QUARTERLY REPORT
AT SEPTEMBER 30, 2006

EDISON

Contents

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EDISON

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- **Edison Rete** [3] – Electric Power Transmission
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■ 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.

(3) Included in "Discontinued operations" as of June 30, 2006. An agreement selling 100% of these operations to RTL Spa was signed on October 16, 2006.

KEY EVENTS

Third quarter of 2006

Growing Our Business

Edison and Sonatrach Sign Supply Contract for the 2008-2019 Period

On September 21, 2006, Edison and Sonatrach (the national Algerian hydrocarbons company) signed an agreement under which Sonatrach will supply two billion cubic meters of natural gas a year. This new supply of natural gas will flow through the Transmed natural gas pipeline and the TTPC (Trans Tunisian Pipeline Company) pipeline. The TTPC pipeline, which is currently going through the first phase of an upgrade project, links Algeria with Italy via Tunisia. Provided the upgrade project proceeds on schedule, deliveries of natural gas are expected to start between June and October 2008 and will continue until 2019.

Other Key Events

Edison Sells Its High Voltage Network to Terna

On October 16, 2006, Edison Spa and Terna Spa signed an agreement whereby RTL Spa, a wholly owned subsidiary of Terna, will acquire 100% of Edison Rete Spa. This transaction was valued at more than 320 million euros. More detailed information is provided in the section of this Report entitled "Information About the Discontinued Operations (IFRS 5)".

FINANCIAL HIGHLIGHTS

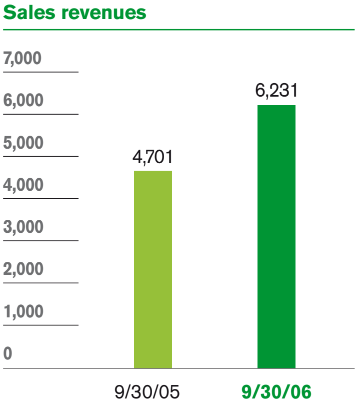
Edison Group

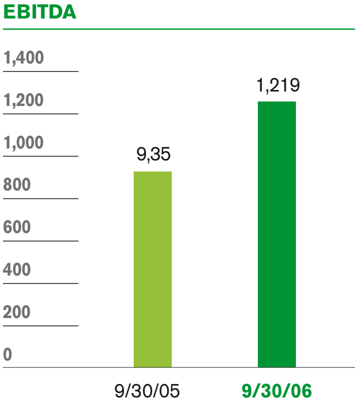
(in millions of euros)

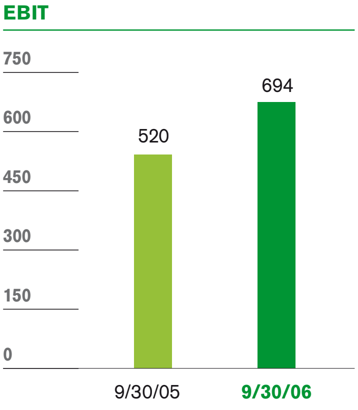
FY 2005 (*)		**9 months 2006**	9 months 2005 (*)	% change	**3rd quarter 2006**	3rd quarter 2005	% change
6,629	Sales revenues	6,231	4,701	*32.5%*	1,965	1,476	*33.1%*
1,288	EBITDA	1,219	935	*30.4%*	445	338	*31.7%*
19.4%	*as a % of sales revenues*	*19.6%*	*19.9%*		*22.6%*	*22.9%*	
639	EBIT	694	520	*33.5%*	279	200	*39.5%*
9.6%	*as a % of sales revenues*	*11.1%*	*11.1%*		*14.2%*	*13.6%*	
442	Profit before taxes	515	414	*24.4%*	231	168	*37.5%*
504	Group interest in net profit	531	343	*54.8%*	133	143	*(7.0%)*
598	Capital expenditures	327	356	*(8.1%)*	134	99	*35.4%*
22	Investments in exploration	29	13	*n.m.*	6	7	*(14.3%)*
11,251	Net invested capital (A + B)(1)	11,335	11,348	*0.7%*			
4,820	Net borrowings (A)(1)	4,575	4,779	*(5.1%)*			
6,431	Shareholders' equity before minority interest (B)(1)	6,760	6,569	*5.1%*			
6,272	Group interest in shareholders' equity (1)	6,615	6,100	*5.5%*			
5.84%	ROI (3)	8.31%	6.32%				
8.42%	ROE (4)	10.99%	7.75%				
0.75	Debt/Equity ratio (A/B)	0.68	0.73				
2,963	Number of employees (1)(2)	2,974	4,453	*0.4%*			
	- including:						
	employees of discontinued operations	82	1,505				
	Stock market prices (in euros) (5)						
1.7344	common shares	1.6639	1.8511				
1.8303	nonconvertible savings shares	1.8981	1.7310				
0.8334	warrants outstanding	0.7860	0.8651				
	Profit (Loss) per share						
0.1173	basic	0.1235	0.0796				
0.1068	diluted	0.1128	0.0725				

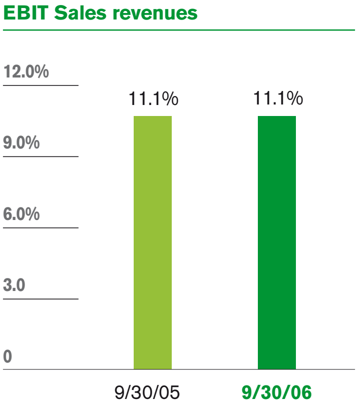
(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.
(2) Companies consolidated line by line and Group interest in companies consolidated by the proportional method.
(3) EBIT (on a yearly basis)/Average net invested capital. Net invested capital does not include 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) Group interest in net profit (on a yearly basis) /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.

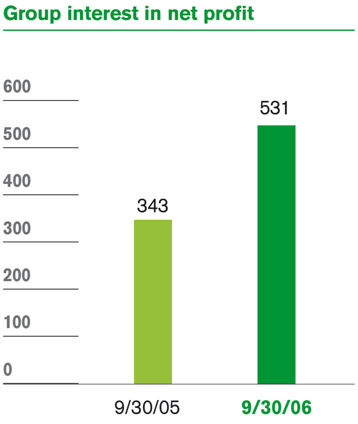
Key Group Data

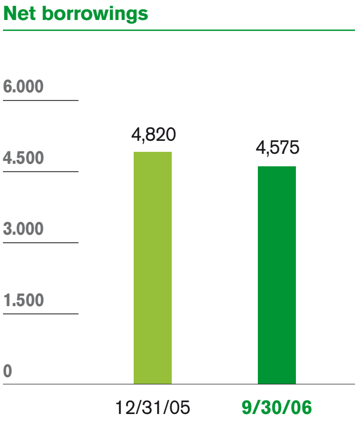












Sales Revenues and EBITDA by Business

(in millions of euros)

FY 2005 (*)		9 months 2006	9 months 2005 (*)	% change	3rd quarter 2006	3rd quarter 2005	% change
	Core Business						
	Electric Power Operations [1]						
4,972	Sales revenues	5,097	3,503	45.5%	1,737	1,281	35.6%
988	EBITDA	892	721	23.7%	329	256	28.5%
19.9%	as a % of sales revenues	17.5%	20.6%		18.9%	20.0%	
	Hydrocarbons Operations [2]						
3,303	Sales revenues	2,955	2,224	32.9%	871	676	28.8%
353	EBITDA	368	259	42.1%	128	105	21.9%
10.7%	as a % of sales revenues	12.5%	11.6%		14.7%	15.5%	
	Corporate Activities						
42	Sales revenues	31	31	-	9	11	(18.2%)
(76)	EBITDA	(48)	(61)	21.3%	(13)	(25)	48.0%
n.m.	as a % of sales revenues	n.m.	n.m.		n.m.	n.m.	
	Eliminations						
(1,940)	Sales revenues	(1,879)	(1,301)	44.4%	(661)	(500)	32.2%
-	EBITDA	-	-		-	-	
	Total core businesses						
6,377	**Sales revenues**	**6,204**	**4,457**	**39.2%**	**1,956**	**1,468**	**33.2%**
1,265	**EBITDA**	**1,212**	**919**	**31.9%**	**444**	**336**	**32.1%**
19.8%	**as a % of sales revenues**	**19.5%**	**20.6%**		**22.7%**	**22.9%**	
	Other operations						
	Continuing Operations						
	Water						
31	Sales revenues	27	23	17.4%	9	8	12.5%
8	EBITDA	7	5	40.0%	1	2	(50.0%)
25.8%	as a % of sales revenues	25.9%	21.7%		11.1%	25.0%	
	Engineering [3]						
221	Sales revenues	-	221	-	-	-	-
15	EBITDA	-	11	-	-	-	-
6.8%	as a % of sales revenues	-	5.0%		-	-	
	Eliminations						
-	Sales revenues	-	-		-	-	
-	EBITDA	-	-		-	-	
	Total other operations						
252	**Sales revenues**	**27**	**244**	**(88.9%)**	**9**	**8**	**12.5%**
23	**EBITDA**	**7**	**16**	**(56.3%)**	**1**	**2**	**(50.0%)**
9.1%	**as a % of sales revenues**	**25.9%**	**6.6%**		**11.1%**	**25.0%**	
	Edison Group						
6,629	**Sales revenues**	**6,231**	**4,701**	**32.5%**	**1,965**	**1,476**	**33.1%**
1,288	**EBITDA**	**1,219**	**935**	**30.4%**	**445**	**338**	**31.7%**
19.4%	**as a % of sales revenues**	**19.6%**	**19.9%**		**22.6%**	**22.9%**	

(*) Data restated following the adoption of IFRIC 4.
(1) Activities carried out by the following Business Units: Electric Power Operations, Electrical Energy Management and Electrical Marketing & Distribution.
(2) Activities carried out by the following Business Units: Hydrocarbons Operations, Gas Supply & Logistics and Hydrocarbons Marketing & Distribution.
(3) Activities carried out by the Tecnimont subsidiary until June 30, 2005. This company was later sold.

REPORT ON OPERATIONS

PERFORMANCE AND RESULTS OF THE GROUP IN THE THIRD QUARTER

Operating Performance

Sales revenues were up sharply in the third quarter of 2006 (+33.1% over the same period last year). A breakdown by type of business shows increases of 35.6% for the electric power operations and 28.8% for the hydrocarbons operations.
As explained in the Semiannual Report, a rise in average sales prices, driven mainly by rising raw material prices in the international markets, was the main reason for this increase.
The electric power operations continued to benefit from a significant expansion in unit sales (+21.1%), which reflects growth in the deregulated market (+45.6%) that was made possible by the full availability of a new power plant in Torviscosa.
The hydrocarbons operations reported a 6.0% increase in unit sales compared with the third quarter of 2005.

EBITDA increased by 107 million euros (+31.7%), rising from 338 million euros in the third quarter of 2005 to 445 million euros in the same period this year. This remarkable improvement (which does not include 7 million euros in EBITDA generated by the electrical network, now classified under discontinued operations) was made possible primarily by the increased availability of electric power, which reflected a rise in installed generating capacity, and by the product allocation strategy carried out by the Group in the various segments of the energy market. The hydrocarbons operations benefited from the positive impact of higher benchmark oil prices on its oil and gas exploration and production operations and from the renegotiated prices paid for natural gas under certain long-term contracts.

As a result of the improved performance described above, EBIT grew to 279 million euros, or 39.5% more than the 200 million euros earned in the third quarter of 2005.

In the first nine months of 2006, sales revenues rose to 6,231 million euros (+32.5% compared with the 4,701 million euros earned in the same period last year), with the electric power and hydrocarbons operations reporting gains of 45.5% and 32.9%, respectively.
EBITDA grew a strong 30.4% (up from 935 million euros to 1,219 million euros). The reasons for this improvement include the positive developments discussed above, a better rate of plant availability than in the first nine months of 2005 for all production facilities; the full availability of the Candela, Altomonte and Piacenza power plants; and the positive impact of the renegotiated prices paid for certain natural gas under long-term contracts, which were applied retroactively starting in the second half of 2005.

Consequently, EBIT rose to 694 million euros, a gain of 33.5% compared with the first nine months of 2005.
The Group revised the method by which it depreciates its CIP 6/92 power plants; the effect was an increased depreciation by about 47 million euros.
Profit before taxes totaled 515 million euros, or 101 million euros more than the 414 million euros earned in the first nine months of 2005. Last year, the pretax figure included 63 million euros in extraordinary gains generated by the sale of the investment in AEM Spa and the reversal of excess provisions following the settlement of certain legal disputes.

At 531 million euros, net profit for the first nine months of 2006 was 54.8% higher than in the same period last year (343 million euros). As explained in the Semiannual Report, the favorable impact of realigning the taxable base of most of Edison Spa's power plants to the higher amount at which they are carried in the statutory financial statements (Law No. 266 of December 23, 2005) accounts for this improvement, having produced a net benefit of 202 million euros.

At September 30, 2006, net borrowings totaled 4,575 million euros (4,779 million euros at September 30, 2005), down from 4,820 million euros at December 31, 2005. An analysis of the main components of this item is available in paragraph "Net Financial Position" in the section "Operating Performance, Financial Results and Financial Position of the Group"

The table below provides an analysis of the Group's net borrowings:

(in millions of euros)

FY 2005		1/1/2006-9/30/2006	1/1/2005-9/30/2005
(4,846)	**A. (Net borrowings) at beginnig of period**	**(4,820)**	**(4,846)**
1,288	EBITDA	1,219	935
(192)	Change in operating working capital	61	(304)
(131)	Income taxes paid (-)	(37)	(40)
(141)	Change in other assets (liabilities)	(188)	(160)
824	**B. Cash flow from operating activities**	**1,055**	**431**
(883)	Investments in property, plant and equipment, intangibles and non-current financial assets (-)	(449)	(430)
470	Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	15	225
8	Dividends received	4	8
419	**C. free cash flow**	**625**	**234**
(203)	Financial income (expense), net	(184)	(169)
18	Contributions of share capital and reserves	-	7
(11)	Dividends declared (-)	(196)	(11)
223	**D. Net cash flow from financial activities**	**245**	**61**
(197)	Change in the scope of consolidation	-	6
26	**E. Net cash flow for the period**	**245**	**67**
(4,820)	**F. (Net borrowings) at end of period**	**(4,575)**	**(4,779)**

Outlook for 2006

The full availability of new power plants and the positive impact of renegotiated prices for long-term natural gas supply contracts should enable the Group to report higher industrial results in 2006 compared with the previous year.

THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy

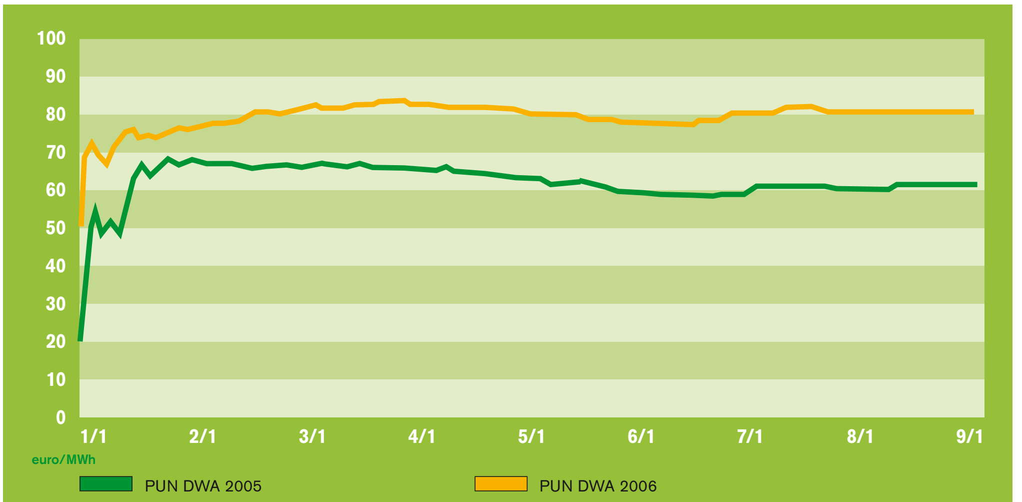
FY 2005	TWh	**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
289.7	Net production	227.8	215.5	5.7%	76.0	73.0	4.1%
49.1	Imports	31.2	37.7	(17.2%)	10.6	10.9	(2.6%)
(9.4)	Surges	(6.5)	(6.9)	(5.7)%	(2.1)	(2.0)	4.0%
329.4	**Total demand**	**252.5**	**246.3**	**2.5%**	**84.5**	**81.9**	**3.2%**

Source: Official GRTN data and analyses of Terna and AU data, before line losses.

The year-over-year improvement trend that characterized the Italian energy market earlier in the year continued in the third quarter of 2006, but the rate of expansion slowed slightly. Net demand for electric power was 3.2% higher than in the third quarter of 2005. This higher level of demand was met by a 4.1% increase in domestic production (76 TWh).

For the first nine months of 2006, net imports decreased to 31.2 TWh. This significant reduction of 17.2%, compared with the same period last year, is mainly the result of a sharp drop in daytime imports during the winter months and a concurrent increase in exports.
During the first nine months of 2005, the availability of water resources was lower than the historical average, but thermoelectric production increased by 5.6% and the output from wind power facilities soared by 64% compared with the first nine months of 2005.
With regard to domestic demand, a comparison with 2005 shows that in the third quarter of 2006 demand continued to rise in the deregulated market and, at 40.4 TWh, the latter accounted for a larger share of total demand than the captive market (38.9 TWh).

Insofar as prices are concerned, the Single National Price (abbreviated PUN in Italian) stood at 80.3 euros per MWh at September 30, 2006 (+31% compared to 61.5 euros/MWh at September 30th, 2005). The chart below shows the trend of the PUN compared with the same period in 2005.



