | Edison Spa | - | - | 4.0 | ASS |
| 18.000 | Edison Spa | | | 3.1 | ASS |
| 28.320 | Edison Spa | - | - | 2.8 | ASS |
| 33.010 | Edison Spa | - | - | 1.3 | ASS |
| 40.000 | Edison Spa | - | - | 0.1 | ASS |
| 21.000 | Edison Spa | - | - | 0.5 | ASS |
| 40.000 | Edison Spa | - | - | 0.8 | ASS |
| 35.000 | Edison Spa | - | - | 0.8 | ASS |
| 32.260 | Montedison Srl (Single Shareholder) | - | - i | 3.9 | ASS |
| 44.820 | Montedison Srl (Single Shareholder) | - | - | | ASS |
| | | | | **36.3** | |

## List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

| Name | Head office | Currency | Share capital | Consolidated Group interest % (a) 12.31.2006 |
|---|---|---|---|---|
| **C) Investments in Companies in Liquidation or Subject to Long-Term Restrictions** | | | | |
| **Core Business - Hydrocarbons Operations** | | | | |
| **Hydrocarbons Business Unit** | | | | |
| Auto Gas Company S.A.E. (In liq.) | Cairo (EG) | EGP | 1,700,000 | |
| **Core Business - Corporate Activities** | | | | |
| **Dormant Companies and other Companies** | | | | |
| Codest Srl | Pavia di Udine (UD) (IT) | EUR | 15,600 | |
| Finsavi Srl (Under Extraordinary Administration) | Palermo (IT) | EUR | 18,698 | |
| Poggio Mondello Srl (Single Shareh.) (In Receivership) | Palermo (IT) | EUR | 364,000 | |
| **In Liquidation and Subject to Restrictions** | | | | |
| C.F.C. Consorzio Friulano Costruttori (In liquid.) | Udine (IT) | LIT | 100,000,000 | |
| Calbiotech Srl (In bankruptcy) | Ravenna (IT) | LIT | 90,000,000 | |
| Cempes Scrl (In liquid.) | Villa Adriana - Tivoli (RM) (IT) | EUR | 15,492 | |
| CI.FAR. Scarl (In bankruptcy) | Udine (IT) | LIT | 20,000,000 | |
| Compo Chemical Company (In liquid.) | Wilmington - Delaware (US) | USD | 1,000 | |
| Compo Shoe Machinery Corp. of Canada (In liquid.) | Montreal - Quebec (CA) | CAD | 500 | |
| Coniel Spa (In liq.) | Rome (IT) | EUR | 1,020 | |
| Consorzio Carnia Scrl (In liquid.) | Rome (IT) | EUR | 45,900 | |
| Consorzio Friulano per il Tagliamento | Udine (IT) | EUR | 10,330 | |
| Convolci Scnc (In liquid.) | Sesto San Giovanni (MI) (IT) | EUR | 5,165 | |
| Ferruzzi Trading France Sa (In liquid.) | Paris (FR) | EUR | 7,622,451 | |
| Finimeg Spa (Single Shareholder) (In liquid.) | Milan (IT) | EUR | 2,425,200 | |
| Frigotecnica Srl (Single Shareh.) (In Receivership) (In liquid.) | Palermo (IT) | EUR | 76,500 | |
| Groupement Gambogi-Cisa (In liquid.) | Dakar (SN) | XAF | 1,000,000 | |
| Inica Sarl (In liquid.) | Lisbon (PT) | PTE | 1,000,000 | |
| Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | Milan (IT) | EUR | 1,549,350 | |
| Nuova I.S.I. Impianti Selez. Inerti Srl (In fall.) | Vazia (RI) (IT) | LIT | 150,000,000 | |
| Sistema Permanente di Servizi Spa (In bankruptcy) | Rome (IT) | EUR | 154,950 | |
| Soc. Gen. per Progr. Cons. e Part. Spa (Under Extraordinary Administration) | Rome (IT) | LIT | 300,000,000 | |
| Sorrentina Scarl (In liquid.) | Rome (IT) | EUR | 46,480 | |
| Stel Spa (In liquid.) | Milan (IT) | EUR | 520,000 | 75.000 |
| Trieste Tre Srl (In liquid.) | Ravenna (IT) | EUR | 10,400 | |
| **Other Operations** | | | | |
| **Water** | | | | |
| International Water Services Limited (In liquid.) | George Town Grand Cayman (GBC) | USD | 45,100 | 50.000 |
| Iwl (Asia Pacific) Pte Ltd (In liquid.) | Singapore (SG) | SGD | 2 | 50.000 |
| Iwl Adelaide Pty Ltd (In liquid.) | Sidney - NSW (AU) | AUD | 1,020,460 | 50.000 |
| Iwl Corporate Limited (In liq.) | London (GB) | GBP | 1 | 50.000 |
| Iwl Services Holdings (Uk) Limited (In liquid.) | London (GB) | GBP | 2 | 50.000 |
| **Total Equity Investments in Liquidation or Under Permanent Restrictions** | | | | |

