CONSOLIDATED FINANCIAL STATEMENTS 2007

EDISON

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CONSOLIDATED FINANCIAL STATEMENTS 2007

EDISON

EDISON GROUP
Balance Sheet

(in millions of euros)	See Note	12/31/2007	12/31/2006
ASSETS			
Property, plant and equipment	1	7,619	8,057
Investment property	2	11	40
Goodwill	3	3,518	3,518
Hydrocarbon concessions	4	299	323
Other intangible assets	5	36	44
Investments in associates	6	44	44
Available-for-sale investments	6	184	122
Other financial assets	7	139	130
Deferred-tax assets	8	78	102
Other assets	9	61	85
Total non-current assets		**11,989**	**12,465**
Inventories		250	387
Trade receivables		1,654	1,943
Current-tax assets		13	15
Other receivables		371	276
Current financial assets		25	42
Cash and cash equivalents		103	298
Total current assets	**10**	**2,416**	**2,961**
Assets held for sale	**11**	**318**	**231**
Total assets		**14,723**	**15,657**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		5,292	4,273
Equity reserves		641	606
Other reserves		1,114	1,116
Reserve for currency translations		(5)	(3)
Retained earnings (Loss carryforward)		465	97
Profit (Loss) for the period		497	654
Total Group interest in shareholders' equity		**8,004**	**6,743**
Minority interest in shareholders' equity		147	147
Total shareholders' equity	12	**8,151**	**6,890**
Provision for employee severance indemnities and provision for pensions	13	68	72
Provision for deferred taxes	14	560	752
Provision for risks and charges	15	899	881
Bonds	16	1,201	1,207
Long-term borrowings and other financial liabilities	17	1,216	502
Other liabilities	18	2	2
Total non-current liabilities		**3,946**	**3,416**
Bonds		9	1,457
Short-term borrowings		485	1,461
Trade payables		1,394	1,576
Current taxes payable		9	26
Other liabilities		652	694
Total current liabilities	19	**2,549**	**5,214**
Liabilities held for sale	20	**77**	**137**
Total liabilities and shareholders' equity		**14,723**	**15,657**

As required by Consob Resolution No. 15519 of July 27, 2006, the impact of transactions with related parties is discussed in a separate disclosure provided later in this Report.

EDISON GROUP
Income Stetement

(in millions of euros)	See Note	2007	2006
Sales revenues	21	8,276	8,523
Other revenues and income	22	583	777
Total net revenues		**8,859**	**9,300**
Raw materials and services used (-)	23	(7,035)	(7,554)
Labor costs (-)	24	(219)	(210)
EBITDA	25	**1,605**	**1,536**
Depreciation, amortization and writedowns (-)	26	(709)	(784)
EBIT		**896**	**752**
Net financial income (expense)	27	(198)	(246)
Income from (Expense on) equity investments	28	(17)	16
Other income (expense), net	29	6	37
Profit before taxes		**687**	**559**
Income taxes	30	(170)	(9)
Profit (Loss) from continuing operations		**517**	**550**
Profit (Loss) from discontinued operations	31	-	112
Profit (Loss)		**517**	**662**
Broken down as follows:			
Minority interest in profit (loss)		20	8
Group interest in profit (loss)		**497**	**654**
Earnings per share (in euros)	32		
Basic earnings per common share		0.1040	0.1522
Basic earnings per savings share		0.1340	0.1822
Diluted earnings per common share		0.0976	0.1377
Diluted earnings per savings share		0.1340	0.1822

As required by Consob Resolution No. 15519 of July 27, 2006, the impact of transactions with related parties is discussed in a separate disclosure provided later in this Report.