DWA = Demanded Weighted Average.

Demand for Natural Gas in Italy

FY 2005	Billions of m³	**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
30.1	Services and residential customers	19.8	19.9	(0.4%)	1.9	1.9	2.1%
21.7	Industrial users	15.6	15.9	(2.0%)	4.5	4.4	1.0%
32.9	Thermoelectric power plants	25.2	23.7	6.3%	8.9	8.5	4.3%
0.5	Transportation	0.4	0.3	9.6%	0.1	0.1	-
85.2	**Total demand**	**61.0**	**59.8**	**1.9%**	**15.4**	**14.9**	**3.0%**

Source: 2005 data and preliminary 2006 data provided by the Ministry or taken from Edison estimates, net of system usage and leaks.

In the Italian natural gas market, demand grew by about 0.5 billion cubic meters (about 3%) compared with the same period last year, reflecting higher consumption by thermoelectric users and a recovery in the services and residential segments.
With regard to supply sources, a reduction in domestic production (-8.9% compared with the third quarter of 2005) was offset by a rise in imports (up about 7.9% in 2006, due mainly to gas coming from Libya under a contract that became fully operational during the first half of 2006) and the need to replenish, starting in April, the portion of the strategic reserve used during the winter and ensure that storage facilities are filled up (+14.6% compared with the third quarter of 2005) in anticipation of this year's winter season.

The trends discussed above also apply to the first nine months of the year. Demand (estimated) totaled about 61 billion cubic meters, or 1.2 billion cubic meters more (+1.9%) than in the same period last year, despite the emergency measures introduced by the Ministry of Economic Development during the winter months (January to March 2006) to curtail domestic consumption. Most of the year's increase is attributable to higher usage for thermoelectric applications.
In the area of supply, the trend of a steady decline in domestic production (-8.4%) and rising imports (+6.3%) continued. In addition, there was a significant "storage variance" compared with the first nine months of 2005 due to an increase of about 1.6 billion cubic meters in the total volume made available to the system.

Economic Environment

In the benchmark oil market, the average price of Brent crude rose to 69.5 USD/bbl in the third quarter of 2006, a level higher than the already high 61.5 USD/bbl recorded in the same period last year. As a result, the average for the first nine months of 2006 was 67.0 USD/bbl, or about 25% more than in the same period a year ago. However, the cost of a barrel of oil decreased significantly in the closing weeks of the quarter (62.2 USD/bbl at September 30th) due to an easing of international tension, falling demand and higher inventories.

In addition, the euro strengthened versus the dollar during the third quarter of 2006. The average exchange rate for the quarter was 1.27 USD for one euro, or 4.4% more than in the third quarter of 2005. Despite this improvement, the cumulative average exchange rate for the first nine months of 2006 was 1.24 USD for one euro, still below the rate for the same period last year (1.26 USD for one euro).

Due to the combined impact of the developments discussed above, the increase in the price of Brent crude is somewhat more modest when stated in euros (+8.2%).

FY 2005		**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
54.4	Oil price USD/bbl	67.0	53.5	25.2%	69.5	61.5	13.0%
1.24	USD/euro exchange rate	1.24	1.26	(1.3%)	1.27	1.22	4.4%
43.7	Oil price euros/bbl	53.8	42.5	26.7%	54.5	50.4	8.2%

REGULATORY FRAMEWORK

The main legislative measures and significant developments in the third quarter of 2006 are reviewed below.

Electric Power

Actions of the Electric Power and Natural Gas Authority (AEEG)

On July 3, 2006, the AEEG issued Directive No. 137/06 by which it began the process of defining and updating the avoided fuel cost component for CIP 6/92 power plants.
On the same date, the AEEG published a consultation document concerning new guidelines for recognizing "avoided fuel costs" from 2007 on.

On July 27, 2006, the AEEG published Resolution No. 165/06, which amended Resolution No. 168/03, and introduced regulations designed to reduce the costs incurred by Terna in supplying dispatching services.

Environment

Emissions Trading: As the development of the regulatory framework for the first year of implementation of the Emissions Trading System in Italy by the relevant Ministries was being completed and the Agency for Environmental Protection and Technical Services (abbreviated as APAT in Italian) deployed the complete information technology infrastructure needed to allow operators to meet compliance requirements, consultations got under way in connection with the second phase of the Emissions Trading System.
Specifically, the outline of the National Allocation Plan for the 2008-2012 period was made available for consultation on July 14, 2006.

Hydrocarbons

Measures for Handling a Potential 2006-2007 Natural Gas Emergency

Based on recent analyses performed by the Technical Emergency Committee that indicate the possibility of another natural gas emergency during the 2006-2007 winter, the Ministry of Economic Development (abbreviated MSE in Italian) issued, at an earlier date than in 2005, directives designed to increase the supply of natural gas and minimize the use of stored reserves.
On August 4, 2006, the MSE issued two Ministerial Decrees that require users of the natural gas transmission service to comply with the following obligations:
- Replenish the stored reserves available for the modulation service by maximizing the amount of gas added to the system, while asking the AEEG to suspend storage unbalancing fees for the period from July 1, 2006 to September 30, 2006;
- Maximize imports at entry points of the national network that are connected with foreign natural gas pipelines for the period between November 13, 2006 and March 31, 2007.

The Decree concerning the maximization of imports also introduces the obligation for natural gas distributors who supply industrial customers that are connected directly with the transmission network to offer those customers interruptible supply contracts.

In order to implement these two Decrees effectively, the AEEG issued the following resolutions: Resolution No. 134/06, which provides incentives to importers of spot-market natural gas for the January-March 2007 period; Resolution No. 189/06, which suspends fines for maximizing additions to storage facilities; and Resolution No. 192/06, which provides industrial users who are connected directly with the transmission network with incentives for accepting interruptible supply contracts.

PERFORMANCE OF THE GROUP'S BUSINESSES

Electric Power Operations

Quantitative Data

Sources

FY 2005	GWh (*)	**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
44,689	Net production of the Edison Group:	38,502	32,222	19.5%	13,209	11,065	19.4%
30,205	- Thermoelectric power plants	26,205	21,628	21.2%	9,116	7,517	21.3%
2,757	- Hydroelectric power plants	2,436	2,185	11.5 %	1,077	916	17.6%
407	- Wind farms	353	284	24.1%	104	95	9.1%
11,320	- Edipower	9,508	8,125	17.0 %	2,912	2,537	14.8%
1,580	**Imports**	**1,123**	**1,179**	**(4.7%)**	**358**	**279**	**28.4%**
6,424	**Other domestic purchases and swaps** (1)	**7,986**	**5,219**	**53.0%**	**2,668**	**2,065**	**29.2%**
52,693	**Total sources**	**47,611**	**38,620**	**23.3%**	**16,235**	**13,409**	**21.1%**

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

Uses

FY 2005	GWh (*)	**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
20,375	CIP-6/92 dedicated	15,128	14,746	2.6%	4,953	5,350	(7.4%)
5,082	Captive and other industrial customers	3,710	3,756	(1.2%)	1,107	1,079	2.6%
27,086	Deregulated market	28,711	20,066	43.1%	10,162	6,977	45.6%
150	Exports	62	52	19.2%	13	3	n.m.
52,693	**Total uses**	**47,611**	**38,620**	**23.3%**	**16,235**	**13,409**	**21.1%**

(*) One GWh is equal to one million kWh

Financial Highlights

(in millions of euros)

FY 2005	GWh (*)	**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
4,972	**Sales revenues**	**5,097**	**3,503**	**45.5%**	**1,737**	**1,281**	**35.6%**
988	EBITDA	892	721	23.7%	329	256	28.5%
19.9%	as a % of sales revenues	17.5%	20.6%		18.9%	20.0%	
511	Capital expenditures	262	303	(13.5%)	107	84	27.4%
1,992	Number of employees (1)	2,014	1,979	1.1%			
	Employees of discontinued operations	82	-				

(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.

Sales revenues grew to 1,737 million euros in the third quarter of 2006, or about 35.6% more than in the same period last year. Higher unit sales (+21.1%) and a significant increase in average sales prices, which are indexed mainly to the cost of benchmark fuels, account for this sharp improvement.

EBITDA rose to 329 million euros, for a gain of 28.5% compared with the 256 million euros earned in the third quarter of 2005. This increase in profitability is mainly the result of a rise in unit sales, which were particularly strong in the deregulated market (+45.6%), reflecting an increase in high-yield production capacity, the optimization of the sales channel mix and a refund provided by the AEEG to CIP 6/92 facilities for costs incurred to purchase green certificates.

These positive factors more than offset the negative impact of such unfavorable developments as the loss of CIP 6/92 incentives for certain facilities (amounting to 28 million euros), the charges incurred in connection with CO_2 emissions and the absence of the contribution provided by the electrical work facilities, which are now classified as discontinued operations.

Cumulative revenues for the first nine months of 2006 increased by 45.5% to 5,097 million euros.
At September 30, 2006, EBITDA amounted to 892 million euros, up from 721 million euros at the same time a year earlier (+23.7%).
The favorable developments already explained in the review of the quarterly data account for this improvement as well.

In addition, in keeping with a conservative approach, the data in the Semiannual Report do not reflect refunds received for costs incurred by the Group in connection with the so-called natural gas emergency, since the consultation process that the AEEG is carrying out prior to deciding how to proceed with regard to this issue has not been completed.

Sales and Marketing

In the third quarter of 2006, sales of electric power totaled 16,235 GWh, or 21.1% more than in the same period last year. Market sales were especially strong, rising by 45.6% to 10,162 GWh. Specifically, physical sales on the Power Exchange rose to 1,892 GWh (+90.1%), while other market sales improved by 38.2% to 8,270 GWh.
Due to scheduled maintenance, sales of CIP 6/92 energy decreased by 7.4% to 4,953 GWh.

Cumulative sales for the first nine months of 2006 amounted to 47,611 GWh, a gain of 23.3% compared with the same period last year.
Sales in the deregulated market grew to 28,711 GWh (+43.1%), with gains of 76.4% for Power Exchange sales (4,191 GWh) and 38.6% for other market sales (24,521 GWh).
CIP 6/92 sales were up 2.6% to 15,128 GWh, reflecting good plant availability rates.

Sales on foreign electric power exchanges provided a positive contribution to the Group's performance during the first nine months of 2006. These sales volumes (about 1.3 TWh) are not included in the "Sources" and "Uses" tables shown above because they consist exclusively of power purchased for resale on foreign exchanges.

Production and Procurement

The Group's net production totaled 13,209 GWh in the third quarter of 2006, or 19.4% more than in the same period a year ago. The increase of 21.3% in thermoelectric production reflects primarily the commissioning of the Candela and Altomonte power plants, which operated at full capacity, and the startup of the facility in Torviscosa.
Hydroelectric output was up 17.6% compared with the three months ended September 30, 2005.
The output generated by Edipower was also higher (+14.8%) than in the third quarter of 2005, due mainly to the contribution of the new Piacenza power plant.
During the third quarter of 2006, the Group purchased and imported electric power totaling 3,027 GWh, or 29.1% more than in the same period last year.

Total production for the first nine months of 2006 amounted to 38,502 GWh, up a healthy 19.5% compared with the same period last year. As was the case for the quarterly data, the biggest gain (+21.2%) was in thermoelectric production, due to an increase in installed capacity and a decrease in plant downtime. Edipower's output was up 17.0%, reflecting the full availability of the Piacenza power plant and the restarting of facilities fired with fuel oil, which became necessary during the natural gas emergency in the first quarter of the year. The output of hydroelectric and wind-powered facilities was also up, increasing by 11.5% and 24.1%, respectively.

During the first nine months of 2006, as part of its portfolio optimization strategy, the Group purchased and imported electric power totaling 9,109 GWh (+42.4%).

Capital Expenditures

In the third quarter of 2006, the Electric Power operations made capital expenditures totaling 107 million euros, or about 23 million euros more than in the same period last year.
Capital expenditures for the first nine months of the year amounted to 262 million euros; they refer to the power plant in Torviscosa (UD), which was commissioned in September, and the facility in Simeri Crichi (CZ), which is expected to go on stream in 2007. Edison's share (50%) of the amount invested by Edipower (66 million of euro) funded the repowering of the Turbigo (MI) power plant and the updating of the Mese hydroelectric power plant.

Hydrocarbons Operations

Quantitative Data

Sources

FY 2005	millions of m^3 of natural gas	**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
1,248	**Total net production:**	**840**	**945**	**(11.1%)**	**259**	**327**	**(20.9%)**
902	- Production in Italy	547	691	(20.9%)	181	233	(22.3%)
346	- Production outside Italy	293	254	15.4%	78	94	(17.4%)
6,601	**Pipeline imports**	**5,849**	**4,942**	**18.4%**	**1,730**	**1,328**	**30.3%**
80	**LNG imports**	**62**	**81**	**(23.5%)**	**-**	**-**	**n.m.**
5,714	**Domestic and other purchases (1)**	**3,242**	**3,733**	**(13.1%)**	**807**	**983**	**(17.9%)**
13,643	**Total sources**	**9,993**	**9,701**	**3.0%**	**2,796**	**2,638**	**6.0%**

(1) Includes inventory changes and pipeline leaks.

Uses

FY 2005	millions of m^3 of natural gas	**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
4,012	Residential use	2,484	2,705	(8.2%)	259	278	(6.8%)
1,471	Industrial use	859	1,116	(23.0%)	263	304	(13.3%)
7,307	Thermoelectric fuel use	6,116	5,202	17.6%	2,121	1,814	16.9%
346	Exports	293	254	15.4%	78	94	(17.4%)
507	Other sales	241	424	(43.1%)	75	148	(49.5%)
13,643	**Total uses**	**9,993**	**9,701**	**3.0%**	**2,796**	**2,638**	**6.0%**

Financial Highlights

(in millions of euros)

FY 2005		**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
3,303	**Sales revenues**	**2,955**	**2,224**	**32.9%**	**871**	**676**	**28.8%**
353	EBITDA	368	259	42.1%	128	105	21.9%
10.7%	as a % of sales revenues	12.5%	11.6%		14.7%	15.5%	
73	Capital expenditures	57	44	29.5%	27	14	92.9%
22	Investments in exploration	29	13	n.m.	6	7	(14.3%)
441	Number of employees (1)	438	431	(0.7%)			

(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.

In the third quarter of 2006, sales revenues totaled 871 million euros, for a gain of 28.8% compared with the same period last year. This increase is mainly the result of an increase in average unit revenues, which in turn reflect favorable changes in the markets for energy commodities.
EBITDA increased to 128 million euros, or 21.9% more than the 105 million euros earned in the third quarter of 2005. Higher prices for petroleum products and the positive impact of the renegotiated price paid for natural gas purchased under certain long-term contracts are the main reasons for this improvement.

Sales revenues for the first nine months of 2006 amounted to 2,955 million euros, up 32.9% over the figure reported at September 30, 2005.
The positive developments outlined above caused EBITDA to rise by 42.1% to 368 million euros, despite the recognition of a provision of about 53 million euros that was booked to comply with Resolutions No. 298/05 and No. 134/06, by which the AEEG revised the rates at which natural gas is sold pursuant to Resolution No. 248/05.

The average price of non-fluxed oil was up sharply compared with the first nine months of 2005. It rose from 19.6 euros per barrel to 29.8 euros per barrel, mirroring changes in the price of benchmark fuels and petroleum products and thereby contributing to the profitability of the hydrocarbons operations.

Sales and Marketing

In the third quarter of 2006, unit sales of natural gas totaled 2,796 million cubic meters, slightly more than in the corresponding period last year (2,638 million cubic meters).
Specifically, sales to residential users were down 6.8% and those to industrial users decreased by 13.3%. On the other hand, deliveries to thermoelectric users increased by 16.9% due to increased demand from the Group's new thermoelectric power plants.

Cumulative sales for the first nine months of 2006 totaled 9,993 million cubic meters (9,701 million cubic meters in the same period in 2005). Consistent with the trend in the third quarter, sales to residential and industrial users declined by 8.2% and 23.0%, respectively, while demand from the Group's thermoelectric facilities grew by 17.6%.
Wholesalers bought 241 million cubic meters of natural gas, compared with 424 million cubic meters in the first nine months of 2005.

Production and Procurement

In the third quarter of 2006, net production of natural gas totaled 259 million cubic meters, down from the 327 million cubic meters produced in the same period last year. On the procurement side, natural gas imports increased to 1,730 million cubic meters, up from 1,328 million cubic meters in the first quarter of 2005. At the same time, domestic purchases decreased by 17.9% in the third quarter of 2006, falling from 983 million cubic meters last year to 807 million cubic meters this year.
During the first nine months of 2006, net production of natural gas was down by 11.1% compared with the same period last year, as the net result of a decrease in output in Italy (-20.9%), which was caused by the natural depletion of gas fields, and an increase of production in Egypt (+15.4%).
As mentioned above, outside purchases increased by 4.5%, reflecting higher imports of natural gas (5,911 million cubic meters compared with 5,023 million cubic meters in the first nine months of 2005), but domestic purchases fell by 13.1% to 3,242 million cubic meters (3,733 million cubic meters in the first nine months of 2005).
Overall, imports of natural gas accounted for 61.8% of the natural gas sold in Italy during the first nine months of 2006, up from 53.7% in the same period last year.
Production of crude oil totaled 1,603,000 barrels, compared with 1,656,000 barrels in the first nine months of 2005.