| Interest held in share capital % (b) | By | Voting security held % (c) | Exercisable voting rights % (d) | Carrying value (in millions of euros) (f) | Type of investment relationship (e) |
|---|---|---|---|---|---|
| 30.000 | Edison International Spa | - | - | 0,1 | ASS |
| 33.330 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | ASS |
| 50.000 | Edison Spa | - | l 0.000 | | ASS |
| 100.000 | Finimeg Spa (Single Shareholder) (In liquid.) | - | l 0.000 | | SUB |
| 20.000 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | ASS |
| 55.000 | Edison Spa | - | - | | SUB |
| 33.330 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | ASS |
| 60.000 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | SUB |
| 100.000 | Nuova Alba Srl (Single Shareholder) | - | - | | SUB |
| 100.000 | Nuova Alba Srl (Single Shareholder) | - | - | | SUB |
| 35.250 | Edison Spa | - | - | | ASS |
| 17.000 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | OC |
| 16.300 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | OC |
| 27.370 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | ASS |
| 100.000 | Edison Spa | - | - | 5.9 | SUB |
| 100.000 | Edison Spa | - | - g | 2.0 | SUB |
| 100.000 | Edison Spa | - | l 0.000 | | SUB |
| 50.000 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | ASS |
| 20.000 | Edison Spa | - | - | | ASS |
| 100.000 | Edison Spa | - | - | 0.4 | SUB |
| 33.330 | Montedison Srl (Single Shareholder) | - | - | | ASS |
| 12.600 | Edison Spa | - | - | | OC |
| 59.330 | Edison Spa | - | - | | SUB |
| 25.000 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | ASS |
| 75.000 | Edison Spa | - | - | | SUB |
| 50.000 | Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder) | - | - | | ASS |
| 100.000 | International Water Holdings Bv | - | - | | JV |
| 100.000 | International Water Holdings Bv | - | - | | JV |
| 100.000 | International Water Holdings Bv | - | - | | JV |
| 100.000 | Iwl Services Holdins (UK) Limited (In liquid.) | - | - | | JV |
| 100.000 | International Water Holdings Bv | - | - | | JV |
| | | | | **8.4** | |

## List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

| Name | Head office | Currency | Share capital | Consolidated Group interest % (a) 12.31.2006 |
|---|---|---|---|---|
| **D) Investments in Other Companies Valued at Fair Value** | | | | |
| **D.1) Trading Investments** | | | | |
| **Core Business - Corporate Activities** | | | | |
| **Publicly Traded Securities** | | | | |
| Acegas-Aps Spa | Trieste (IT) | EUR | 282,983,213 | |
| Acsm Spa | Como (IT) | EUR | 46,870,625 | |
| Amsc-American Superconductor | N/A (US) | USD | 19,128,000 | |
| **D.2) Available-for-sale Investments** | | | | |
| **Core Business - Hydrocarbons Operations** | | | | |
| **Hydrocarbons Business Unit** | | | | |
| Terminale GNL Adriatico Srl | Milan (IT) | EUR | 200,000,000 | |
| **Core Business - Marketing and Distribution** | | | | |
| **Marketing and Distribution Business Unit** | | | | |
| Global Power Spa | Verona (IT) | EUR | 500,000 | |
| **Core Business - Corporate Activities** | | | | |
| **Publicly Traded Securities** | | | | |
| RCS Mediagroup Spa | Milan (IT) | EUR | 762,019,050 | |
| **Investments in Companies that are not Publicly Traded** | | | | |
| Emittenti Titoli Spa | Milan (IT) | EUR | 4,264,000 | |
| European Energy Exchange-Eex | Leipzig (DE) | EUR | 40,050,000 | |
| Istituto Europeo di Oncologia Srl | Milan (IT) | EUR | 79,071,770 | |
| MB Venture Capital Fund I Partecipating Comp. e Nv | Amsterdam (NL) | EUR | 50,000 | |
| Syremont Spa | Messina (IT) | EUR | 750,000 | |
| Other unlisted equity investments | | | | |
| **Total Equity Investments Available for Sale** | | | | |
| **Total** | | | | |