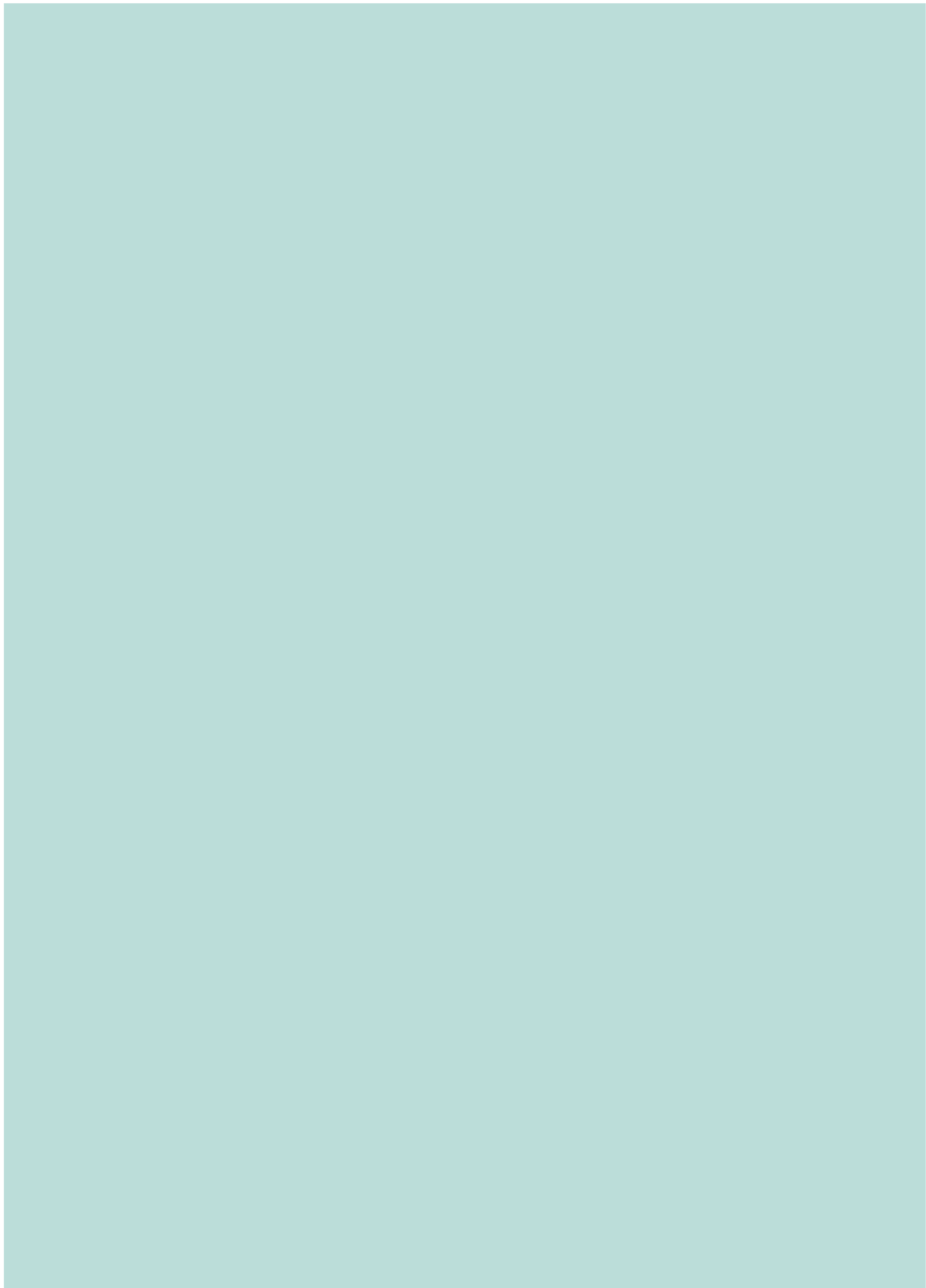
Cash Flow Statement

The table below analyzes the **cash flow** as it applies to short-term liquid assets at the end of 2007 and provides a comparison with the corresponding data for 2006.
In order to provide a better understanding of the Group's cash generation and utilization dynamics, 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.

(in millions of euros)	2007	2006
Profit (Loss) from continuing operations	497	542
Profit (Loss) from discontinued operations	-	112
Total Group interest in profit (loss)	**497**	**654**
Minority interest in profit (loss)	20	8
Amortization and depreciation	706	700
Interest in the result of companies valued by the equity method (-)	1	(2)
Dividends received from companies valued by the equity method	3	-
(Gains) Losses on the sale of non-current assets	(16)	1
(Revaluations) Writedowns of intangibles and property, plant and equipment	3	84
Change in the provision for employee severance indemnities	(3)	2
Change in other operating assets and liabilities	178	(413)
A. Cash flow from continuing operations	**1,389**	**1,034**
Additions to intangibles and property, plant and equipment (-)	(494)	(548)
Additions to non-current financial assets (-)	(337)	(85)
Proceeds from the sale of intangibles and property, plant and equipment	72	28
Proceeds from the sale of non-current financial assets	103	345
Capital grants received during the year	-	-
Change in the scope of consolidation	-	29
Other current assets	17	34
B. Cash used in investing activities	**(639)**	**(197)**
Receipt of new medium-term and long-term loans	1,271	1,203
Redemption of new medium-term and long-term loans and reclassification of short-term installments (-)	(3,080)	(1,712)
Capital contributions provided by controlling companies or other shareholders	1,019	-
Dividends paid to controlling companies or minority shareholders (-)	(248)	(196)
Change in short-term debt	93	(181)
C. Cash used in financing activities	**(945)**	**(886)**
D. Cash and cash equivalents of discontinued operations	**-**	**4**
E. Net currency translation differences	**-**	**-**
F. Net cash flow from operating assets of discontinued operations	**-**	**-**
G. Net decrease in cash and cash equivalents (A+B+C+D+E+F)	**(195)**	**(45)**
H. Cash and cash equivalents at the beginning of the year	**298**	**361**
I. Cash and cash equivalents at the end of the year (G+H)	**103**	**316**
L. Total cash and cash equivalents at end of period (I)	**103**	**316**
M. (-) Cash and cash equivalents of discontinued operations	**-**	**(18)**
N. Cash and cash equivalents of continuing operations (L-M)	**103**	**298**