Capital Expenditures

Capital expenditures totaled 27 million euros in the third quarter of 2006, or about 13 million euros more than in the same period in 2005. The resources invested in capital projects during the first nine months of this year grew to 57 million euros (44 million euros in the same period a year ago). The main projects carried out in Italy included the workover of the Daria and Anemone fields, drilling and completion of wells at the Candela (FG) location (the gas produced there will be used by a local power plant) and expansion of the Collalto (UD) storage facility. In Algeria, work focused on completing several test wells.
As for the construction of the new LNG regasification terminal near Rovigo, in which Edison has a 10% interest, suppliers in Spain and Korea are continuing to work on the construction of facility components.

Exploration Activities

During the third quarter of 2006, the Group invested 6 million euros in hydrocarbon explorations, an amount roughly in line with the 7 million euros invested in the same period last year. Cumulative investments for the first nine months of the year totaled 29 million euros: 17 million euros in Italy (drilling and production testing of the Argo 1 offshore well in Sicily and the Codogno 1 well in the province of Lodi, both of which yielded natural gas) and 12 million euros abroad. The main projects pursued outside Italy involved the drilling of two wells (one in Croatia and one in Algeria), both of which yielded natural gas. A third well (Reggane 6 in Algeria) is currently being drilled.

New initiatives included the evaluation of two exploration blocks that were being put up for competitive bidding in Egypt and for which the Group submitted two bids through a consortium it formed with Sipetrol, a company belonging to ENAP, the state Chile company. In Norway, Edison filed several permit applications through consortia it formed with various companies that are already active in that country.

Corporate Activities

Financial Highlights

(in millions of euros)

FY 2005		**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
42	Sales revenues	31	31	-	9	11	(18.2%)
(76)	EBITDA	(48)	(61)	21.3%	(13)	(25)	48.0%
n.m.	as a % of sales revenues	n.m.	n.m.		n.m.	n.m.	
2	Capital expenditures	1	2	n.m.	-	1	n.m.
526	Number of employees (1)	519	533	(1.3%)			

(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.

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 from the sale of real estate that were in line with those reported at September 30, 2005.

EBITDA, while negative by 13 million euros, were substantially better than in the third quarter of 2005, as the loss narrowed by about 12 million euros. A successful cost-cutting policy at the corporate level and a prudent stewardship of the Group's real estate assets account for this improvement. The same considerations hold true for the first nine months of 2006, during which the loss decreased by 13 million euros compared with the same period last year.

Capital Increases

The capital increases carried out during the first nine months of 2006 (12,049 euros) reflect conversions of outstanding Edison warrants. These warrants can be exercised at any time until December 31, 2007 to buy Company shares at a price of 1 euro per share. At September 30, 2006, there were 1,018,636,574 warrants outstanding.

Other Continuing Operations

Water Distribution and Treatment (IWH)

Financial Highlights

(in millions of euros)

FY 2005		**9 months 2006**	9 months 2005	% change	**3rd quarter 2006**	3rd quarter 2005	% change
31	Sales revenues	27	23	17.4%	9	8	12.5%
8	EBITDA	7	5	40.0%	1	2	(50.0%)
25.8%	as a % of sales revenues	25.9%	21.7%		11.1%	25.0%	
11	Capital expenditures	7	6	16.7%	2	2	n.m.
4	Number of employees (1)	3	5	(25.0%)			

(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.

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 nine months of 2006 totaled 27 million euros. They were generated by operations carried out in Guayaquil (Ecuador) under license. At 7 million euros, EBITDA were higher than in the first nine months of 2005.

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”.

OPERATING PERFORMANCE, FINANCIAL RESULTS AND FINANCIAL POSITION OF THE GROUP

at September 30, 2006

Consolidated Balance Sheet

9/30/05 IFRIC 4 restated	(millions of euros)	See Note	9/30/2006	12/31/2005 IFRIC 4 restated
	ASSETS			
8,564	Property, plant and equipment	1	8,242	8,582
57	Investment property	*2*	45	49
3,505	Goodwill	*3*	3,505	3,505
332	Hydrocarbon concessions	*4*	319	339
37	Other intangible assets	*5*	64	38
65	Investments in associates	*6*	66	59
79	Available-for-sale investments	*6*	107	74
131	Other financial assets	*7*	116	125
105	Deferred-tax assets	*8*	103	104
359	Other assets	*9*	287	297
13,234	**Total non-current assets**		**12,854**	**13,172**
444	Inventories		477	315
1,197	Trade receivables		1,451	1,593
-	Due from customers for contract work		-	-
41	Current-tax assets		18	38
318	Other receivables		297	337
107	Current financial assets		58	76
342	Cash and cash equivalents		164	361
2,449	**Total current assets**	10	**2,465**	**2,720**
436	**Assets held for sale**	11	**209**	**-**
16,119	**Total assets**		**15,528**	**15,892**
	LIABILITIES AND SHAREHOLDERS' EQUITY			
4,266	Share capital		4,273	4,273
-	Equity reserves		-	-
1,546	Other reserves		1,716	1,550
3	Reserve for currency translations		(2)	3
(58)	Retained earnings (Loss carryforward)		97	(58)
343	Profit (Loss) for the period		531	504
6,100	**Total Group interest in shareholders' equity**		**6,615**	**6,272**
469	Minority interest in shareholders' equity		145	159
6,569	**Total shareholders' equity**	12	**6,760**	**6,431**
74	Provision for employee severance indemnities and provisions for pensions	*13*	73	74
1,167	Provision for deferred taxes	*14*	763	1,097
952	Provision for risks and charges	*15*	861	1,002
2,845	Bonds	*16*	1,233	2,838
1,960	Long-term borrowings and other financial liabilities	*17*	1,467	1,822
12	Other liabilities	*18*	8	242
7,010	**Total non-current liabilities**		**4,405**	**7,075**
-	Bonds payable		1,435	-
665	Short-term borrowings		701	657
923	Trade payables		1,356	1,275
-	Due to customers for contract work		-	-
69	Current taxes payable		38	16
516	Other liabilities		796	438
2,173	**Total current liabilities**	19	**4,326**	**2,386**
367	**Liabilities held for sale**	20	**37**	**-**
16,119	**Total liabilities and shareholders' equity**		**15,528**	**15,892**

Consolidated Income Statement

2005 full year IFRIC 4 restated	(millions of euros)	See note	**1/1/2006-9/30/2006**	1/1/2005-9/30/2005 IFRIC 4 restated	**3rd quarter 2006**	3rd quarter 2005 IFRIC 4 restated
6,629	Sales revenues	21	6,231	4,701	1,965	1,476
588	Other revenues and income	22	578	394	205	(18)
7,217	**Totale ricavi**		**6,809**	**5,095**	**2,170**	**1,458**
(5,679)	Raw materials and services used (-)	*23*	(5,439)	(3,968)	(1,677)	(1,072)
(250)	Labor costs (-)	*24*	(151)	(192)	(48)	(48)
1,288	**EBITDA**	25	**1.219**	**935**	**445**	**338**
(649)	Depreciation, amortization and writedowns (-)	*26*	(525)	(415)	(166)	(138)
639	**EBIT**		**694**	**520**	**279**	**200**
(203)	Net financial income (expense)	*27*	(184)	(169)	(48)	(57)
23	Income from (Expense on) equity investments	*28*	4	30	-	19
(17)	Other income (expense), net	*29*	1	33	-	6
442	**Profit before taxes**		**515**	**414**	**231**	**168**
(18)	Income taxes	*30*	18	(55)	(99)	(18)
424	**Profit (Loss) from continuing operations**		**533**	**359**	**132**	**150**
86	Profit (Loss) from discontinued operations	31	3	-	3	-
510	**Profit (Loss) for the period**		**536**	**359**	**135**	**150**
6	Minority interest in profit (loss)		5	16	2	7
504	**Group interest in profit (loss)**		**531**	**343**	**133**	**143**
	Earnings per share (in euros)	*32*				
0.1173	basic		0.1235	0.0796		
0.1068	diluted		0.1128	0.0725		

Cash Flow Statement

In the table below, "Cash and cash equivalents of discontinued operations" for the corresponding period of 2005 refers to the Engineering operations, which were divested in the fourth quarter of 2005. 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.

2005 full year IFRIC 4 restated	(in millions of euros)	**1/1/2006-9/30/2006**	1/1/2005-9/30/2005 IFRIC 4 restated
504	Group interest in profit (loss)	528	343
6	Minority interest in profit (loss)	5	16
571	Amortization and depreciation	505	415
(3)	Interest in the result of companies valued by the equity method (-)	(3)	(2)
-	Dividends received from companies valued by the equity method	4	-
(137)	(Gains) Losses on the sale of non-current assets	-	(24)
78	(Revaluations) Writedowns of intangibles and property, plant and equipment	20	(4)
(2)	Change in the provision for employee severance indemnities	2	3
(476)	Change in other operating assets and liabilities	(189)	(688)
541	**A. Cash flow from operating activities of continuing operations**	**872**	**59**
(644)	Additions to intangibles and property, plant and equipment (-)	(389)	(392)
(239)	Investimenti in immobilizzazioni finanziarie (-)	(60)	(40)
21	Proceeds from the sale of intangibles and property, plant and equipment	15	6
452	Proceeds from the sale of non-current financial assets	-	215
2	Capital grants received during the year	-	1
(92)	Change in the scope of consolidation	-	-
(11)	Other current assets	18	20
(511)	**B. Cash used in investing activities**	**(416)**	**(190)**
279	Receipt of new medium-term and long-term loans	1,197	233
(265)	Redemption of new medium-term and long-term loans and reclassification of short-term installments (-)	(3,157)	(74)
18	Capital contributions provided by controlling companies or other shareholders	-	7
(11)	Dividends paid to controlling companies or minority shareholders (-)	(196)	(11)
(148)	Change in short-term debt	1,479	(140)
(127)	**C. Cash used in financing activities**	**(677)**	**15**
-	**D. Cash and cash equivalents of discontinued operations**	**-**	**92**
-	**E. Net currency translation differences**	**-**	**-**
-	**F. Net cash flow from discontinued operations**	**24**	**-**
(97)	**G. Net decrease in cash and cash equivalents (A+B+C+D+E+F)**	**(197)**	**(24)**
458	**H. Cash and cash equivalents at beginning of period**	**361**	**458**
361	**I. Cash and cash equivalents at end of period (G+H)**	**164**	**434**
361	**L. Total cash and cash equivalents at end of period (I)**	**164**	**434**
-	**M. (-) Cash and cash equivalents of discontinued operations**	**-**	**(92)**
361	**N. Cash and cash equivalents of continuing operations (L-M)**	**164**	**342**

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)	Total Group interest in sharehold. equity (a+b+c+d)=(e)	Minority inter. in sharehold. equity (f)	Total shareholders' equity (e)+(f)
Balance at December 31, 2004	**4,259**	**1,094**	**-**	**354**	**5,707**	**469**	**6,176**
Restatements for adoption of IAS 32 and 39	-	38	-	-	38	-	38
Restatements for adoption of IFRIC 4	-	(2)	-	-	(2)	-	(2)
Balance at january 1, 2005	**4,259**	**1,130**	**-**	**354**	**5,743**	**469**	**6,212**
Share capital increase due to the conversion of warrants	7	-	-	-	7	-	7
Appropriation of the 2004 profit	-	354	-	(354)	-	-	-
Adjustments from January 1, 2005 to September 30, 2005 for adoption of IAS 32 and IAS 39	-	3	-	-	3	(1)	2
Change in the scope of consolidation	-	-	-	-	-	(3)	(3)
Dividend distribution	-	-	-	-	-	(11)	(11)
Difference from translation of financial statements in foreign currencies and sundry items	-	5	(1)	-	4	(1)	3
Result at September 30, 2005 restated in accordance with IFRIC 4	-	-	-	343	343	16	359
Balance at September 30, 2005	**4,266**	**1,492**	**(1)**	**343**	**6,100**	**469**	**6,569**
Share capital increase due to the award of stock options	7	4	-	-	11	-	11
Adjustments from October 1, 2005 to December 31, 2005 for adoption of IAS 32 and IAS 39	-	8	-	-	8	1	9
Change in the scope of consolidation	-	-	-	-	-	(301)	(301)
Difference from translation of financial statements in foreign currencies and sundry items	-	(12)	4	-	(8)	-	(8)
Result from October 1, 2005 to December 31, 2005 restated in accordance with IFRIC 4	-	-	-	161	161	(10)	151
Balance at December 31, 2005	**4,273**	**1,492**	**3**	**504**	**6,272**	**159**	**6,431**
Appropriation of the 2005 profit	-	504	-	(504)	-	-	-
Dividend distribution	-	(183)	-	-	(183)	(13)	(196)
Adjustments from January 1, 2006 to September 30, 2006 for adoption of IAS 32 and IAS 39	-	1	-	-	1	-	1
Change in the scope of consolidation	-	-	-	-	-	(6)	(6)
Difference from translation of financial statements in foreign currencies and sundry items	-	(1)	(5)	-	(6)	-	(6)
Result at September 30, 2006	-	-	-	531	531	5	536
Balance at September 30, 2006	**4,273**	**1,813**	**(2)**	**531**	**6,615**	**145**	**6,760**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2006

The Edison Group's consolidated quarterly report at September 30, 2006 was prepared in accordance with Article 82 of Consob Regulation No. 11971 of May 14, 1999, as amended.

These interim financial statements were prepared in accordance with International Financial Reporting Standards (IAS/IFRS), as issued by the International Accounting Standards Board and approved by the European Union. They are also consistent with the provisions of IAS 34 "Interim Financial Reporting," which provides guidelines for the preparation of interim financial statements.

With the exception of the items reviewed below, the principles of consolidation, the criteria used to translate financial statements denominated in foreign currencies and the valuation criteria and estimates used are consistent with those applied in the preparation of the Annual Report at December 31, 2005, which should be consulted for more detailed information.

The consolidated quarterly report at September 30, 2006 has not been audited.

Changes to Applicable Accounting Principles

The IASB and the IFRIC have approved certain changes to the IAS/IFRS principles, effective as of January 1, 2006, which have been published in the *Official Journal of the European Union* (OJEU). The main changes are reviewed below:

- IAS 39. The main change consists of the option to measure financial assets and liabilities at fair value, with any differences recognized in earnings. The Group has chosen not to adopt this option.
- IAS 21. The new version introduces new paragraphs of IAS 21 and amends others concerning investment in a foreign operation. These changes have no impact on the Group.
- Introduction of IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds," IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment" and IFRIC 7 "Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies." These changes had no impact on the Group's consolidated data.
- First-time adoption of IFRIC 4, which is discussed in the next section of the notes to the financial statements.

Impact of the Adoption of IFRIC 4

IFRIC 4 is an interpretation included in the International Financial Reporting Standards applicable as of January 1, 2006. It provides guidance in determining whether or not certain specific agreements constitute a lease and should be recognized in accordance with the provisions of IAS 17 (either finance leases or operating leases).

More specifically, a company may enter into an agreement that calls for a transaction, or a series of related transactions, that, while not formally a lease, convey the right to use an asset (an item of property, plant and equipment) in exchange for a payment or a series of payments.

Consequently, with regard to the comparative data at September 30, 2005, this change required a restatement of the balance sheet, income statement, statement of cash flow and reconciliation of shareholders' equity. The main impact of these restatements is reviewed below:

In the balance sheet:

- Derecognition of property, plant and equipment totaling 57 million euros;
- Concurrent recognition of non-current loans receivable amounting to 60 million euros;
- Recognition of current financial liabilities of 1 million euros;
- Establishment of a provision for deferred taxes of 1 million euros;
- An upward adjustment to shareholders' equity of 1 million euros.

In the income statement, which showed an overall improvement of 3 million euros in the first nine months of 2005:

- Derecognition of sales revenues totaling 15 million euros;
- A decrease of 1 million euros in service costs;
- A decrease in depreciation of 6 million euros due to the derecognition of property, plant and equipment and the concurrent recognition of loans receivable;
- Recognition of financial income totaling 12 million euros;
- Recognition of income taxes amounting to 1 million euros.

Property, plant and equipment includes certain assets that are covered by agreements that, while not formally a lease, convey the right to use an item of property, plant and equipment in exchange for a series of payments. In accordance with IFRIC 4 and IAS 17, all of these contracts constitute operating leases. In the consolidated financial statements, the assets covered by such contracts involve some thermoelectric power plants with regard to which the Group has entered into contracts to supply energy and steam on an exclusive basis to users within the industrial parks where the power plants are located.
In all of these contracts, the consideration is based on the supply of energy and steam and not on the financial value of the facilities.

Change in the Depreciation Method Applied to Thermoelectric Power Plants with CIP 6/92 Status

As of January 1, 2006, a new depreciation method was applied to thermoelectric power plants that sell energy under the CIP 6/92 rate schedule. Assuming the same residual useful life, the old straight-line depreciation method, which was based on the useful lives of the individual components, was replaced with a method that allocates cost in regular declining installments. This method reflects the differences between the amounts charged under the CIP 6/92 rate schedule (for the 8-year incentivized period and the subsequent 7-year contract period) and market terms (applicable from the expiration of the CIP 6/92 contracts and the end of each asset's useful life).
In view of the abovementioned differences between prices under the CIP 6/92 contracts and standard market terms, a different level of depreciation was chosen for each of the three periods (CIP 6/92 incentivized, CIP 6/92 contractual and market period). The resulting depreciation process follows a step-down process, with straight line depreciation for each of the periods.
The use of this method (and the resulting change in estimates) became possible only in 2006 as a result of the following circumstances:

1) After being in operation for about two years, the Italian Power Exchange (launched in 2004, with active bid trading introduced in 2005) is now sufficiently liquid to be viewed as being fully operational and provides a significant benchmark of current market conditions and expected output of electric power that can be used for valuation purposes.
2) In 2006, new Edison facilities with better technical characteristics than the CIP 6/92 power plants became fully operational, providing a further meaningful element of financial comparison, particularly in terms of the ability to recognize technological obsolescence.