| Interest held in share capital % (b) | By | Voting security held % (c) | Exercisable voting rights % (d) | Carrying value (in millions of euros) (f) | Type of investment relationship (e) |
|---|---|---|---|---|---|
| 1.300 | Edison Spa | - | - | 3.5 | OC |
| 3.170 | Edison Spa | - | - | 6.7 | OC |
| 0.840 | Edison Spa | - | - | 1.6 | OC |
| 10.000 | Edison Spa | - | - | 103.3 | OC |
| 12.250 | Eneco Energia Spa | - | - | 0.2 | OC |
| 0.970 | Edison Spa | 1.010 | 1.010 | 29.6 | OC |
| 3.890 | Edison Spa | - | - | 0.2 | OC |
| 0.750 | Edison Spa | - | - | 0.7 | OC |
| 4.370 | Edison Spa | - | - | 3.5 | OC |
| 7.000 | Montedison Finance Europe Nv | - | - | 3.8 | OC |
| 40.000 | Edison Spa | - | - | | ASS |
| | | | | 1.3 | |
| | | | | **154.4** | |
| | | | | **199.1** | |

# Note

(a) The consolidated Group interest is computed on the basis of the interest held in the respective share capital by the Parent Company or subsidiaries consolidated on a line-by-line basis, and by jointly controlled companies consolidated by the proportional method.

(b) The interest in the share capital is equivalent to the ratio between the aggregate par value of all equity securities held directly and the total share capital. In this computation, the denominator (total share capital) is net of any treasury shares held.

(c) The percentage of the voting securities held is equivalent to the ratio between the number of voting securities held directly (irrespective of the ownership of the voting rights) and the total number of voting securities (e.g. common and preferred shares) included in the share capital. The percentage is shown only if it is different from the overall interest held.

(d) The percentage of securities with exercisable voting rights is the ratio between the number of votes which can be effectively cast by the investor company attending an Ordinary Shareholders' Meeting and the total number of votes that can be cast at an Ordinary Shareholders' Meeting. The percentage is shown only if it is different from the overall interest held.

(e) SUB = subsidiary; JV = joint venture; ASS = associate; OC = other company.

(f) The carrying value is shown only for companies valued by the equity method or at cost, owned directly by the Parent Company. For other companies consolidated on a line-by-line basis or by the proportional method, it is shown only if it is equal to or greater than one million euros.

(g) Company subject to the oversight and coordination of Edison Spa.

(h) Company subject to the oversight and coordination of Sel Edison Spa.

(i) Equity investment encumbered by an attachment. The voting rights are held by the attachment's trustee. On May 5, 2006, the Court of Milan upheld the challenge to the attachment order filed by Montedison Srl. An appeal against this court decision has been filed and was notified on November 17, 2006.

(l) On January 30, 2007, Edison enforced the equity investment's sales transaction with respect to which the counterpart had made itself independent.

The currency codes used in the preceding schedules are those of the ISO 4217 Standard.

AUD Australian dollar

BRL Brazilian real

CAD Canadian dollar

CHF Swiss franc

EGP Egyptian pound

EUR Euro

GBP British pound

HRK Croatian Kuna

LIT Italian lira

PTE Portuguese escudo

SGD Singapore dollar

USD U.S. dollar

XAF Central African franc

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