Changes in Consolidated Shareholders' Equity

(in millions of euros)	Share capital (a)	Reserves and ret. earnings (loss carryforward) (b)	Reserve for currency translations (c)	Profit for the period (d)	Group interest in sharehold. equity (a+b+c+d)=(e)	Minority inter. in sharehold. equity (f)	Total sharehold. equity (e)+(f)
Balance at 12/31/05 restated as per IFRIC 4	**4,273**	**1,492**	**3**	**504**	**6,272**	**159**	**6,431**
Appropriation of the 2005 profit	-	504	-	(504)	-	-	-
Dividend distribution	-	(183)	-	-	(183)	(13)	(196)
Restatements for adoption of IAS 32 and IAS 39	-	(10)	-	-	(10)	-	(10)
Change in the scope of consolidation	-	-	-	-	-	(6)	(6)
Difference from translation of financial statements in foreign currencies and sundry items	-	16	(6)	-	10	(1)	9
Profit at December 31, 2006	-	-	-	654	654	8	662
Balance at 12/31/06	**4,273**	**1,819**	**(3)**	**654**	**6,743**	**147**	**6,890**
Appropriation of the 2006 profit	-	654	-	(654)	-	-	-
Dividend distribution	-	(233)	-	-	(233)	(15)	(248)
Share capital increase due to the conversion of warrants	1,019	-	-	-	1,019	-	1,019
Restatements for adoption of IAS 32 and IAS 39	-	(2)	-	-	(2)	-	(2)
Change in the scope of consolidation	-	(3)	-	-	(3)	3	-
Difference from translation of financial statements in foreign currencies and sundry items	-	(15)	(2)	-	(17)	(8)	(25)
Profit at December 31, 2007	-	-	-	497	497	20	517
Balance at 12/31/07	**5,292**	**2,220**	**(5)**	**497**	**8,004**	**147**	**8,151**



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2007

ACCOUNTING PRINCIPLES AND CONSOLIDATION CRITERIA

Content and Format of the Financial Statements

Dear Shareholders:

We submit for your approval the Edison Group's consolidated financial statements at December 31, 2007, which consist of a balance sheet, an income statement, a statement of cash flow, a statement of changes in shareholders' equity and the accompanying notes. The financial statements were prepared in accordance with the International Financial Reporting Standards (IAS/IFRSs) issued by the International Financial Reporting Standards Board, as published in the *Official Journal of the European Union* (*OJEU*).

Following their publication in the *OJEU,* the international accounting principles and interpretations listed below are also being applied starting in 2007. However, they affected only the content of the disclosures and had no impact on the valuations used in the financial statements:

- IFRS 7 "Financial Instruments: Disclosures," which requires additional disclosures concerning the nature and methods applied to manage credit, liquidity and market risks (i.e., interest rates, foreign exchange rates and commodity prices);
- IFRIC 8 "Scope of IFRS 2," which explains how IFRS 2 "Share-based Payment" applies to transactions in which an enterprise makes share-based payments for no consideration or an inadequate consideration;
- IFRIC 9 "Reassessment of Embedded Derivatives," which reviews certain aspects of the treatment of embedded derivatives in accordance with IAS 39 "Financial Instruments: Recognition and Measurement";
- IFRIC 10 "Interim Financial Reporting and Impairment", which explains that impairment losses suffered by goodwill and certain financial assets (investments in equity investments classified as "held for sale" and equity instruments that are not carried at cost) recognized in interim financial statements may not be reversed in subsequent interim or annual financial statements.

The items published in the *OJEU* also included accounting principles and interpretations, which, however, will be applicable in subsequent years:

- IFRS 8 "Operating Segments", applicable as of January 1, 2009, will replace IAS 14 "Segment Reporting". The additional disclosures required by the new principle include an analysis of the products and services sold and of major customer data.
- IFRIC 11 "Group and Treasury Share Transactions", applicable as of January 1, 2008, sets forth the method that should be used to account for equity instruments or cash, when an entity's own equity instruments are awarded to employees, and for share-based payments for services received from employees.

These financial statements were approved by the Board of Directors, which authorized their publication on February 12, 2008.

The consolidated financial statements have been audited by PricewaterhouseCoopers Spa in accordance with a three-year assignment (from 2005 to 2007) it received by a resolution of the Shareholders' Meeting of April 19, 2005. On April 5, 2007, the Shareholders' Meeting extended the assignment it granted to PricewaterhouseCoopers for an additional three years.

Unless otherwise stated, the amounts that appear in the notes to the consolidated financial statements are in millions of euros.

Presentation Formats of the Financial Statements Adopted by the Group

The presentation formats that the Group has chosen for its financial statements have the following characteristics:

- In the **Consolidated Balance Sheet** assets and liabilities are analyzed by maturity. Current and non-current items, which are due within or after 12 months from the balance sheet date, respectively, are shown separately.
- The **Consolidated Income Statement** is a step-by-step income statement, with the different components analyzed by type.
- The **Statement of Changes in Consolidated Shareholders' Equity** was prepared in accordance with the provisions of IAS 1.
- The **Cash Flow Statement** shows the cash flows in accordance with the indirect method, as allowed by IAS 7.