The different levels of depreciation for each of the three periods were determined separately for each power plant. These levels of depreciation served to define the method that would be applied consistently over the entire residual life of the facilities.
The abovementioned change in estimates caused depreciation expense to increase by about 47 million euros in the first nine months of 2006.
Since this process involved a revision of a valuation estimate, as defined in IAS 8, the comparative data were not restated.

Financial Statement Schedules

The presentation format used for the balance sheet, income statement and cash flow statement in the Quarterly Report at September 30, 2006, which is the same as the one used in the Annual Report at December 31, 2005, has 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, respectively, are shown separately.
- Income Statement: 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, 2005

The main changes in the scope of consolidation that occurred in the first nine months of 2006 are reviewed below:

Electric Power Operations

- STEL Spa, which previously was consolidated line by line, was liquidated and deconsolidated as of January 1, 2006.

On October 16, 2006, as a result of the process of divesting Edison Rete Spa, which was already reviewed in the Group's Semiannual Report, Edison Spa and Terna Spa signed an agreement whereby RTL Spa, a wholly owned subsidiary of Terna, will acquire 100% of Edison Rete Spa under the terms described in the chapter of this Report entitled "Information about Discontinued Operations."
As a result, as required by IFRS 5, even though the activities of Edison Rete Spa do not constitute a separate business operation, the company's assets and liabilities at September 30, 2006 were reclassified on the balance as "Assets held for sale" and "Liabilities held for sale." Revenues and expenses through June 30, 2006 are recognized line by line on the income statement. The net result for the third quarter of 2006 was classified under "Net result from discontinued operations," which reflects the impact of reversing depreciation for three months (from July 1, 2006 to September 30, 2006) and the resulting tax effect. For the sake of presentation clarity, the data for the electric power operations included in the segment information schedule show separately the impact of Edison Rete and provide a comparison with the same-period data for 2005.

Water Operations

- International Water (Tunari) Sarl, which was consolidated by the proportional method, and its subsidiary Aguas del Tunari SA were sold in January and deconsolidated by the IWH Group.

Corporate Activities

- Edison Treasury Services is being consolidated line by line, following the exercise of the call option to acquire 100% of this company in April 2006. This company was already consolidated in previous years, due to its nature as a special purpose company.

TYPES OF RISKS AND HEDGING STRATEGIES

The operations of the Edison Group are exposed to several types of risk, including fluctuations in interest rates, foreign exchange rates and prices, and cash flow risks.
The Group minimizes these risks through the use of derivative contracts that are executed within the framework of its risk management activities.
Edison uses a comprehensive, integrated and dynamic approach to manage risk. Accordingly, it has established dedicated staff functions that report to the Chief Financial Officer. An exception is made for certain transactions of limited size that are executed by Edipower, which has independent risk management procedures, mainly in the financial area.
The procedures adopted allow for the ongoing monitoring of the Group's net exposure, which is the sum of the transactions executed by all subsidiaries, and compares the total level of financial risk assumed (Profit at Risk) against a predetermined ceiling.
The Risk Management Committee, which is headed by a senior executive, reviews monthly the Group's 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.

Management and Types of Financial Risks

Type of risk	Group exposure	Hedging strategy
Interest rate	40% of total exposure	Hedging of medium- and long-term positions (bonds and project financing in particular)
Currency	Low	Matching of invoicing and purchasing currencies
Price	High for all energy commodities	Minimum use of market, exploiting the horizontal and vertical integration of the different Group businesses
Credit	Average, related to commercial transactions in the deregulated market	Evaluation of customers with scoring grids
Liquidity	Average	Established credit lines guarantee the necessary financial flexibility

Interest Rate Risk

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 September 30, 2006, the Group's exposure to the risk of changes in interest rates was roughly equivalent to 40% of its total exposure, despite the fact that some of the existing hedges entail the use of variable interest rates.
The most significant medium- and long-term positions have been hedged, with special emphasis on transactions involving bond issues and project financing. In the case of Edipower, the main purpose of hedging transactions is to minimize the risk component. Accordingly, the Group implemented a structure of financial derivatives based on an interest-rate corridor with rates ranging between about 3% and 4.20%.

Currency Risk

With the exception of the issues discussed below in the paragraph that discusses price risk, the Group does not have a significant exposure to currency risks. Whatever exposure there is, it is limited to 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.

Price Risk

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 changes in the prices of energy commodities, either directly or through pricing formulas and indexing mechanisms.
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.

Credit Risk

A credit risk is the risk that one party to a contract that calls for a deferred cash settlement will fail to discharge a payment obligation and cause the other party to incur a financial loss.
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 worthiness (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, the Group deals only with top-flight, reliable entities that enjoy a high standing in the international markets.

Liquidity Risk

The Group follows a conservative policy in its management of liquidity risk, using a strategy designed to ensure that unexpected cash disbursements will not create a problem. 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.
Moreover, the Group's funding needs are provided by long-term financing, consisting mainly of bond issues.

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 petroleum products, coal, and electric power), the euro/US dollar exchange rate and interest rates.
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 currently 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 September 30, 2006

The tables that follow provide the following information:
1) The derivatives that were outstanding at September 30, 2006, classified by maturity;
2) The balance sheet value of these contracts, which is their fair value on the date of the financial statements;
3) The pro rata interest in the fair value of the contracts that was recognized in the income statement for the transactions in question since inception.

Lastly, it is important to note that the difference between balance sheet carrying amounts (item 2 above) and income statement fair values (item 3 above) represents the fair value of cash flow hedges, which, as required by the IAS/IFRSs, is posted directly to shareholders' equity.

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 9/30/2006 (***)
	due within 1 year		due between 1 and 5 years		due after		
	receivable	payable	receivable	payable	5 years		
Interest rate risk management							
- cash flow hedges in accordance with IAS 39	-	1,275	-	200	15	(2)	-
- contracts that do not qualify as hedges in accordance with IAS 39	-	-	-	6,075	93	5	5
Total interest-rate derivatives	**-**	**1,275**	**-**	**6,275**	**108**	**3**	**5**
Foreign exchange rate risk management							
- contracts that qualify as hedges in accordance with IAS 39							
• On commercial transactions	475	150				6	-
• On financial transactions	-	12				-	-
- contracts that do not qualify as hedges in accordance with IAS 39							
• On commercial transactions	81	16	10			(1)	(1)
• On financial transactions	-	-				-	-
Total foreign exchange rate derivatives	**556**	**178**	**10**			**5**	**(1)**

(*) 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 (*)	Balance sheet value (**) (in millions of euros)	Cumulative impact on the income statement at 6/30/06 (***) (in millions of euros)
Price risk management for energy products				
A. Cash flow hedges pursuant to IAS 39, broken down as follows:			**8**	**-**
- Electric power	TWh	4	8	-
- 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		**6**	**6**	
C.1 Margin hedges			**6**	**6**
- Electric power	TWh	2	7	7
- LNG and oil	Barrels	(455,328)	2	2
- Coal	Millions of tons	-	-	-
- CO_2	Millions of tons	1	(3)	(3)
C.2 Trading contracts			**-**	**-**
- Electric power	TWh	-	-	-
- LNG and oil	Barrels	50,000	-	-
Total			**14**	**6**

(*) + for net purchases - for net sales
(**) Represents the net credit (+) or debit (-) recognized on the balance sheet following the measurement of 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.

Operating Results Generated by Derivative Transactions in the First Nine Months of 2006

The table below provides an analysis of the operating results generated by derivative transactions in the first nine months of 2006.

(in millions of euros)	Realized	Change in fair value for the period	Amounts recognized in earnings
Other revenues and income			
Price risk hedges for energy products			
- definable as hedges pursuant to IAS 39 (CFH)	194	-	194
- not definable as hedges pursuant to IAS 39	40	(3)	37
Exchange risk hedges for commodities			
- definable as hedges pursuant to IAS 39 (CFH)	-	-	-
- not definable as hedges pursuant to IAS 39	1	-	1
Total (A)	**235**	**(3)**	**232**
Raw materials and services used			
Price risk hedges for energy products			
- definable as hedges pursuant to IAS 39 (CFH)	(138)	-	(138)
- not definable as hedges pursuant to IAS 39	(27)	3	(24)
Exchange risk hedges for commodities			
- definable as hedges pursuant to IAS 39 (CFH)	1	-	1
- not definable as hedges pursuant to IAS 39	(14)	-	(14)
Total (B)	**(178)**	**3**	**(175)**
TOTAL INCLUDED IN EBITDA (A+B)	**57**	**-**	**57**
Net financial income (expense)			
Price risk hedges for energy products			
- Gains on trading transactions	-	-	-
- Losses on trading transactions	(1)	(1)	(2)
Margin on commodity trading transactions (C)	**(1)**	**(1)**	**(2)**
Interest rates hedges, broken down as follows:			
A. Financial income			
- definable as hedges pursuant to IAS 39	9	2	11
- not definable as hedges pursuant to IAS 39	21	27	48
Total financial income (D)	**30**	**29**	**59**
B. Financial expense			
- definable as hedges pursuant to IAS 39	(13)	(2)	(15)
- not definable as hedges pursuant to IAS 39	(42)	(7)	(49)
Total financial expense (E)	**(55)**	**(9)**	**(64)**
Margin on interest rate hedging transactions (D+E) = (F)	**(25)**	**20**	**(5)**
Foreign exchange rates hedges, broken down as follows:			
A. Foreign exchange gains			
- definable as hedges pursuant to IAS 39	-	-	-
- not definable as hedges pursuant to IAS 39	2	(2)	-
Total foreign exchange gains (G)	**2**	**(2)**	**-**
Foreign exchange losses			
- definable as hedges pursuant to IAS 39	-	-	-
- not definable as hedges pursuant to IAS 39	(3)	-	(3)
Total foreign exchange losses (H)	**(3)**	**-**	**(3)**
Margin on foreign exchange hedging transactions (G+H) = (I)	**(1)**	**(2)**	**(3)**
TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE) (C+F+I)	**(27)**	**17**	**(10)**

SEGMENT INFORMATION

The tables below provide information broken down by type of business operation.

INCOME STATEMENT	Electric Power				Hydrocarbons		Corporate Activities		Adjust. and eliminat.		Total Core Business	
	1/1/06-9/30/06	Edison Rete	1/1/05-9/30/05	Edison Rete	**1/1/06-9/30/06**	1/1/05-9/30/05	**1/1/06-9/30/06**	1/1/05-9/30/05	**1/1/06-9/30/06**	1/1/05-9/30/05	**1/1/06-9/30/06**	1/1/05-9/30/05
Sales revenues	**5,097**	**21**	**3,503**	**33**	**2,955**	**2,224**	**31**	**31**	**(1,879)**	**(1,301)**	**6,204**	**4,457**
- intra-Group revenues	4	1	2		1,847	1,272	28	27	(1,879)	(1,301)		
EBITDA	**882**	**12**	**721**	**21**	**368**	**259**	**(48)**	**(61)**			**1,212**	**919**
as a % of sales revenues	17.5%	57.1%	20.6%	63.6%	12.5%	11.6%	n.m.	n.m.			19.5%	20.6%
Depreciation, amortization and writedowns	(433)	(5)	(337)	(7)	(84)	(68)	(7)	(6)			(524)	(411)
EBIT	**459**	**7**	**384**	**14**	**284**	**191**	**(55)**	**(67)**			**688**	**508**
as a % of sales revenues	9.0%	33.3%	11.0%	42.4%	9.6%	8.6%	n.m.	n.m.			11.1%	11.4%
Financial income (expense), net											(185)	(166)
Profit (Loss) from investments valued by the equity method											4	30
Income taxes											19	(50)
Profit (Loss) for the period											**526**	**374**
Minority interest in profit (loss) for the period											**5**	**15**
Group interest in profit (loss) for the period											**521**	**359**

BALANCE SHEET	Electric Power		Hydrocarbons		Corporate Activities		Adjustments		Total Core Business	
	9/30/06	12/31/05	**9/30/06**	12/31/05	**9/30/06**	12/31/05	**9/30/06**	12/31/05	**9/30/06**	12/31/05
Total current and non-current assets	**12,617**	**12,616**	**2,312**	**2,451**	**3,396**	**3,679**	**(2,860)**	**(2,885)**	**15,465**	**15,861**
Total current and non-current liabilities	**4,138**	**4,324**	**926**	**928**	**4,664**	**5,077**	**(1,011)**	**(883)**	**8,717**	**9,446**
Net borrowings									**4,562**	**4,831**
Other information										
Capital expenditures	262	511	57	73	1	2			320	586
Investments in intangibles	29	21			4	3			33	24
Investments in exploration			29	22					29	22
Total capital investments	**291**	**532**	**86**	**95**	**5**	**5**			**382**	**632**
Number of employees	1,932	1,992	438	441	519	526			2,889	2,959

	Water		Engineering		Adjust. and eliminat.		Total other operations		Discontinued operations	Edison Group	
	1/1/06-9/30/06	1/1/05-9/30/05	**1/1/06-9/30/06**	1/1/05-9/30/05	**1/1/06-9/30/06**	1/1/05-9/30/05	**1/1/06-9/30/06**	1/1/05-9/30/05		**1/1/06-9/30/06**	1/1/05-9/30/05
	27	**23**		**221**			**27**	**244**		**6,231**	**4,701**
	7	**5**		**11**			**7**	**16**		**1,219**	**935**
	25.9%	21.7%		5.0%	n.m.	n.m.	25.9%	6.6%		19.6%	19.9%
	(1)	(2)		(2)			(1)	(4)		(525)	(415)
	6	**3**		**9**			**6**	**12**		**694**	**520**
	22.2%	13.0%		4.1%			22.2%	4.9%		11.1%	11.1%
							1	(3)		(184)	(169)
										4	30
							(1)	(5)		18	(55)
							7	**(15)**	**3**	**536**	**359**
								1		**5**	**16**
							7	**(16)**	**3**	**531**	**343**

	Water		Engeneering		Adjust. and eliminat.		Total other operations		Discontinued operations	Edison Group	
	9/30/06	12/31/05	**9/30/06**	12/31/05	**9/30/06**	12/31/05	**9/30/06**	12/31/05	**9/30/06**	**9/30/06**	12/31/05
	43	**39**			**(189)**	**(8)**	**(146)**	**31**	**209**	**15,528**	**15,892**
	14	**15**					**14**	**15**	**37**	**8,768**	**9,461**
							(8)	**(11)**	**21**	**4,575**	**4,820**
	7	11		1			7	12		327	598
										33	24
										29	22
	7	**11**		**1**			**7**	**12**		**389**	**644**
	3	4					3	4	82	2,974	2,963

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 8,242 million euros, or 340 million euros less than at December 31, 2005. The reclassification of the assets of Edison Rete Spa under "Discontinued operations" accounts for 195 million euros 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 12/31/05 (A)	**882**	**6.139**	**21**	**12**	**1,528**	**8,582**
Changes at June 30, 2006:						
- Additions	2	31	5	1	288	327
- Disposals (-)	(2)	(13)	-	-	-	(15)
- Depreciation (-)	(30)	(415)	(2)	(2)	-	(449)
- Writedowns (-)	-	(20)	-	-	-	(20)
- Reclassification to discontinued operations	(1)	(193)	-	-	(1)	(195)
- Other changes	74	1,207	-	-	(1,269)	12
Total changes (B)	**43**	**597**	**3**	**(1)**	**(982)**	**(340)**
Balance at 9/30/06 (A+B)	**925**	**6,736**	**24**	**11**	**546**	**8,242**

The total value of the assets, virtually all of which are located in Italy, includes construction in progress and advances totaling 546 million euros. The sharp decrease in this item, compared with December 31, 2005, reflects the completion and full availability of a thermoelectric power plant in Torviscosa (UD), on the heels of the commissioning of thermoelectric facilities in Altomonte (CS) and Piacenza (Edipower) in the first half of 2006.

Additions amounted to 327 million euros. The main capital expenditures included the following:

- The investments of the electric power operations, which totaled 262 million euros, were primarily used for a new thermoelectric power plant in Simeri Crichi (CZ) (109 million euros) and for those that went on stream in 2006 in Torviscosa (UD) (41 million euros) and Altomonte (CS) (5 million euros). In addition, Edipower invested 66 million euros (Edison's pro rata share) for the repowering of the Turbigo (MI) and Mese (SO) power plants. In the area of wind power, the group invested 5 million euros and brought on stream a wind farm in Ripabottoni (CB).
- The hydrocarbons operations invested 57 million euros. Projects were pursued both in Italy — development of deposits in the Adriatic (22 million euros) and the Candela gas field (10 million euros) and construction of the Caverzere-Minerbio gas pipeline (3 million euros) and abroad — development of a concession in Algeria (8 million euros) and the Rosetta concession in Egypt (4 million euros).

Disposals include 9 million euros from the disposal of certain equipment components, which were sold at their carrying value with no impact on earnings. Sales of unusable equipment, at a loss of 3 million euros, account for the difference.

Depreciation of property, plant and equipment included 410 million euros for the electric power operations (335 million euros at September 30, 2005) and 35 million euros for the hydrocarbons operations (32 million euros at September 30, 2005). Corporate activities and the water operations account for the balance. The increase compared with the first nine months of 2005 is due to the commissioning of new power plants and to a change in the method used to depreciate thermoelectric power plants that sell energy to the GRTN under contracts the terms of which are those set forth in the CIP 6/92 resolution.