Scope of Consolidation

The consolidated financial statements include the financial statements of Edison Spa and of the Italian and foreign subsidiaries over which Edison exercises control, either directly or indirectly.

The financial statements used for consolidation purposes are the latest statutory or consolidated statements of the individual companies or business operations, approved by respective corporate governance bodies, with the adjustments required to make them consistent with Group accounting principles.

For companies with fiscal years that do not coincide with the calendar year, the financial statements used were annual financial statements that match the Group's fiscal year approved by the respective Boards of Directors.

Subsidiaries are consolidated line by line. The assets, liabilities, revenues and expenses of the consolidated companies are recognized in the consolidated financial statements at their full value. The carrying amount of equity investments is eliminated by offsetting it against the underlying interest in the respective shareholders' equity, and the individual assets and liabilities and contingent liabilities are assigned the fair value they had on the date when ownership or control of the investee company was established. Any residual value is recognized as a non-current asset and posted to "Goodwill."

Minority interest in shareholders' equity and profit or loss are shown separately in the balance sheet and income statement, respectively.

Joint ventures are consolidated by the proportional method. Joint control exists only in the case of a company for which, pursuant to contractual stipulations, financial, operational and strategic decisions always require the unanimous consent of all of the parties who share control. In such cases, the consolidated financial statements show the interest of the Group in the assets, liabilities, revenues and expenses of the joint venture by an amount proportional to the interest held. Edipower is being consolidated at 50%, even though Edison owns 45% of the company. The 50% figure reflects Edison's interest in the tolling contract and buy and sell rights secured by a put option exchanged by Edison and one of Edipower's financial shareholders.

Investments in associates over which the Group exercises a significant influence, but not the joint control mentioned above, are valued by the equity method

Subsidiaries that are in liquidation or are parties to composition with creditors proceedings are not consolidated. They are carried instead at their estimated realizable value. Their impact on the Group's total assets and liabilities and net borrowings is not significant.

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

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

Electric Power Operations

- Thisvi Power Generation Plant Sa was consolidated line by line, following the Group's purchase of a 65% interest in its share capital in January.
- In October, Consorzio di Sarmato was merged into Sarmato Energia. In 2007, as a result of this merger, Edison's equity interest in each of these two companies changed to 55% (previously, the ownership percentages were 61% for Sarmato Energia and 52.5% for Consorzio di Sarmato).
- At the end of December, Monsei Esco Srl was merged into Edison Energie Speciali Spa.

In addition, in July, upon the exercise of its call options on the Edipower shares, Edison Spa purchased a first block of shares equal to a 5% interest at a price of 127 million euros, thereby increasing its ownership percentage from 40% to 45%. A second block of shares (5%), valued at 139 million euros, was purchased in January 2008. The transaction had no impact on the scope of consolidation, as Edipower was already consolidated at 50%.

Corporate Activities

- In January 2007, upon the exercise of a put option held by the seller, Edison Spa purchased from EDF International the 20% of Finel Spa's share capital it did not own at a cost of about 137 million euros. Finel Spa, which was already consolidated at 100%, was merged into Edison Spa as of July 1, 2007.
- ETS Srl was merged into Montedison Srl. The merger was effective vis-à-vis third parties as of August 1, 2007.
- Edison Nederland BV, currently a 60% subsidiary of Edison International Holding NV (formerly Montedison Finance Europe), was established in September 2007 as a company under Dutch law.

Assets and Groups of Assets Held for Sale

- On February 14, 2007, Edison Spa completed the sale of a 66.32% interest in Serene Spa to BG Italia Spa. This sale had no impact on the 2007 income statement but the Group's net indebtedness decreased by 117 million euros.
- Under an agreement signed on December 6, 2007, Edison will sell to Cofathec Servizi, a company of the Cofathec Group, certain business operations that include seven thermoelectric power plants with a total installed capacity of about 540 megawatts. Specifically, Edison Spa will sell the power plants located in Castelmassa (RO), Nera Montoro (TR), Pomigliano (NA), Settimo Torinese (TO) and Spinetta Marengo (AL), which it owns outright, and the 70% interests it holds in the two companies that control the Boffalora (MI) and Celano (AQ) power plants. Even though the assets and liabilities subject of the transaction do not constitute a business operation, they were treated as a Disposal Group, as required by IFRS 5, and are shown on the balance sheet under Assets and Liabilities held for sale.

Consolidation of Foreign Companies and Criteria Used to Translate Items Denominated in Foreign Currencies

Assets and liabilities of foreign companies that are denominated in currencies other than the euro are translated at the exchange rates in force on the balance sheet date. Income and expenses are translated at the average rates for the year. Any resulting gains or losses are recognized in equity until the corresponding equity investment is sold.

Upon initial implementation of the IAS/IFRS principles, cumulative translation differences were written off and, consequently, the reserve recognized in the consolidated financial statements reflects only cumulative translation differences that arose after January 1, 2004.