A **writedown** of 20 billion euros, which was deducted from the carrying amount of a thermoelectric power plant after computing the asset's recoverable value by applying the same method used to determine impairment losses in the 2005 financial statements, reflects a decrease of the power plant's value upon the expiration of a contract pursuant to specific contract clauses.

Among **other changes,** the decrease in construction in progress is mainly due to the commissioning of the Torviscosa and Altomonte power plants and the completion of the repowering of the Piacenza facility. The recognition of decommissioning costs for the facilities brought on stream in 2006 had a negative impact of 16 million euros.
In addition:

- The net carrying amount of property, plant and equipment included assets transferable at no cost with an aggregate value of 658 million euros (704 million euros at December 31, 2005). Virtually all of the assets transferable at no cost are held by the Group's hydroelectric operations, which hold 70 concessions (including those of Edipower). The decrease reflects primarily the depreciation taken in the first nine months of 2006.
- Property, plant and equipment includes assets acquired under finance leases totaling 130 million euros (171 million euros at December 31, 2005), which are recognized in accordance with the IAS 17 (revised) method. A facility held under a finance lease by Termica Cologno, which has a carrying value of 34 million euros, was purchased outright in 2006. The balance outstanding on finance leases, which is 32 million euros, is included for 22 million euros under "Long-term borrowings and other financial liabilities" and for 10 million euros under "Short-term borrowings".

Lastly, Law No. 266 of December 23, 2005 (2006 Budget Bill) 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 demonstrate the effectiveness of significant investments made in plant modernization to improve a facility's 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.

2. Investment Property

The Group's investment property, which consists of land and buildings that are not used for production purposes, totaled 45 million euros, or 4 million euros less than at December 31, 2005. The depreciation for the period and the sale of a building, which generated a gain of about 3 million euros, account for this decrease.

3. Goodwill

Goodwill totaled 3,505 million euros, unchanged since December 31, 2005. 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)	**9/30/06**	12/31/05
- Electric power operations	2,823	2,823
- Hydrocarbons operations	682	682
Total	**3,505**	**3,505**

No impairment indicators were detected in the first nine months of 2006.

4. Hydrocarbons Concessions

Concessions for the production of hydrocarbons, which include 77 mineral leases in Italy and abroad (including 2 storage concessions), were valued at 319 million euros. The amortization for the period (20 million euros) accounts for the entire decrease from the amount reported at December 31, 2005. The value of these assets does not include capitalized financial expense.

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	9	19
Hydroelectric concessions	70	3	26
Distribution concessions	56	2	14
Hydrocarbon concessions	75	(*) "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.

5. Other Intangible Assets

The balance of 64 million euros refers to licenses and similar rights (31 million euros) and CO_2 emissions trading certificates valued at 28 million euros that were purchased to meet the needs of Group companies. Certificates awarded to the Group free of charge have a zero carrying value. Hydrocarbon research and exploration costs, which are charged in full to income in the period they are incurred, totaled 29 million euros.

None of these costs met the requirement for capitalization of IFRS 6.

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

The total includes 66 million euros in investments in unconsolidated subsidiaries and associated companies valued by the equity method and 107 million euros in available-for-sale investments valued at fair value. These investments consist of an investment in RCS Mediagroup (27 million euros) and investments in subsidiaries that were not consolidated due to ownership restrictions (80 million euros).

The table below shows the main changes that occurred in the first nine months of 2006:

(in millions of euros)	Investments in associates	Available-for-sale investments	Total
Balance at 12/31/05 (A)	**59**	**74**	**133**
Changes in the first nine months of 2006:			
- Changes in capital	-	53	53
- Revaluations and valuations at equity	3	-	3
- Writedowns and valuations at equity (-)	-	(10)	(10)
- Dividends (-)	(5)	-	(5)
- Reclassifications and other changes	9	(10)	(1)
Total changes (B)	**7**	**33**	**40**
Balance at 9/30/06	**66**	**107**	**173**

An analysis of the changes is as follows:

- Changes in capital of 53 million euros consist of capital contributions provided to the associated company Terminale GNL Adriatico;
- Revaluations of 3 million euros reflect the valuation of certain investments in associated companies by the equity method;
- Writedowns totaling 10 million euros refer to IPSE 2000 (6 million euros), the RCS Mediagroup (3 million euros with offset posted to shareholders' equity, as required by IAS 39) and STEL (1 million euros).

7. Other Financial Assets

Other financial assets of 116 million euros include loans receivable due in more than one year and long-term equity investments.

The main components of loans receivable are a 60-million-euro receivable under a finance lease for the Ibiritermo power plant recognized as required by IFRIC 4 (3 million euros due within five years and 57 million euros due after five years); a 37-million-euro loan made to IPSE 2000, which is offset by a provision for risks of the same amount due to uncertainty about its repayment; and 8 million euros in bank deposits established with lender banks in connection with project financing facilities.

8. Deferred-tax Assets

Deferred-tax assets of 103 million euros reflect a tax-loss carryforward (45 million euros), differences in the valuation of property, plant and equipment (24 million euros) and taxed provisions for risks (21 million euros). Other differences, including those stemming 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 287 million euros. They consisted mainly of tax refunds receivable and accrued interest through September 30, 2006 (273 million euros), and the estimated tax payments made on future distributions of employee severance benefits paid pursuant to law.

10. Current Assets

(in millions of euros)	**9/30/06**	12/31/05	Change
Inventories	477	315	162
Trade receivables	1,451	1,593	(142)
Current-tax assets	18	38	(20)
Other receivables	297	337	(40)
Current financial assets	58	76	(18)
Cash and cash equivalents	164	361	(197)
Total current assets	**2,465**	**2,720**	**(255)**

A review of the individual components is provided below:

Inventories

A breakdown is as follows:

(in millions of euros)	Engineering consumables	Stored natural gas	Green certificates	Fuel oil	Other materials	**Total at 9/30/06**	Total 12/31/05	Change
Electric power operations	28	-	73	51	6	158	152	6
Hydrocarbons operations	6	295	-	14	1	316	161	155
Corporate activities	-	-	-	-	-	-	-	-
Total core businesses	**34**	**295**	**73**	**65**	**7**	**474**	**313**	**161**
Water	-	-	-	-	3	3	2	1
Total for the Group	**34**	**295**	**73**	**65**	**10**	**477**	**315**	**162**

The main reason for the increase of 162 million euros compared with December 31, 2005 is a larger inventory of stored natural gas and fuel oil.

Trade Receivables

Trade receivables totaled 1,451 million euros, or 142 million euros less than at December 31, 2005. A breakdown by type of business is as follows:

(in millions of euros)	**9/30/06**	12/31/05	Change
Electric power operations	1,309	1,133	176
Hydrocarbons operations	186	385	(199)
Corporate activities and eliminations	(55)	65	(120)
Total core businesses	**1,440**	**1,583**	**(143)**
Water	11	10	1
Total trade receivables	**1,451**	**1,593**	**(142)**

Trade receivables stem from contracts to supply energy and steam, contracts to supply natural gas, contracts to sell natural gas at virtual transfer points and Power Exchange transactions.
The above amounts are net of an allowance for doubtful accounts totaling 51 million euros.

Current-tax Assets

The balance of 18 million euros includes amounts owed by the tax authorities for overpayments of corporate income taxes (IRES) totaling 11 million euros and local income taxes (IRAP) amounting to 7 million euros.

Other Receivables

The main components of other receivables, which amounted to 297 million euros, are amounts owed by partners and associates in hydrocarbon exploration projects and royalty advances (90 million euros), advances paid to suppliers (31 million euros), receivables from public institutions and local entities (48 million euros, including 24 million euros for hydroelectric fees), insurance premiums and settlements (20 million euros), credits arising from the valuation of commodity derivatives (26 million euros), receivables from the tax administration for VAT overpayments and other items (5 million euros) and amounts owed by the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (15 million euros).
The above amounts are net of allowances for doubtful accounts totaling 32 million euros.

Current Financial Assets

A breakdown of current financial assets, which totaled 58 million euros, is as follows:

(in millions of euros)	9/30/06	12/31/05	Change
Equity investments held for trading	10	29	(19)
Loans receivable	24	3	21
Derivatives	24	44	(20)
Total current financial assets	**58**	**76**	**(18)**

All of the items listed above are included in the computation of the Group's net borrowings. A review of these financial assets is provided below.

Equity Investments Held for Trading

These are investments in publicly traded companies. They include the following: ACEGAS Spa (5 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. Investments in ACEA and AMGA were sold during the first nine months of 2006, generating proceeds of 21 million euros and a gain of 2 million euros.

Loans Receivable

These loans represent mainly financing provided to Edison Rete Spa, which is now classified under Discontinued operations.

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 September 30, 2006:

(in millions of euros)	9/30/06	12/31/05
Foreign exchange transactions	7	3
Interest rate transactions	24	31
Commodities transactions	19	33
Fair value recognized in current assets	**50**	**67**
allocated as follows:		
- to Other receivables	26	23
- to Current financial assets	24	44

The portion of these receivables that represents cash flow hedges (14 million euros) is offset by a reserve included in shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents of 164 million euros include short-term bank and postal account deposits.

11. Discontinued Operations

Discontinued operations of 209 million euros include the assets of Edison Rete (195 million euros in property, plant and equipment) and trade receivables (5 million euros). Sundry assets account for the balance.

Liabilities and Shareholders' Equity

12. Shareholders' Equity

The Group's interest in shareholders' equity amounted to 6,615 million euros, or 343 million euros more than at December 31, 2005. This increase is the net result of the profit earned in the first nine months of 2006 (531 million euros) and of the distribution of dividends (183 million euros), included in Reserves and Retained Earnings. Minority interest in shareholders' equity was 145 million euros. The decrease of 14 million euros compared with December 31, 2005 reflects the distribution of dividends.

At September 30, 2006, the subscribed and paid-in capital stock of Edison Spa totaled 4,273 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	4,162,527,383	4,162
Nonconvertible savings shares	110,592,420	111
Total shares	**4,273,119,803**	**4,273**

The aggregate value of share capital and additional paid-in capital was little changed, compared with December 31, 2005, except for the exercise of 12,049 warrants. A total of 1,018,636,574 warrants was outstanding at June 30, 2006. 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:

Reserva for Cash Flow Hedge Transactions

(in millions of euros)	Gross reserve	Deferred taxes	Net reserve
- Reserve at December 31, 2005	6	(3)	3
- Changes in the first nine months of 2006	6	(2)	4
- Reserve at September 30, 2006	**12**	**(5)**	**7**

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 June 30, 2006, computed in accordance with IAS 19 actuarial criteria. The operating and financial parameters used for valuation purposes are listed below:

- Technical annual discount rate	min. 4.00%, max. 4.50%
- Annual inflation rate	min. 1.90%, max. 2.00%
- Estimated annual increase of the provision for severance indemnities	min. 2.00%, max. 2.95%
- Estimated annual increase of the wages used to compute the provision	min. 2.00%, max. 3.50%

The computation process also resulted in the recognition of financial expense totaling 2 million euros.

An analysis of the individual components of this item shows that the provision for employee severance indemnities decreased to 64 million euros compared with December 31, 2005. The reason for this change is the elimination of the provision attributable to Edison Rete, which amounted to 3 million euros.
The table below shows the changes that occurred in the first nine months of 2006:

(in millions of euros)	Provision for sever. indemn.	Provision for pensions	Total
Balance at 12/31/05 (A)	**65**	**9**	**74**
Changes in the first nine months of 2006:			
- Additions	4	-	4
- Financial expense (+)	2	-	2
- Discounting gains (losses) (+/-)	-	-	-
- Utilizations (-)	(4)	-	(4)
- Change in scope of consolidation (-/+)	(3)	-	(3)
Total changes (B)	**(1)**	**-**	**(1)**
Total at 9/30/06 (A+B)	**64**	**9**	**73**

At September 30, 2006, counting the employees of discontinued operations, the Group and the companies that are consolidated line by line or by the proportional method had 2,974 employees, about the same as at the end of 2005. The average payroll included 2,961 employees.

A breakdown by type of business is as follows:

(number of employees)	**9/30/06**	12/31/05	Change
Electric Power operations	1,932	1,992	(60)
Hydrocarbons operations	438	441	(3)
Corporate activities	519	526	(7)
Total core businesses	**2,889**	**2,959**	**(70)**
Water	3	4	(1)
Discontinued operations	82	-	82
Total for the Group	**2,974**	**2,963**	**(11)**

14. Provision for Deferred Taxes

The balance of 763 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 and to intangible assets. 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)	**9/30/06**	12/31/05	Change
Deferred-tax liabilities:			
- Differences in the valuation of property, plant and equipment	796	1,141	(345)
- Adoption of the standard on finance leases (IAS 17)	37	47	(10)
- Adoption of the standard on financial instruments (IAS 39) with impact on:			
- the income statement	5	8	(3)
- shareholders' equity	5	14	(9)
- Other deferred taxes	8	8	-
Total deferred-tax liabilities (A)	**851**	**1,218**	**(367)**
Deferred-tax assets usable for offset purposes:			
- Taxed provisions for risks	80	54	26
- Tax loss carryforward	4	59	(55)
- Adoption of the standard on financial instruments (IAS 39)	1	4	(3)
- Other prepaid taxes	3	4	(1)
Total deferred-tax assets (B)	**88**	**121**	**(33)**
Total provision for deferred taxes (A-B)	**763**	**1,097**	**(334)**

Edison Spa availed itself of the option of carrying out a partial realignment of values assigned to property, plant and equipment for statutory and tax purposes, which resulted in an extraordinary use of deferred-tax liabilities totaling 298 million euros. More detailed information is proved in the note on income taxes.

15. Provisions for Risks and Charges

At September 30, 2006, the reserves for risks and charges, which are established to cover contingent liabilities, totaled 861 million euros, a decrease of 141 million euros compared with the end of 2005. This decrease reflects the settlement of certain legal disputes, which required the payment of compensation to the opposing parties. However, the settlement payouts were smaller than the amounts set aside originally, generating a gain of about 38 million euros.
The table below shows the changes that occurred in the first nine months of 2006:

(in millions of euros)	12/31/05	Additions	Utiliz.	Other	**9/30/06**
- Disputed tax items	35	1	(6)	-	30
- Risks for disputes, litigation and contracts	172	11	(9)	-	174
- Charges for contractual guarantees on the sale of equity investments	208	-	(35)	-	173
- Provisions for decommissioning and remediation of industrial sites	173	6	(3)	16	192
- Environmental risks	180	-	(111)	-	69
- Risks on the sale of equity investments	15	1	-	-	16
- Provision for emission rights	5	31	(2)	-	34
- Other risks and charges	214	50	(59)	(32)	173
Total for the Group	**1,002**	**100**	**(225)**	**(16)**	**861**

The main changes that occurred in the first nine months of 2006 are reviewed below:

- The main components of **additions** of 100 million euro include 32 million euros set aside to cover a fine imposed by the European Commission for alleged anticompetitive practices in the chemical industry by Ausimont Spa, a former subsidiary of Montedison Spa (now Edison Spa), between 1995 and 2000. They also include a provision of 31 million euros to cover charges incurred under the emission quotas legislation for failure to secure sufficient CO_2 emission quotas, 31 million euros added to cover liabilities for pending disputes and 6 million euros for interest expense incurred with the decommissioning and remediation of industrial sites.

- The main components of **utilizations,** which totaled 225 million euros, were an 111-million-euro reduction of the provision established to cover contractual obligations related to the Porto Marghera facility, 35 million euros related to the cancellation of guarantees provided in previous years in connection with the sale of equity investments and 32 million euros for the payment of the EU fine discussed above. Utilizations of provisions for risks upon the settlement of pending disputes account for most of the remaining 47 million euros.

- The increase of 16 million euros in **other changes** refers to the provisions for decommissioning and remediation of industrial sites. The increase of 32 million euros reflects primarily reclassifications to certain asset account carried out for clarity of presentation purposes.

More detailed information about the entries that resulted in the current composition of the provisions for risks and charges is provided in the section of this Report entitled "Update of the Main Legal and Tax Disputes at September 30, 2006."

16. Bonds

The balance of 1,233 million euros includes 33 million euros in accrued interest at September 30, 2006. A breakdown is as follows:

(in millions of euros)	Stock Exchange	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	727	757
Edison Spa	Luxembourg Securities Exchange	EUR	500	Quarterly in arrears	3.365%	7/19/11	506	511
Total for the Group			**1,200**				**1,233**	**1,268**

In April, Edison Treasury Services Srl reimbursed ahead of schedule bonds totaling 195 million euros that were due on July 20, 2009.

17. Long-term Borrowings and Other Financial Liabilities

This account totaled 1,467 million euros (1,822 million euros at December 31, 2005), including 933 million euros owed by Edipower Spa. A breakdown is as follows:

(in millions of euros)	**9/30/06**	12/30/05	Change
Due to banks	1,412	1,757	(345)
Due to leasing companies	22	30	(8)
Due to subsidiaries in liquidation	26	25	1
Due to other lenders	7	10	(3)
Total for the Group	**1,467**	**1,822**	**(355)**

18. Other Liabilities

Other liabilities of 8 million euros consist of interest-bearing deposits provided by customers in connection with contracts for the supply of natural gas. The decrease of 234 million euros compared with the previous year reflects the reclassification under current liabilities of the obligation at December 31, 2005 arising from the put-and-call options related to the purchase of a 10% interest in Edipower.

Breakdown of Indebtedness by Maturity

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

(in millions of euros)	9/30/08	9/30/09	9/30/10	9/30/11	After 5 years	Total
Bonds	-	-	-	1,233	-	1,233
Borrowings and other financial liab.:	-					
- Bank debt	151	1,066	43	28	124	1,412
- Due to other lenders	10	11	1	7	26	55
Other liabilities	8	-	-	-	-	8
Total	**169**	**1,077**	**44**	**1,268**	**150**	**2,708**

19. Current Liabilities

(in millions of euros)	**9/30/06**	12/30/05	Change
Bonds	1,435	-	1,435
Short-term borrowings	701	657	44
Trade payables	1,356	1,275	81
Current taxes payable	38	16	22
Other liabilities	796	438	358
Total current liabilities	**4,326**	**2,386**	**1,940**

The main current liability accounts are reviewed below:

- Bonds totaled 1,435 million euros. The balance includes 12 million euros in accrued interest at September 30, 2006. A breakdown is as follows:

(in millions of euros)	Stock Exchange	Currency	Par value outstanding circolazione	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	608	625
Italenergia	Retail	EUR	830	Semiannual in arrears	3.504%	8/26/07	827	836
Totale Gruppo			**1,430**				**1,435**	**1,461**

- Short-term borrowings include 678 million euros due to banks for principal and accrued interest, 10 million euros owed to leasing companies and 13 million euros payable to other lenders. The bank debt includes 21 million euros generated by measuring at fair value interest rate and foreign exchange derivatives.

- Trade payables

(in millions of euros)	9/30/06	12/31/05	Change
Electric power operations	997	789	208
Hydrocarbons operations	402	450	(48)
Corporate activities and eliminations	(45)	33	(78)
Totale core businesses	**1,354**	**1,272**	**82**
Water	2	3	(1)
Total trade payables	**1,356**	**1,275**	**81**

Trade payables reflect mainly purchases of electric power, natural gas and other utilities, as well as services related to scheduled and extraordinary plant maintenance.

- Current taxes payable represents the liability for income taxes payable on the balance sheet date, less estimated payments made. This item concerns mainly those companies that did not meet statutory requirements for inclusion in the consolidated tax return filed by Transalpina di Energia as controlling company.
- The main components of other liabilities of 796 million euros include the following: the liabilities arising from the put-and-call options related to the purchase of a 10% interest in Edipower (245 million euros) and of a 20% interest in Finel Spa (136 million euros), the amount owed to the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (132 million euros), amounts owed to joint holders of permits and concessions for the production of hydrocarbons (85 million euros), payables owed for miscellaneous consulting and other services (60 million euros) and debts arising from the valuation of commodity derivatives (7 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)	9/30/06	12/31/05
Foreign exchange transactions	2	2
Interest rate transactions	21	64
Commodity transactions	5	9
Fair value recognized under current liabilities	**28**	**75**
Posted to:		
- Other liabilities	7	9
- Short-term borrowings	21	66

The portion of these liabilities that represents cash flow hedges (2 million euros) is offset by a reserve included in shareholders' equity.

20. Liabilities Held for Sale

The balance of 37 million euros represents the liabilities of Edison Rete Spa, which include 21 million euros in loans payable to Edison Spa, 6 million euros in trade payables, a 3-million-euro provision for employee severance indemnities and 2 million euros owed to the controlling company (Transalpina di Energia) in connection with the filing of the consolidated tax return.

Net Borrowings

At September 30, 2206, net borrowings totaled 4,575 million euros (4,779 million euros at September 30, 2005), down from 4,820 million euros at December 31, 2005. Most of this improvement is attributable to the cash flow from operations, which more than offset the payment of dividends amounting

to 196 million euros (183 million euros disbursed by Edison Spa, the Group's Parent Company) and capital expenditures of 389 million euros.
The table below provides an overview of net borrowings. The amounts shown include the indebtedness of Edison Rete, which is being divested.

12/31/05 IFRIC 4 restated	(in millions of euros)	9/30/06	9/30/05 IFRIC 4 restated
	Long-term debt		
2,838	Bonds - non-current portion	1,233	2,845
1,757	Non-current bank loans	1,412	1,884
65	Amounts due to other lenders - non-current portion	55	76
(60)	Other non-current financial assets (*)	(60)	(60)
4,600	**Total long-term debt**	**2,640**	**4,745**
	Short-term debt		
-	Bonds - current portion	1,435	-
657	Current loans payable	701	665
(76)	Current financial assets	(58)	(117)
(361)	Cash and cash equivalents (**)	(164)	(342)
-	Loans payable of divested operations	21	14
-	Loans receivable of divested operations	-	(186)
220	**Total short-term debt**	**1,935**	**34**
4,820	**Net borrowings**	**4,575**	**4,779**

(*) Includes financial receivables resulting from the adoption of IFRIC 4.

(**) Cash and cash equivalents

12/31/05 IFRIC 4 restated	(in millions of euros)	9/30/06	9/30/05 IFRIC 4 restated
(271)	Bank and postal accounts	(164)	(243)
(90)	Negotiable securities	-	(99)
(361)	**Cash and cash equivalents**	**(164)**	**(342)**

Transactions with related parties do not have a material impact on net borrowings. Transactions with Group subsidiaries and affiliates amounted to 26 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 trigger automatically 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 but do apply to about 232 million euros in bank debt owed by Edison and its subsidiaries. The financial statement ratios that are taken into account have to do with the relationship between EBITDA and net borrowings and financial expense.
Lastly, specifically insofar as Edipower's financing is concerned, a lowering of Edison's credit rating below the minimum investment grade level would not trigger an early repayment obligation for Edipower. Edison would simply be required to achieve compliance with the abovementioned financial covenants, following a monitoring period. If Edison should be in violation of the financial covenants, following a monitoring period, it would be required to pay the amount it guaranteed in accordance with the Completion Equity Contribution Agreement and the Repowering Equity Contribution Agreement. Edipower's financial covenants have to do with the relationship between EBITDA and financial expense, net borrowings and EBITDA, and the maintenance of a minimum level of EBITDA.

NOTES TO THE INCOME STATEMENT

The profit earned by the Edison Group in the first nine months of 2006 totaled 531 million euros, up from 343 million euros in the same period last year. This improvement was made possible by a significant increase in the operating result (+33.5%) and by the positive impact (about 202 million euros) of the realignment of the reporting value of certain assets to their tax value. This development is discussed in greater detail later in these notes. On the other hand, stated on a comparable scope of consolidation basis, the Group's tax rate increased, a change in the estimates applied to certain assets of the electric power operations caused depreciation expense to increase by 47 million euros and extraordinary income was lower than a year earlier.

The table below, which shows a breakdown by quarter, provides a clearer presentation of the cumulative amounts for the individual components:

(in millions of euros)	**1st quarter 2006 (*)**	2nd quarter 2006	3rd quarter 2006
Sales revenues	2,441	1,825	1,965
EBITDA	334	440	445
as a % of revenues	*13.7%*	*24.1%*	*22.6%*
Depreciation, amortization and writedowns	(147)	(212)	(166)
EBIT	187	228	279
as a % of revenues	*7.7%*	*12.5%*	*14.2%*
Group interest in net profit	**67**	**331**	**133**

(*) The depreciation estimates were revised in the first quarter of 2006.

21. Sales Revenues

Sales revenues totaled 6,231 million euros, for an overall gain of 1,530 million euros (+32.5%) compared with the first nine months of 2005. The Group's core businesses increased sales revenues by 1,747 million euros (39.2%).

The table below provides a breakdown of sales revenues:

(in millions of euros)	**1/1/06-9/30/06**	1/1/05-9/30/05	Change	% change
Revenues from the sales of:				
- Electric power	4,475	3,139	1,336	42.6%
- Natural gas	1,045	959	(958)	9.0%
- Steam	125	98	27	27.6%
- Oil	69	42	27	64.3%
- Green certificates	45	23	22	95.7%
- Water and other utilities	29	25	4	16.0%
- Other revenues	35	24	11	45.8%
Total sales revenues	**5,823**	**4,310**	**1,513**	**35.1%**
Revenues from managing the electric network	18	28	(10)	(35.7%)
Revenues from services provided	10	10	-	n.m.
Storage services	8	3	5	n.m.
Transmission revenues	372	122	250	n.m.
Revenues from contract work in progress	-	228	(228)	n.m.
Total for the Group	**6,231**	**4,701**	**1,530**	**32.5%**

Sales revenues were generated mainly in Italy. Revenues from contract work in progress shown for the first nine months of 2005 refer almost exclusively to the Tecnimont Group, which was sold during the second half of 2005.

A breakdown of revenues by type of business is provided below.

Sales Revenues by Type of Business

(in millions of euros)	**1/1/06-9/30/06**	1/1/05-9/30/05	Change	% change
Electric power operations	5,097	3,503	1,594	45.5%
Hydrocarbons operations	2,955	2,224	731	32.9%
Corporate activities	31	31	-	0.0%
Eliminations	(1,879)	(1,301)	(578)	44.4%
Core businesses	**6,204**	**4,457**	**1,747**	**39.2%**
Water	27	23	4	17.4%
Other operations	**27**	**23**	**4**	**17.4%**
Engineering	-	221	(221)	n.m.
Divested operations	**-**	**221**	**(221)**	**n.m.**
Total for the Group	**6,231**	**4,701**	**1,530**	**32.5%**

At 6,231 million euros, sales revenues were 1,530 million euros higher (+32.5%) than in the first nine months of 2005, when the revenue amount included 221 million euros generated by the engineering operations (Tecnimont Group) in the first half of the year. The 39.2% rise in sales revenues reported by the Group's core businesses (1,747 million euros) was made possible by the positive contribution of all businesses. More specifically:

- The electric power operations (+45.5% compared with the first nine months of 2005) boosted unit sales (+21.1%) both in the deregulated market and under CIP 6/92 contracts and benefited from an increase in the average price charged, made possible by a rise in the fuel component.
- The hydrocarbons operations reported a 32.9% gain in sales revenues, due mainly to an increase in average revenues per unit that reflected a positive development in the benchmark oil markets.

22. Other Revenues and Income

Other revenues and income totaled 578 million euros. A breakdown is as follows:

(in millions of euros)	**1/1/06-9/30/06**	1/1/05-9/30/05	Change	% change
Commodity derivatives	232	194	38	19.6%
Recovery of costs from Edipower's Tollers	123	99	24	24.2%
Recovery of costs from partners in hydrocarbon exploration projects	18	12	6	50.0%
Utilizations of provisions for risks	12	9	3	33.3%
Swaps and exchanges of oil and natural gas	23	9	14	n.m.
Out of period income	117	31	86	n.m.
Sundry items	53	40	13	n.m.
Total for the Group	**578**	**394**	**184**	**46.7%**

Out-of-period income includes a reduction of penalties paid for using the strategic gas reserve during the first quarter of 2005, the impact on the amount paid in the second half of 2005 of a renegotiated price for the natural gas purchased under long-term some contracts and the recovery of green-certificate charges made possible by AEEG Resolution No. 113/06.

23. Raw Materials and Services Used

The cost of raw materials and services used, which rose in tandem with sales revenues, totaled 5,439 million euros, or 37.1% more than in the first nine months of 2005. A breakdown is as follows:

(in millions of euros)	1/1/06-9/30/06	1/1/05-9/30/05	Change	% change
Purchases of:				
- Natural gas	2,612	1,904	708	37.2%
- Electric power	771	322	449	139.4%
- Dispatching and balancing services	108	124	(16)	(12.9%)
- Blast furnace, recycled and coke furnace gas	293	187	106	56.7%
- Oil and other fuels	283	243	40	16.5%
- Demineralized industrial water	24	22	2	9.1%
- Green certificates	69	47	22	46.8%
- Other materials and utilities	117	113	4	3.5%
Total purchases	**4,277**	**2,962**	**1,315**	**44.4%**
- Facilities design, construction and maintenance	159	201	(42)	(20.9%)
- Transmission of electric power	494	304	190	62.5%
- Transmission and treatment of natural gas	188	192	(4)	(2.1%)
- Professional services	58	72	(14)	(19.4%)
- Insurance services	22	24	(2)	(8.3%)
- Commodity derivatives	175	155	20	12.9%
- Additions to the provisions for CO_2 risk	31	-	31	n.m.
- Additions to other provisions for risks	15	17	(2)	(11.8%)
- Writedowns of trade receivables	16	11	5	45.5%
- Change in inventory of work in progress, semifinished goods and finished goods	(154)	(145)	(9)	6.2%
- Sundry charges	158	175	(17)	(9.7%)
Total for the Group	**5,439**	**3,968**	**1,471**	**37.1%**

Breakdown by Type of Business

(in millions of euros)	1/1/06-9/30/06	1/1/05-9/30/05	Change	% change
Electric Power operations	4,558	3,026	1,532	50.6%
Hydrocarbons operations	2,387	1,758	629	35.8%
Corporate activities	58	70	(12)	(17.1%)
Eliminations	(1,578)	(1,087)	(491)	45.2%
Core businesses	**5,425**	**3,767**	**1,658**	**44.0%**
Water	14	13	1	7.7%
Other operations	**14**	**13**	**1**	**n.m.**
Engineering	-	188	(188)	n.m.
Divested operations	**-**	**188**	**(188)**	**n.m.**
Total for the Group	**5,439**	**3,968**	**1,471**	**37.1%**

This expense item, which totaled 4,277 million euros (+44.4% compared with the first nine months of 2005), consists mainly of purchases of natural gas, electric power and other raw materials used in production processes. It also includes the cost of blast furnace, recycled and coke oven gases used as fuel for the production of electric power, and 682 million euros in electric power and natural gas transmission costs 494 million euros and 188 million euros, respectively), which increased by 37.5% compared with the first nine months of 2005, reflecting a rise in volumes used and the costs incurred to import LNG.

Most of the additions to the provisions for risks were made to recognize the Group's inability to generate a sufficient quantity of CO_2 emission quotas.

Information about the impact of commodity derivatives is provided in a separate note.

24. Labor Costs

At 151 million euros, labor costs were 41 million euros less than in the first nine months of 2005. The sale of the Tecnimont Group in the fourth quarter of 2005 accounts for this decrease.

25. EBITDA

At September 30, 2006, EBITDA amounted to 1,219 million euros, or 30.4% more than in the same period last year.
A breakdown by type of business is as follows:

(in millions of euros)	**1/1/06-9/30/06**	as a % of sales revenues	1/1/05-9/30/05	as a % of sales revenues	Change
Electric Power operations	892	17.4%	721	20.6%	23.7%
Hydrocarbons operations	368	12.5%	259	11.6%	42.1%
Corporate activities	(48)	n.m.	(61)	n.m.	(21,3%)
Core businesses	**1,212**	**19.5%**	**919**	**20.6%**	**31.9%**
Water	7	25.9%	5	21.7%	n.m.
Other operations	**7**	**25.9%**	**5**	**21.7%**	**n.m.**
Engineering	-	-	11	5.0%	n.m.
Divested operations	**-**	**-**	**11**	**5.0%**	**n.m.**
Total for the Group	**1.219**	**19.5%**	**935**	**19.9%**	**30.4%**

The EBITDA increase reported by electric power operations reflects the positive impact of the increased volumes of electricity due to the full availability of the Candela, Altomonte and Piacenza plants, the optimization of the mix of sales channel and the refund the AEEG of the purchasing costs of green certificates incurred by the CIP 6/92 facilities. These events more than offset the loss of incentives for some CIP 6/92 facilities (21 million euros) and the impact of emissions trading charges.
The EBITDA increase reported by the hydrocarbons operations reflects the positive impact of favorable developments in the market for petroleum products and the renegotiation of the price paid for natural gas under some long-term contracts. These positive factors more than offset the adverse effect of the provision (about 53 million euros) set aside in response to the publication of Resolutions No. 298/05 and No. 134/06 by which AEEG amended the rates that can be charged for natural gas in accordance with Resolution No. 248/05 (the Edison Group is challenging these resolutions before an Administrative Court).

26. Depreciation, Amortization and Writedowns

A breakdown of depreciation, amortization and writedowns, which totaled 525 million euros, is provided below:

(in millions of euros)	**1/1/06-9/30/06**	1/1/05-9/30/05	Change	% change
Depreciation of property, plant and equipment	449	371	78	21.0%
Depreciation of investment property	1	1	-	n.m.
Amortization of hydrocarbon concessions	20	25	(5)	(20.0%)
Amortization of other intangible assets	35	18	17	94.4%
Writedowns of property, plant and equipment	20	-	20	n.m.
Total for the Group	**525**	**415**	**110**	**26.5%**

Breakdown by Type of Business

(in millions of euros)	**1/1/06-9/30/06**	1/1/05-9/30/05	Change	% change
Electric power operations	433	337	96	28,5%
Hydrocarbons operations	84	68	16	23,5%
Corporate activities	7	6	1	16,7%
Core businesses	**524**	**411**	**113**	**27,5%**
Water	1	2	(1)	n.s.
Engineering	-	2	(2)	n.s.
Other operations	**1**	**4**	**(3)**	**n.s.**
Total for the Group	**525**	**415**	**110**	**26,5%**

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 (47 million euros) and of the full availability of new power plants in Torviscosa (in the third quarter of 2006), Altomonte (in the first quarter of 2006) and Candela (in the second half of 2005).

Amortization of other intangible assets refers almost exclusively to the expensing out of hydrocarbon exploration costs (29 million euros).

During the third quarter of 2006, the duration of the concession for the Battiggio hydroelectric power plant was extended by six years. This extension had only a marginal impact on total depreciation.