Transactions in foreign currencies are recognized at the exchange rate in force on the transaction date. Monetary assets and liabilities are translated at the exchange rates in force on the balance sheet date. Any resulting foreign exchange translation differences and those realized when the positions are closed are recognized as financial income or expense.

Financial Highlights of Companies Consolidated by the Proportional Method

(in millions of euros)	Edipower	Sel Edison	Ibiritermo	Parco Eolico Castelnuovo Srl	ED-Ina D.O.O.	IWH	Bluefare
	50.00%	42.00%	50.00%	50.00%	50.00%	50.00%	50.00%
INCOME STATEMENT							
Sales revenues	580	11	-	1	4	29	-
EBITDA	182	8	-	-	-	7	-
as a % of net revenues	31.4%	72.7%	n.a.	0.0%	0.0%	22.5%	-
Depreciation, amortization and writedowns (-)	(134)	(3)	-	-	-	(2)	-
EBIT	**48**	**5**	**-**	**-**	**-**	**5**	**-**
Profit (loss)	**(2)**	**2**	**10**	**-**	**-**	**(9)**	**-**
BALANCE SHEET							
Total assets	**2,278**	**57**	**109**	**3**	**1**	**50**	**-**
Shareholders' equity	**1,048**	**37**	**21**	**1**	**-**	**6**	**-**
Net borrowings (financial assets)	**861**	**17**	**(41)**	**1**	**-**	**2**	**-**

Valuation Criteria

Property, Plant and Equipment and Investment Property

Property, plant and equipment used in the production process are classified as "Property, plant and equipment." Land and buildings that are not used in the production process are classified as "Investment property."

In the financial statements, these assets are shown at purchase or production cost, or at their conveyance value, including any attributable incidental costs and direct costs deemed necessary to make them operable, net of any capital grants.

Individual components of a facility that have different useful lives are recognized separately, so that each component may be depreciated at a rate consistent with its useful life. Under this principle, the value of a building and the value of the land over which it has been erected are recognized separately and only the building is depreciated.

Any costs that the Group expects to incur in the decommissioning of industrial sites are recognized as an amortizable asset component. The value at which these costs are recognized is equal to the present value of the costs that the Group expects to incur in the future.

Scheduled maintenance costs are charged in full to income in the year they are incurred.

Costs incurred for major maintenance that is performed at regular intervals are added to the respective assets and are written off over the remaining useful lives of the assets.

The estimated realizable value that the Group expects to recover at the end of an asset's useful life is not depreciated. Property, plant and equipment is depreciated each year on a straight-line basis at rates based on technical and financial estimates of the assets' remaining useful lives.

The table that follows shows the ranges of the depreciation rates applied by the Group:

	Electric Power Operations		Hydrocarbons Operations		Corporate Activities	
	min.	max.	min.	max.	min.	max.
Buildings	3.3%	11.1%	2.5%	17.3%	-	2.0%
Plant and machinery	3.9%	21.9%	2.1%	51.0%	5.0%	22.8%
Manufacturing and distribution	5.0%	25.0%	17.5%	35.0%	5.0%	25.0%
Other assets	6.0%	20.0%	6.0%	25.0%	6.0%	20.0%
Investment property	-	-	-	-	2.0%	2.6%

In addition, items of property, plant and equipment appurtenant to hydrocarbon production concessions and the related costs incurred to close mineral wells, clear the well areas and dismantle or remove structures are recognized as assets and amortized in accordance with the UOP method, which is used to amortize the underlying concessions. Accordingly, depreciation is computed on the value determined by the ratio between the quantities produced during the fiscal year and the estimated remaining available reserves at the beginning of the year.

The depreciation of thermoelectric power plant and wind farms that sell energy under the CIP 6/92 rate schedule follows a method based on the economic benefits produced. The resulting depreciation process follows a step-down process, with straight line depreciation for each of the periods. This method reflects the differences between the amounts charged under the CIP 6/92 rate schedule for the 8-year incentivized period, those for the following 7-year contract period and the market rates applicable upon the expiration of the CIP 6/92 contracts.

The depreciation of assets transferable free of charge is taken on a straight-line basis over the remaining term of the respective contracts or their estimated useful lives, whichever is less.

Assets acquired through financial leases must be booked under property, plant and equipment, with an offsetting entry of equal amount made to loans payable. The liability is gradually eliminated in accordance with the principal repayment schedule of the respective lease agreement. The value of the asset is depreciated on a straight-line basis, based on technical and financial estimates of its useful life.

Upon initial adoption of the IAS/IFRS principles, the Group used fair value as deemed cost. As a result, accumulated depreciation and amortization and the provision for writedowns booked through January 1, 2004 were derecognized. The accumulated depreciation and amortization and the provision for writedowns discussed in the notes to the financial statements refer exclusively to depreciation, amortization and writedowns accumulated after January 1, 2004.
If there are indications of a decline in value, assets are subjected to an impairment test in the manner described below under Impairment of Assets. When the reasons for a writedown no longer apply, the asset's cost can be reinstated.
Financial expense is not capitalized.