27. Net Financial Income (Expense)

Net financial expense came to 184 million euros, or 15 million euros more than in the first six months of 2005.
A breakdown of net financial expense is as follows:

(in millions of euros)	**1/1/06-9/30/06**	1/1/05-9/30/05	Change
Financial income			
Financial income from commodity derivatives	-	2	(2)
Financial income from financial derivatives	59	84	(25)
Interest earned on finance leases	12	12	-
Interest earned on bank and postal accounts	4	5	(1)
Interest earned on amounts due from the tax administration	4	5	(1)
Other financial income	20	4	16
Total financial income	**99**	**112**	**(13)**
Financial expense			
Interest paid on bond issues	(107)	(97)	(10)
Financial expense from commodity derivatives	(2)	(14)	12
Financial expense from financial derivatives	(64)	(84)	20
Interest paid to banks	(74)	(52)	(22)
Bank fees	(13)	(9)	(4)
Interest paid on decommissioning projects	(6)	(5)	(1)
Interest paid on finance leases	(1)	(2)	1
Interest paid in connection with employee severance benefits	(2)	(2)	-
Interest paid to other lenders	(2)	(2)	-
Other financial expense	(14)	(4)	(10)
Total financial expense	**(285)**	**(271)**	**(14)**
Foreign exchange translation gains (losses)			
Foreign exchange translation gains	6	21	(15)
Foreign exchange translation losses	(4)	(31)	27
Net foreign exchange translation gain (loss)	**2**	**(10)**	**12**
Net financial income (expense) for the Group	**(184)**	**(169)**	**(15)**

The increase in net financial expense is mainly the result of higher interest rates.

Financial expense also includes a charge of 6 million euros that has as its offset a provision for risks related to the decommissioning and remediation of industrial sites by the hydrocarbons operations and a charge of 2 million euros related to the provision for employee severance benefits recognized as a result of the adoption of IAS 19. The total also includes finance charges related to the Edipower and Finel put-and-call transactions.

Information about financial and commodity derivatives is provided in a separate note.

28. Income from (Expense on) Equity Investments

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

Income:

- A gain of 3 million euros from the valuation of certain associated companies;
- A gain of 2 million euros on the sale of investments in AMGA and ACEA;
- Dividends totaling 3 million euros;

Expense:

- A charge of 4 million euros booked to recognize the writedowns of interests held in certain associated companies, with IPSE 2000 accounting for 2 million euros and STEL for 1 million euros.

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:

- The total of 57 million euros includes 38 million euros 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, and 19 million euros in out-of-period income consisting of refunds received from the French tax authorities for taxes paid in previous years;

Expense:

- The total of 56 million euros includes a charge of 32 million euros for the fine imposed by the European Commission on the old Montedison (now Edison) for alleged anticompetitive practices by its former subsidiary Ausimont Spa between 1995 and 2000, 14 million euros added to other provisions for risks and 10 million euros in other out-of-period charges.

30. Income Taxes

The income statement shows a net tax credit of 18 million euros (tax liability of 55 million euros at September 30, 2005) made possible primarily by the extraordinary positive impact of the realignment of the amounts at which certain components of property, plant and equipment are carried for tax purposes to the corresponding reporting amounts (202 million euros).

A breakdown of this item is provided below:

(in millions of euros)	**1/1/06-9/30/06**	1/1/05-9/30/05	Change
Current taxes	321	98	223
Net deferred-tax liabilities	(339)	(43)	(296)
Total for the Group	**(18)**	**55**	**(73)**

Edison Spa, availing itself of the option provided in the Single Article, Section 469, of Law No. 266 of December 23, 2005 (2006 Budget Law), elected to realign the values assigned for reporting and tax purposes to some of its depreciable assets and pay a 12% substitute tax in lieu of the corresponding liability for corporate income taxes (IRES) and local taxes (IRAP).

The realignment involved the entire amount of the differences between the reporting values (as shown in the financial statements at December 31, 2004 and maintained as of December 31, 2005) and the values assigned for tax purposes to the same assets. The assets involved were chosen at the Company's discretion considering the requirement that the substitute tax was payable on the entire difference attributable to each one of the individual assets thus selected.

The new values thus selected become fully applicable from a tax standpoint and can be used to compute depreciation amounts that are fully deductible for IRES and IRAP purposes starting on the third year after the year when the substitute tax is paid (January 1, 2008, in most cases).

Having adopted these new values for tax purposes, the Company no longer owes future taxes originally recognized in view of the abovementioned valuation differences. Consequently, it no longer needs to recognize any deferred-tax liabilities for taxes owed in the future on valuation differences.

In June 2006, in order to avail itself of the abovementioned value realignment option, Edison Spa paid a substitute tax of about 96 million euros and was then able to utilize provisions for deferred taxes totaling 298 million euros, for a net positive effect of 202 million euros.

In addition to a substitute-tax payment amounting to more than 96 million euros, **Current taxes** include 182 million euros for IRES, 45 million euros for IRAP and 10 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 12 million euros.
Net deferred-tax assets totaled 339 million euros. This amount is the net result of the following:

- Recognition of deferred-tax liabilities totaling 36 million euros attributable mainly to valuation differences of property, plant and equipment. The tax liability generated by applying IAS 39 to the financial instruments held by Group companies and the impact of the adoption of IAS 17 to record finance leases accounts for the balance.
- Utilizations of deferred-tax liabilities totaling 416 million euros, including 298 million euros related to the partial realignment by Edison Spa of the carrying amounts and tax values of property, plant and equipment. The impact for the period of depreciation and writedowns of property, plant and equipment generated by the adoption of fair value measurement upon transition, which is not deductible for tax purposes, accounts for the balance.
- Booking of deferred-tax assets of 52 million euros attributable to taxed provisions for risks (40 million euros, including 34 million euros set aside by Edison Spa, the Group's Parent Company). The impact of the adoption of IAS 39 and valuation differences of non-current assets account for the balance.
- Utilization of 93 million euros in deferred-tax assets, including 55 million euros in tax loss carryforward and 13 million euros for the amortization of the Edipower goodwill that could not be recognized for IAS purposes. The impact of the adoption of IAS 39 accounts for the balance.

31. Result of Divested Operations

The amount of 3 million euros reflects the earnings reported by Edison Rete Spa for the period from July 1, 2006 to September 30, 2006.

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.

2005 full year IFRIC 4 restated	(in millions of euros)	**1/1/06-9/30/06**	1/1/05-9/30/05 IFRIC 4 restated
504	Group interest in profit (loss)	531	343
(3)	Net income attributable to convertible and nonconvertible savings shares (1)	(3)	(3)
501	Group interest in net income attributable to the common shares (A)	528	340
	Weighted average number of shares outstanding (common and savings) determined for the purpose of computing earnings per share:		
4,266,333,515	- basic (B)	4,273,115,904	4,264,890,787
4,688,483,256	- diluted (C)(2)	4,677,000,353	4,683,258,576
	Profit (Loss) per share (in euros)		
0.1173	- basic (A/B)	0.1235	0.0796
0.1068	- diluted (A/C)(2)	0.1128	0.0725

(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.

OTHER INFORMATION

Information About the Discontinued Operations (IFRS 5)

On October 16, 2006, as a result of the process of divesting Edison Rete Spa, which was already reviewed in the Group's Semiannual Report, Edison Spa and Terna Spa signed an agreement whereby RTL Spa, a wholly owned subsidiary of Terna, will acquire 100% Edison Rete Spa.

For the purpose of this transaction, Edison Rete was assigned an enterprise value of 311 million euros. The price of the shares will be set taking into account the company's net borrowings on the date of closing (about 34 million euros at December 31, 2005). After the closing, Edison will sell to Edison Rete certain assets that are required for operational purposes and are valued at about 12 million euros.

This transaction, which is expected to close in December 2006, once it has been approved by the relevant antitrust authorities, will generate a net gain of about 100 million euros in Edison's consolidated financial statements and will reduce consolidated net borrowings by about 320 million euros.

As a result, as required by IFRS 5 and as indicated in the Semiannual Report at June 30, 2006, Edison Rete's assets and liabilities have been reclassified as "Assets held for sale" and "Liabilities held for sale." Revenue and expenses for the period from July 1, 2006 to September 30, 2006 are classified under "Net result from discontinued operations."

Balance sheet and income statement data of Edison Rete Spa are provided below:

(in millions of euros)

9/30/05	BALANCE SHEET OF EDISON RETE Spa	**9/30/06**	12/31/05
201	Non-current assets	196	200
14	Current assets	13	18
215	**Total assets**	**209**	**218**
171	**Group interest in shareholders' equity**	**172**	**171**
-	Minority interest in shareholders' equity	-	-
171	**Total shareholders' equity**	**172**	**171**
6	Non-current liabilities	6	6
38	Current liabilities	31	41
215	**Total liabilities and shareholders' equity**	**209**	**218**

(in millions of euros)

2005 Full Year	INCOME STATEMENT OF EDISON RETE Spa	**1/1/06-9/30/06**	1/1/05-9/30/05
42	Sales revenues	31	33
26	EBITDA	18	21
(10)	Depreciation and amortization	(6)	(7)
16	EBIT	12	14
(2)	Net financial expense	(1)	(1)
14	Profit before taxes	11	12
(6)	Income taxes	(4)	(5)
8	**Net profit**	**7**	**7**

Contingent Commitments and Risks

(in millions of euros)	**9/30/06**	12/31/05	Change
Guarantees provided	2,248	2,655	(407)
Collateral provided	2,123	2,441	(318)
Other commitments and risks	635	656	(21)
Total for the Group	**5,006**	**5,752**	**(746)**

Guarantees Provided

Guarantees provided totaled 2,248 million euros. This figure is equal to the undiscounted amount of potential commitments on the balance sheet date. It includes the following:

- 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.
- 772 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.
- 18 million euros in sureties provided by Edison Spa to banks to secure financing facilities and credit lines provided to Group companies.
- 25 million euros for a commitment to contribute capital and/or provide the subordinated financing needed by the Edipower Spa affiliate for its repowering program (Repowering Equity Contribution Agreement).

In addition, as part of the refinancing of Edipower Spa, Edison Spa has agreed to provide this joint venture with sufficient additional capital and/or subordinated financing to guarantee the successful implementation of Edipower's repowering program in terms of capital expenditure overruns, delays in implementation and power, efficiency and performance of the power plants upon completion of the repowering program (coverage of cost overruns, defects liability costs and underperformances) that Edipower Spa may incur in connection with its repowering program (100 million euros) – (Completion Equity Contribution Agreement).
Moreover, pursuant to the Tolling and Power Purchasing Agreements, Edison is responsible for the commercial obligations undertaken by its Edison Trading Spa subsidiary toward Edipower Spa, but only in the event of serious default or insolvency by Edison Trading (300 million euros).

Collateral Provided

Collateral provided, which came to 2,123 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 (808 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 (1,315 million euros), which generally consist of mortgages and encumbrances granted on thermoelectric facilities to secure financing. A total of 603 million euros refers to repaid mortgages that are in the process of being cancelled.

Other Commitments and Risks

Other commitments and risks of 635 million euros reflect commitments undertaken to complete construction of the Simeri Crichi, as well as other ongoing projects, commitments undertaken by Edison Stoccaggio for gas storage facilities and pipelines (122 million euros) and commitments of Edipower toward suppliers for purchase and construction contracts (Edison's pro rata share is 280 million euros).

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

- 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. The Group has signed two new contracts to import natural gas. The first one, an agreement to import LNG from Qatar, calls for deliveries to begin upon completion of an LNG terminal in the Northern Adriatic, which is currently being built and is expected to go on stream in 2008. When this agreement is fully operational, Qatar will supply a total of 6.6 billion cubic meters of natural gas a year. The second contract, which is with Sonatrach, calls for importation of two billion cubic meters of natural gas a year, starting in 2008, upon the completion of the first phase of a natural gas pipeline linking Algeria with Italy through Tunisia (Trans Tunisian Pipeline Company – TTPC). Payments required as a result of the take-or-pay clause are made on the basis of a price that reflects the contract price but is indexed to current market terms. These contracts have terms ranging between 10 and 25 years. When all of the contracts are fully operational, the annual supply of natural gas will amount to 16 billion cubic meters a year.

- Insofar as the **electric power** operations are concerned, loans received by Termica Milazzo and Termica Celano are secured by a negative pledge of Edison Spa shares and, for Termica Celano, a pledge commitment toward the lender bank, should certain noncompliance conditions occur. Termica Celano granted to its lender banks a special pledge on the equipment of its cogenerating power plant. Termica Milazzo granted to its lender banks a mortgage and special pledge on all of the production facilities it owns. The loans received by Parco Eolico San Giorgio and Parco Eolico Foiano have been repaid. Consequently, the Agent Bank has been asked to release all guarantees provided under any title.

- As part of the agreements among the shareholders of RCS Mediagroup who are members of the Blocking and Consultation Syndicate, any Participant who, in response 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.

- In addition, the agreement executed in connection with the sale of Edison LNG, now Terminale GNL Adriatico Srl, in May 2005 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 is not 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 value of the company's shareholders' equity when 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.

- Edison granted Cartiere Burgo Spa a call option on 51% of Gever, exercisable upon the expiration of the contract pursuant to which Gever supplies electric power and steam to Cartiere Burgo (by 2017) at a price equal to the corresponding pro rata interest in Gever's shareholders' equity.

- Lastly, Edison signed contracts to buy equity investment corresponding to 100% of EdF Energia Italia (8,300,000 euros) and 70% of Eneco (3,780,000 euros). It also acquired a call option to purchase 16% of Utilità (about 400,000 euros).

Update on the Information Provided in the Quarterly Report at September 30, 2006 with Regard to the Main Legal and Tax Disputes

An update of the information contained in the Quarterly Report about the main legal and tax disputes currently outstanding is provided below. However, the Quarterly Report should be consulted for more detailed information. 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.

Legal Disputes for Which a Provision for Risks Has Been Set Aside

A) Edison Spa

European Commission – Antitrust Proceedings Against Ausimont

In the appeal against the temporarily enforceable decision by the European Commission in the proceedings regarding violations of Article 81 of the EC Treaty and Article 53 of the SEE Agreement concerning a cartel in the market for hydrogen peroxide and its derivatives, sodium perborate and sodium percarbonate, by which Edison was fined 58.1 million euros, 25.6 million euros of which are payable jointly with Solvay Solexis Spa, Edison paid on a provisional basis the sum of 45.4 million euros, which is equal to the entire fine levied against it and one-half the amount owed jointly by Edison and Solvay Solexis. Meanwhile, Edison's appeal against this decision is pending before the European Union Court of First Instance.

Montedison Srl (formerly Immobiliare Assago) – Nepa Arbitration

On July 21th, 2006, Montedison Srl (formerly Immobiliare Assago) in accordance with the terms of an arbitration award that found Immobiliare Assago responsible for the lost profit and damages suffered by Nepa, Immobiliare Assago paid Nepa the amount of 2 million euros.

Legal Disputes that Represent Contingent Liabilities

MEMC Lawsuits

In the proceedings filed by MEMC against Edison and Edison Energia before the Court of Venice in connection with business transactions involving the sale and supply of electric power, an appeal has been filed against the decision handed down by the Court rejecting all of the claims of the opposing party and ordering payment of all costs.

B) Other Group Companies

ACEA Unfair Competition

On August 7, 2006, ACEA Spa served Edison with a summons asking it to appear before the Court of Rome in connection with a lawsuit it filed against several parties, including, among other, AEM Spa, EdF Sa and Edipower Spa. ACEA alleges that the acquisition of joint control of Edison by EdF Sa and AEM Spa constitutes a violation of the 30% ceiling in the ownership of Edipower Spa by a government-owned company, as set forth in the Prime Minister Decree dated November 8, 2000. Such ownership would constitute an instance of unfair competition, pursuant to Article 2598, Section 3, of the Italian Civil Code, and is injurious to ACEA, which is asking that AEM Spa and EdF Sa be ordered to pay damages and take the actions necessary to void the consequences of their actions (such as the proportional divestiture of equity interests in excess of the abovementioned ceiling and the prohibition to receive energy produced by Edipower Spa in excess of the quantity allowable accordingly). The first hearing has been set for March 15, 2007. ACEA Spa is planning to ask for the issuance of protective measures. Edison is currently evaluating the appropriate defensive strategy.

Tax Disputes

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

In 2000, following a general audit of Edison Spa for the period from 1994 to 1999, the Italian Revenue Police issued notices of assessment for the fiscal years from 1994 to 1998, which the Company is disputing before the appropriate Tax Commissions.
The assessments for 1994, 1995 and 1996 were canceled in full by the Provincial Tax Commission. However, in order to avoid litigation costs, these assessments were settled for reduced amounts in accordance with Article 16 of Law No. 289/2002, as extended, at a cost of about 3 million euros. The Tax Office rejected these reduced settlements for the 1995 and 1996 fiscal years and the Company has contested the validity of the rejection.
The assessment for 1998 has also been settled in the course of the proceedings and, at the end of 2005, the Provincial Tax Commission upheld the main aspects of the appeal filed against the assessment for 1997.

Edison Spa Tax Audit for the 2002 Fiscal Year

Between November 2004 and February 2005, the Regional Revenue Office of Lombardy began a general tax audit of Edison Spa for the 2002 fiscal year.
The Audit Report assessed additional corporate income taxes (IRPEG) of about 17 million euros in connection with certain expenses that were found not to apply to the year in question or not to be deductible. However, because of the unused tax loss carryforward, the assessment required no additional tax payments.
At the end of December, as the Company did not agree with and was not willing to pay the amount assessed by the Revenue Office, it was notified with IRPEG, IRAP and VAT assessments that, while not entailing significantly higher taxes or penalties, reflected the objections raised by the Regional Revenue Office, reducing by about 17 million euros the unused tax loss carryforward.
The Company believes that a significant portion of the costs that the Revenue Office disallowed should be tax deductible and will file an appeal in due course asking that these assessments be reversed.

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).
- Transactions required to file a consolidated IRES return.

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.

In addition, Edison Spa issued sureties and other guarantees to credit institutions to secure loans and lines of credit provided to subsidiaries and affiliated companies, chief among them the facilities provided to Edipower, which are discussed in detail in the note to the financial statements that reviews contingent commitments and risks.

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 September 2006 shows that the Group has a credit balance of about 5 million euros.

Consolidated Corporate Income Tax (IRES) Return – In 2006, Edison Spa agreed to a proposal made by Transalpina di Energia, its controlling company, to be included in a consolidated income tax return filed by Transalpina, 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. Consequently, in accordance with the provisions of Article 13 of the Ministerial Decree dated June 9, 2004, the preexisting option to file a consolidated return headed directly by Edison for three years from 2005 to 2007 was dropped.
All of the Edison subsidiaries that qualified for inclusion in the new consolidated return filed by Transalpina have agreed to join the filing.
Once the Boards of Directors of all of the companies involved gave their approval and before officially informing the tax administration of the chosen filing status, which occurred on June 19, 2006, Transalpina di Energia Srl and each consolidated company signed a bilateral agreement governing their mutual relationship for the purposes of the abovementioned filing status. 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 2005.

Other Transactions with Related Parties Within the Edison Group

During the first nine months of 2006, 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, 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	32	27	53	1		
Value of trade payables	31	97	10	1		
Value of loans receivable						
Value of loans payable					15	82
Income statement transactions						
Sales of goods and services	127	269	343	1		
Purchases of goods and services	53	114	38	10		
Financial income				1		
Financial expense						2

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 43 million euros; the purchase of about 36 million euros worth of electric power in Italy; and the sale of electric power valued at 238 million euros. In addition, revenues from transmission services amounted to 11 million euros.
- Operation and maintenance contracts with Fenice Spa (EdF Group) for the Rivalta, Cassino, Sulmona, Termoli, Melfi and Pomigliano D'Arco thermoelectric power plants valued at 21 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 first nine months of 2006, Edison Spa supplied AEM Spa with steam valued at about 3 million euros from its Sesto San Giovanni power plant. In addition, Consorzio di Sarmato booked revenues of about 6 million euros from the sale of electric power generated by the Sarmato power plant to the Enia consortium affiliate.
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 47 million euros from the sale of fuel oil to AEM Trading Srl.
Moreover, Edipower sold electric power to AEM Trading, generating revenues of 75 million euros (pro rata share attributable to the Edison Group), and incurred costs of 41 million euros mainly in connection with purchases of fuel oil. In addition, Edison Trading purchased electric power worth 9 million euros from Sel Edison Spa (SEL Group) and 20 million euros from Enia Spa. Edison Energia paid Enia Spa 7 million euros for electric power transmission services.
Lastly, AEM Elettricità incurred 8 million euros in electric power transmission costs.

Hydrocarbons Operations – During the first nine months of 2006, the hydrocarbons operations purchased natural gas from ENBW Trading GmbH (EdF Group) at a cost of 12 million euros.
Transactions with Blumet, an associated company that is part of the Enia Group, generated revenues from natural gas sales totaling 334 million euros and receivables amounting to 50 million euros. In addition, natural gas was also purchased from Blumet Spa at a cost of 11 million euros.

Corporate Activities – Edison Spa received revenues totaling about 6 million euros from Fenice Spa (EdF Group) for maintenance services.

Financial Transactions

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

During the third quarter of 2006, the Group executed foreign exchange transactions with an aggregate value of about USD 300 million with JPMorganChase.

Banca Popolare di Milano provided a 34-million-euro revocable line of credit and a 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 16 million euros.

SIGNIFICANT EVENTS OCCURRING SINCE SEPTEMBER 30, 2006

Edison Spa – The Shareholders' Meeting Votes to Restrict the Available Reserves and Part of the Share Capital

The Shareholders' Meeting of Edison Spa, convened on October 11, 2006, acting in accordance with the Single Article, Section 469, of Law No. 266 of December 23, 2005 and supplemental and related provisions, approved resolutions by which it recognized, in the Company's financial statements, a tax restriction on available reserves and a portion of the share capital totaling 703,508,704.52 euros.
These resolutions became necessary after Edison opted to realign the values assigned for reporting and tax purposes to significant portion of its facilities.

Edison Spa – Sale of the High Voltage Network to Terna

On October 16, 2006, Edison Spa and Terna Spa signed an agreement whereby RTL Spa, a wholly owned subsidiary of Terna, acquired 100% of Edison Rete Spa.
For the purpose of this transaction, Edison Rete was assigned an enterprise value of 311 million euros. This transaction, which is expected to close in December 2006, once it has been approved by the relevant antitrust authorities, will generate a net gain of about 100 million euros in Edison's consolidated financial statements and will reduce consolidated net borrowings by about 320 million euros.

Milan, November 8, 2006

The Board of Directors
by: Giuliano Zuccoli
Chairman

SCOPE OF CONSOLIDATION

at September 30, 2006

SCOPE OF CONSOLIDATION AT SEPTEMBER 30, 2006

List of Equity Investments

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 9/30/06	12/31/05
A) Investments in Companies Included in the Scope of Consolidation					
A.1) Companies Consolidated Line by Line					
Parent Company					
Edison Spa	Milan (IT)	EUR	4,273,119,803		
Core Businesses – 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
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
Parco Eolico Faeto Srl (single shareholder)	Milan (IT)	EUR	11,300	100.000	100.000
Parco Eolico Foiano Srl (single shareholder)	Milan (IT)	EUR	683,000	100.000	100.000
Parco Eolico San Giorgio Srl (single shareholder)	Milan (IT)	EUR	8,911,200	100.000	100.000
Core Businesses – 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 Businesses – 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	-	- h	SUB
51.000	Edison Spa	-	-	SUB
100.000	Edison Spa	-	- h	SUB
70.000	Edison Spa	-	-	SUB
61.000	Edison Spa	-	-	SUB
100.000	Montedison Finance Europe Nv	-	-	SUB
70.000	Edison Spa	-	- h	SUB
70.000	Edison Spa	-	- h	SUB
65.000	Edison Spa	-	- h	SUB
60.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison Energie Speciali Spa (single shareholder)	-	- h	SUB
100.000	Parco Eolico San Giorgio Srl (single shareholder)	-	- h	SUB
100.000	Edison Energie Speciali Spa (single shareholder)	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
70.000	Edison Spa	-	- h	SUB
30.000	Selm Holding International Sa			
100.000	Edison Spa	-	- h	SUB
0.000	Edison Spa	-	-	SUB
100.000	Selm Holding International Sa			
100.000	Edison Spa	-	- h	SUB
51.000	Edison Spa	-	-	SUB

List of Equity Investments (continued)

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 9/30/06	12/31/05
Core Businesses – Marketing and Distribution					
Marketing and Distribution Business Unit					
Edison Energia Spa (single shareholder)	Milan (IT)	EUR	22,000,000	100.000	100.000
Edison Per Voi Spa (single shareholder)	Selvazzano Dentro (PD) (IT)	EUR	3,592,000	100.000	100.000
Core Businesses – Corporate Activities					
Italian and Foreign Holding Companies					
Atema Limited	Dublin 2 (IE)	EUR	1,500,000	100.000	100.000
Edison Hellas Sa	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 Companies					
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 Companies and Other Companies					
Edison Treasury Services Srl (single shareholder)	Conegliano (TV) (IT)	EUR	10,000	100.000	–
Available-for-sale Investments					
Electric Power Business Unit					
Edison Rete Spa (single shareholder)	Milan (IT)	EUR	106,778,200	100.000	100.000

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Type of investment relationship (e)
100.000	Edison Spa	-	- h	SUB
100.000	Edison D.G. Spa (single shareholder)	-	- h	SUB
100.000	Edison Spa	-	-	SUB
100.000	Edison Spa	-	-	SUB
80.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	-	SUB
99.950	Edison Spa	-	-	SUB
0.050	Montedison Srl (single shareholder)	-	-	
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
0.000	Edison Spa	-	-	SUB
100.000	Edison Spa	-	-	SUB

List of Equity Investments (continued)

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 9/30/06	12/31/05
A.2) Companies Consolidated by the Proportional Method					
Core Businesses – 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
Serene Spa	Milan (IT)	EUR	25,800,000	66.320	66.320
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 Businesses – Hydrocarbons Operations					
Hydrocarbons Business Unit					
Ed-ina D.o.o.	Zagreb (HR)	HRK	20,000	50.000	50.000
Soc. Stud. Prom. Gasdot. Alg-Ita V. Sardeg. Galsi Spa	Milan (IT)	EUR	3,850,000	18.000	18.000
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 Limited	George Town - Grand Cayman (GBC)	USD	45,100	50.000	49.890
International Water Services Ltd	Zug (CH)	CHF	100,000	50.000	50.000
IWL Corporate Limited	London (GB)	GBP	1	50.000	50.000
IWL Services Holdings (Uk) Limited	London (GB)	GBP	2	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	Edison Spa	-	-	JV
50.000	Edison Spa	-	-	JV
42.000	Edison Spa	-	-	JV
100.000	Sel Edison Spa	-	- n	JV
66.320	Edison Spa	-	- g	JV
50.000	Edison Energie Speciali Spa (single shareholder)	-	-	JV
40.000	Edison Spa	-	-	JV
50.000	Edison International Spa	-	-	JV
18.000	Edison 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	100.000	100.000	
50.000	Edison Spa	-	-	JV
59.000	International Water Holdings Bv	-	-	JV
100.000	International Water Holdings Bv	-	-	JV
100.000	International Water Holdings Bv	-	-	JV
100.000	IWL Services Holdings (Uk) Limited	-	-	JV
100.000	International Water Holdings Bv	-	-	JV

List of Equity Investments (continued)

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/05
B) Investments in Companies Valued by the Equity Method				
Core Businesses – Electric Power Operations				
Electric Power Business Unit				
Consorzio Barchetta	Jesi (AN) (IT)	EUR	2,000	-
Consorzio Montoro	Narni (TR) (IT)	EUR	4,000	-
Consorzio Vicenne	Celano (AQ) (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 Businesses – Hydrocarbons Operations				
Hydrocarbons Business Unit				
Nile Valley Gas Company (Nvgc) S.A.E.	Cairo (EG)	EGP	50,000,000	-
Core Businesses – Marketing and Distribution				
Marketing and Distribution Business Unit				
Blumet Spa	Reggio Emilia (IT)	EUR	7,600,000	-
Estgas Spa	Udine (IT)	EUR	495,000	-
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. Servizi Ambiente Territorio Spa	Sassuolo (MO) (IT)	EUR	27,752,560	-
S.A.T. Finanziaria Spa	Sassuolo (MO) (IT)	EUR	1,000,000	-
Utilità Spa	Milan (IT)	EUR	2,307,692	-
Core Businesses – 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 investments in companies valued by the equity method				

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
50.000	Jesi Energia Spa	-	-	3.7	ASS
25.000	Edison Spa	-	-		ASS
50.000	Termica Celano Srl	-	-		ASS
30.000	Sondel Dakar Bv	-	-	3.7	ASS
20.000	Edison Spa	-	-	15.6	ASS
35.000	Edison Spa	-	-	0.4	ASS
40.570	Edison Spa	-	-	3.9	ASS
37.500	Edison International Spa	-	-	2.7	ASS
28.320	Edison Spa	-	-		ASS
33.330	Edison Spa	-	-	0.2	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	-	-	19.8	ASS
40.000	Edison Spa	-	-	0.8	ASS
35.000	Edison Spa	-	-	0.8	ASS
32.260	Montedison Srl (single shareholder)	-	- m	3.9	ASS
44.820	Montedison Srl (single shareholder)	-	-		ASS
				57.4	

List of Equity Investments (continued)

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/05
C) Investments in Companies in Liquidation or Subject to Long-term Ownership Restrictions				
Core Businesses – Hydrocarbons Operations				
Hydrocarbons Business Unit				
Auto Gas Company S.A.E. (in liquid.)	Cairo (EG)	EGP	1,700,000	-
Core Businesses – Corporate Activities				
Dormant Companies and Other Companies				
Codest Srl	Pavia di Udine (UD) (IT)	EUR	15,600	-
Consorzio Friulano per Il Tagliamento	Udine (IT)	EUR	10,330	-
In Liquidation or Subject to Ownership 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	-
Calcestruzzi Palermo Srl (in liquid.) (In A.G.) (Soc. unico)	Palermo (IT)	EUR	108,360	-
Cempes Scrl (in liquid.)	Villa Adriana - Tivoli (RM) (IT)	EUR	15,492	-
CI.FAR. Scarl (In fallimento)	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 liquid.)	Rome (IT)	EUR	1,020	-
Consorzio Carnia (in liquid.)	Sesto San Giovanni (MI) (IT)	EUR	51,645	-
Consorzio Carnia Scrl (in liquid.)	Rome (IT)	EUR	45,900	-
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	-
Finsavi Srl in receivership	Palermo (IT)	EUR	18,698	-
Frigotecnica Srl (single shareholder) 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 bankruptcy)	Vazia (RI) (IT)	LIT	150,000,000	-
Poggio Mondello Srl (single shareholder) in receivership	Palermo (IT)	EUR	364,000	-
Rosfid Srl (in liquid.)	Milan (IT)	LIT	46,000,000	-
Sistema Permanente di Servizi Spa (in bankruptcy)	Rome (IT)	EUR	154,950	-
Soc. Gen. per Progr. Cons. e Part. Spa (under extraord. admin.)	Rome (IT)	LIT	300,000,000	-
Sorrentina Scarl (in liquid.)	Rome (IT)	EUR	46,480	-
Stel Spa (in liq.)	Milan (IT)	EUR	520,000	75.000
Trieste Tre Srl (in liquid.)	Ravenna (IT)	EUR	10,400	-
Other Operations				
Water				
Iwl (Asia Pacific) Pte Ltd (in liquid.)	Singapore (SG)	SGD	2	50.000
Iwl Adelaide Pty Ltd (in liquid.)	Sydney - Nsw (Aus)	AUD	1,020,460	50.000
Total investments in companies in liquidation or subject to long-term ownership restrictions				

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
30.000	Edison International Spa	-	-		ASS
33.330	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
16.300	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		OC
20.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
55.000	Edison Spa	-	-		SUB
100.000	Edison Spa	-	- l		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
17.000	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	-	- h	2.0	SUB
50.000	Edison Spa	-	- l		ASS
100.000	Edison Spa	-	- l		SUB
50.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
20.000	Edison Spa	-	-		ASS
100.000	Edison Spa	-	- h	0.4	SUB
33.330	Montedison Srl (single shareholder)	-	-		ASS
100.000	Finimeg Spa (single shareholder) (in liquid.)	-	- l		SUB
42.280	Edison Spa	-	- i		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
				8.3	

List of Equity Investments (continued)

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/05
D) Investments in Other Companies Valued at Fair Value				
D.1) Trading Investments				
Publicly Traded Securities				
Acegas - Aps Spa	Trieste (IT)	EUR	282,983,213	
Acsm Spa	Como (IT)	EUR	37,496,500	
AMSC - American Superconductor	N/A (USA)	USD	19,128,000	
D.2) Available-for-sale Investments				
Privately Held Securities				
Emittenti titoli Spa	Milan (IT)	EUR	4,264,000	-
European Energy Exchange Ag - Eex	Leipzig (DE)	EUR	40,050,000	-
Ipse 2000 Spa	Rome (IT)	EUR	150,500,000	-
Istituto Europeo di Oncologia Srl	Milan (IT)	EUR	79,071,770	-
MB Venture Capital Fund I Participating Comp. e Nv	Amsterdam (NL)	EUR	50,000	-
Syremont Spa	Messina (IT)	EUR	750,000	-
Terminale GNL Adriatico Srl	Milan (IT)	EUR	200,000,000	-
Sundry investments				
Publicly Traded Securities				
RCS Mediagroup Spa	Milan (IT)	EUR	762,019,050	
Total available-for-sale investments				
Total				

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
1.300	Edison Spa	-	-	5.6	OC
3.970	Edison Spa	-	-	3.6	OC
0.840	Edison Spa	-	-	1.2	OC
3.890	Edison Spa	-	-	0.2	OC
0.750	Edison Spa	-	-	0.7	OC
7.910	Edison Spa	-	-		OC
4.370	Edison Spa	-	-	3.5	OC
7.000	Montedison Finance Europe Nv	-	-	3.5	OC
40.000	Edison Spa	-	-		ASS
10.000	Edison Spa	-	-	70.6	OC
				1.8	
0.970	Edison Spa	1.010	1.010	27.1	OC
				117.8	
				183.5	

Notes

(a) The consolidated Group interest is computed on the basis of the interest held in the respective capital stock 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 capital stock is equivalent to the ratio between the aggregate par value of all equity securities held directly and the total capital stock. In this computation, the denominator (total capital stock) 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 capital stock. 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) Subsidiary pursuant to Article 2359 of the Italian Civil Code.

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

(i) An application has been filed requesting the deletion of this company from the Company Register, but the cancellation is not yet effective.

(l) The assets, partnership interests or shares of this company were seized on 7/7/98 and the respective voting rights attributed to a Receiver appointed by the Court of Palermo – Protective Measures Section.

(m) This investment is encumbered by an attachment. The voting rights are held by the trustee of the attached assets. On May 5, 2006, the Court of Milan upheld a challenge to the attachment filed by Montedion Srl. The court decision has not been published yet.

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

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

AUD	Australian dollar	HRK	Croatian Kuna
BRL	Brazilian real	LIT	Italian lire
CAD	Canadian dollar	PTE	Portuguese escudo
CHF	Swiss franc	SGD	Singapore dollar
EGP	Egyptian pound	USD	United States Dollar
GBP	British pound	XAF	Central African franc

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