Goodwill, Hydrocarbon Concessions and Other Intangible Assets

Only identifiable assets that are controlled by the Company and are capable of producing future benefits can be identified as intangible assets. They include goodwill, when it is acquired for consideration. Intangibles are recorded at purchase or internal production cost, including incidentals, in accordance with the same criteria used for property, plant and equipment. Development costs can be capitalized, provided they can be identified reliably and it can be demonstrated that the asset is capable of producing future economic benefits.
Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives, starting when they are available for use.
The costs incurred to acquire mineral leases or extend the duration of existing permits are recognized as intangible assets. If an exploration project is later abandoned, the residual cost is charged immediately to income.
Exploration costs and costs incurred in connection with geological surveys, exploratory testing, geological and geophysical mapping and exploratory drilling are recognized as intangible assets but their full amount is amortized in the year they are incurred.
Development costs related to successful mineral wells and production costs incurred to build facilities to extract and store hydrocarbons are recognized as property, plant and equipment, depending on the type of asset, and are depreciated in accordance with the unit-of-product (UOP) method.
The costs incurred to shut down wells, abandon the drill site and dismantle or remove the equipment are capitalized and amortized in accordance with the unit-of-product (UOP) method.
Hydrocarbon production concessions are amortized in accordance with the unit-of-product method. The amortization rate is computed on the value determined by the ratio between the quantities produced during the fiscal year and the estimated remaining available reserves at the beginning of the fiscal year, taking into account any significant change to reserves that occurred during the fiscal year. In addition, a test is conducted each year to make sure that the carrying amounts of these assets are not greater than their realizable value computed by discounting future cash flows, which are estimated based on future production programs and market values.
Goodwill and other intangible assets with indefinite useful lives are not amortized on a straight-line basis, but the recoverability of the carrying amounts is checked annually (impairment test) for each Cash Generating Unit (CGU) or group of CGUs to which assets with indefinite lives can be reasonably allocated. The impairment test is described below in the section entitled Impairment of Assets. When the reasons for a writedown no longer apply, the asset's cost is not reinstated.
Emission quotas (emission rights) are recognized as intangible assets at the cost incurred to acquire them if the quotas carried by the Group on the balance sheet date exceed the emissions released during the year. Quotas received free of charge have no carrying value. Since these assets are designed for instantaneous use, they cannot be amortized or tested for impairment. Their recoverable value is their value in use or their market value, whichever is greater. On the other hand, if, on the balance sheet date, the value of actual emissions is greater than the value of allocated emissions, including any purchased emissions, a provision for risks is set aside to cover the difference. Any emissions quotas that are turned back each year, based on the volume of polluting emissions released into the atmosphere each year, will be deleted using any reserves for risks set aside the previous year.

Impairment of Assets

IAS 36 requires that an entity test its property, plant and equipment and intangible assets for impairment when there are indications that an impairment has occurred.
In the case of goodwill and other assets with indefinite lives or assets that are not available for use, an impairment test must be performed at least once a year.
The recoverability of a carrying amount is tested by comparing it against an asset's fair value, less cost to sell, or its value in use, whichever is greater.
As a rule, value in use is the present value of future cash flows expected to be derived from an asset or a CGU and from its disposal at the end of its useful life.
CGUs, which have been identified in a way that is consistent with the Group's organizational and business structure, are homogeneous groups of assets that generate cash inflows independently, through the continued use of the assets included in each group.

Financial Instruments

Financial instruments include equity investments (other than investments in subsidiaries, joint ventures and affiliate companies) that the Company plans to sell (such as trading investments) and available-for-sale investments. They also include long-term loans and receivables, trade receivables and other receivables generated by the Company, and current financial assets, such as cash and cash equivalents. Cash and cash equivalents include bank and postal deposit accounts, readily marketable securities purchased as temporary investments of cash and loans receivable due within three months. This item also includes loans payable, trade and other payables, other financial liabilities and derivatives.
Financial assets and liabilities are recognized in the accounting records when the Company acquires the contractual rights and obligations conveyed by the underlying financial instrument.
The initial amount at which financial instruments are recognized should include the directly attributable transaction costs incurred upon purchase or the issuance costs that are included in the initial valuation of all those assets and liabilities that can be classified as financial instruments. Subsequent measurements will depend on the type of instrument, as follows:

- With the exception of derivatives, **assets held for trading** are valued at fair value, and any resulting gains or losses are recognized in the income statement. This class of assets consists mainly of trading securities.
- **Available-for-sale assets**, which consist of equity investments representing an interest of less than 20%, are valued at fair value, and any resulting gains or losses are recognized directly in equity until disposal, when they are transferred to the income statement.
- Provided they are not derivatives and equity investments, **other financial assets and liabilities** with fixed or determinable payments and fixed maturities are valued at their amortized cost. Purchasing/Selling costs (e.g., issue premiums or discounts, the costs incurred to secure loans, etc.) are posted directly as adjustments to the face value of the corresponding asset or liability. Financial income and expense are computed in accordance with the effective interest rate method. The value of financial assets is assessed on a regular basis to determine if there is any objective evidence that their value may have been impaired. More specifically, the valuation of receivables takes into account the solvency of creditors and the level of credit risk, which is indicative of individual debtors' ability to pay. Any losses are recognized in the income statement for the corresponding period. This category includes long-term loans and receivables, trade receivables and other receivables generated by the Company, as well as loans payable, trade and other payables and other financial liabilities.
- **Available-for-sale assets** are valued at fair value and any resulting gains or losses are recognized in equity until disposal, when they are transferred to the income statement. Losses that result from measurement at fair value are recognized directly in earnings when there objective evidence that the value of a financial asset has been impaired, even though the asset has not been sold. Equity investments in companies that are not publicly traded, the fair value of which cannot be measured reliably, are valued at cost less impairment losses, but the original cost can be reinstated in subsequent

years if the reasons for the writedowns are no longer applicable. This category also includes equity investments representing an interest of less than 20%.
- **Derivatives** are recognized at their fair value. Changes in fair value are recognized in earnings when a derivative does not qualify as a hedging instrument because of the type of instrument or because the Company elects not to perform the effectiveness test. Derivatives can be classified as hedges when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, which must be tested periodically, is high pursuant to IAS 39. When derivatives hedge the risk of fluctuations in the cash flow of the hedged items (cash flow hedge), the effective portion of any change in the fair value of the derivatives is recognized directly in equity, while the ineffective portion is recognized directly in earnings. The amounts recognized in equity are transferred to the income statement in conjunction with the gains or losses generated by the hedged item. When derivatives hedge the risk of changes in the fair value of the hedged items (fair value hedge), any changes in the fair value of the derivatives are reflected directly in earnings. The carrying value of the hedged items is adjusted accordingly, to reflect changes in fair value associated with the hedged risk.

Financial assets are derecognized when they no longer convey the right to receive the related cash flows and substantially all of the risks and benefits conveyed by the ownership of the assets have been transferred or when an asset is deemed to be totally non-recoverable after all necessary recovery procedures have been carried out.
Financial liabilities are removed from the balance sheet when the corresponding contractual obligations have been satisfied.
The fair value of financial instruments that are traded on an active market is based on their market price on the date of the financial statements. The fair value of financial instruments that are not traded on an active market is determined using appropriate valuation techniques.

Inventories

Inventories are valued at the lesser of purchase or production cost, including incidental expenses, or estimated realizable value, based on market conditions. Cost is determined primarily by the FIFO method.

Employee Benefits

The **provision for employee severance indemnities and the provision for pensions** are computed on an actuarial basis. The value of benefits due to employees who have become vested during the year is charged to income under labor costs. The theoretical finance charge that the Company would incur if it were to borrow in the marketplace an amount equal to the provision for employee severance indemnities is posted to financial income (expense). Actuarial gains and losses that arise from changes in the actuarial assumptions used are reflected in the income statement, taking into account the average working lives of the employees.
Specifically, in accordance with Budget Law No. 296 of December 27, 2006, only the liability for the vested employee severance benefits that remained at the Company was valued for IAS 19 purposes, since the portion applicable to future vesting benefits is being paid to separate entities (supplemental pension funds or INPS funds). As a result of these payments, the Company has no further obligations with regard to the work that employees will perform in the future.
Stock option plans are valued at the time the options are awarded by determining the fair value of the option rights issued. This amount, net of any subscription costs, is allocated over the plan's vesting period. The corresponding cost is recognized in earnings, with an offsetting entry posted to an equity reserve.

Provision for Risks and Charges

Provision for risks and charges are established exclusively to fund current obligations that arise from past events. These obligations can be legal or contractual in nature or can be the result of representations or actions of the Company that create valid expectations in the relevant counterparties that the

Company will be responsible for complying or will assume the responsibility of causing others to comply with an obligation (implied obligations).

Recognition of Revenues and Expenses

Revenues and income and costs and expenses are reflected in the financial statements net of returns, discounts, allowances, bonuses and any taxes directly related to the sale of products or the provision of services. Sales revenues are recognized when title to the goods passes to the buyer. As a rule, this occurs when the goods are delivered or shipped. Materials used include the cost of green certificates attributable to the period and any costs incurred to purchase emission quotas. Purchases of green certificates and emission quotas held for trading are added to inventory. Financial income and expense is recognized when accrued. Dividends are recognized when the shareholders are awarded the rights to collect them, which generally occurs in the year when the disbursing investee company holds a Shareholders' Meeting that approves a distribution of earnings or reserves

Income Taxes

Income taxes for the fiscal year are determined by each company on the basis of its taxable income, computed in accordance with the tax rates and laws that have been enacted or substantively enacted in each country by the balance sheet date and taking into account any applicable exemptions or available tax credits.

Deferred-tax assets and liabilities are computed on the temporary differences between the values attributed to assets and liabilities for statutory and tax purposes, using the tax rates that are expected to be in force when the temporary differences are reversed. Deferred-tax assets are recognized only when their future recovery is reasonably certain. Otherwise, their value is written down. The valuation of deferred-tax assets must be carried out taking into account the Company's planning horizon, based on available approved Company plans. When gains and losses are recognized directly in equity, the corresponding deferred-tax assets or liabilities must also be reflected under shareholders' equity. The deferred-tax liability on retained earnings of subsidiaries is recognized only if there is truly an intent to distribute those earnings and provided that the tax liability is not cancelled upon the filing of a consolidated tax return.

Use of Estimated Values

The preparation of the financial statements and the related notes requires the use of estimates and assumptions both in the measurement of certain assets and liabilities and in the valuation of contingent assets and liabilities. The actual results that arise upon the occurrence of the relevant events could differ from these estimates. Estimates are also used to perform impairment tests; to measure certain sales revenues, the reserves for risks and charges, the allowances for doubtful accounts, depreciation and amortization; and to value derivatives, employee benefits and income taxes. Estimates and assumptions are revised on a regular basis, and the impact of any such revision is immediately recognized in the income statement.

RISK MANAGEMENT

As required by the provisions of the new Code of Conduct published by Borsa Italiana in March 2006, Edison began to implement an integrated risk control model based on international enterprise risk management standards and on the definition of a global corporate risk management model and risk mapping and risk scoring methods. The purpose of this process is to identify the Company's top risks, assess in advance their potential negative impact and take appropriate actions to minimize them.

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

In 2007, the Company carried out a Risk Self Assessment cycle that involved all of the Company's first-level resources in the process of identifying and assessing the abovementioned top risks. The objectives and methods of risk scoring were explained by means of targeted workshops and discussions with the relevant parties in order to foster the use of consistent valuation criteria. The Risk Self Assessment process was carried out with the help of risk sheets (information flow support forms) and through direct discussions with the process owners to address specific issues that had been raised. The process of collecting and processing information included aggregating risks of the same type with the goal of coordinating risk reduction plans and achieving an integrated management of the risks in question. The results of this project were communicated on a regular basis on the occasion of Audit Committee meetings.

Essentially, the Risk Self Assessment process was used to develop a Company-wide risk map that shows the main risks, each with its scoring level, that require the adoption of specific reduction and control measures. The process is based on a quali-quantitative method that assigns a relevance index based on an assessment of risks in terms of overall impact, probability of occurrence and level of control. The results of this process are consistent with the main goal of risk management, which is to protect the value of corporate assets, and help determine the overall risk/reward ratio that is most appropriate for the Company. Moreover, these results can be used by the Internal Control Systems Department to prepare specific risk-based audit plans.

An analysis of the risks to which the Edison Group is exposed is provided below, in accordance with the abovementioned risk model.

Market Risk

This category includes all of the risks that are linked directly or indirectly with price fluctuations in the markets for physical goods or in the financial markets in which the Group operates. These risks are:
1. Commodity price risk, which is caused by volatility in the prices of energy commodities and environmental securities (CO_2 emission certificates, green certificates, white certificates);
2. Foreign exchange risk;
3. Interest rate risk.

1. Commodity Price Risk and Exchange Rates Risk Related to Commodity Transactions

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

With a few minor exceptions that concern Edipower, Edison manages the abovementioned risks by means of a process based on segregating and separating the control and risk management function, which is part of Edison Spa and reports to the Chief Financial Officer, from the execution of transactions on the financial markets, which are handled by Edison Trading Spa for commodity markets and the Finance Department for exchange rates.

Consistent with its Energy Risk Policies, the Group seeks to minimize the use of financial markets to hedge risks, preferring instead to exploit the hedges provided by the vertical integration of the Group's businesses. The Group pursues this goal first of all by physically balancing the volume of its market sales of physical energy commodities with different maturities against Company-owned production assets and its portfolio of medium/long-term and spot contracts. In addition, the Group pursues a policy of homogenizing physical sources and uses, so that the formulas and indexing mechanisms to which revenues from energy commodities are tied reflect as much as possible the formulas and indexing mechanisms on the Group's cost side, i.e., its market purchases of energy commodities and supply arrangements for its production assets.

To manage the remaining risk, the Energy Risk Policies allow the ongoing monitoring of the Group's net exposure, which is computed for the Group's entire portfolio of assets and contracts, and compares the total level of financial risk assumed (Profit at Risk - PaR[1]) against a predetermined ceiling approved by the Board of Directors concurrently with the annual budget.

The Risk Management Committee, which is headed by a senior executive, reviews monthly the Group's net exposure and, if the Profit at Risk is higher then the predetermined ceiling, defines the appropriate strategic hedging policies, which may involve the use of suitable financial derivatives.

Provided transactions are approved in advance by the Risk Office, which determines whether they are consistent with the Group's risk management objectives and with the PaR limit approved by the Board of Directors, the Edison Group may also use other types of hedges called operational hedges, which can be used to hedge an individual transaction or a limited number of like transactions.

At December 31, 2007, outstanding financial derivatives were measured at fair value against the forward market curve on the reference date of the annual financial statements, when the underlying assets were traded on markets that provided a forward pricing structure.
Financial derivatives traded on the Italian energy market, which lacks a curve providing an official reference for the Single National Price (abbreviated PUN in Italian), were measured at fair value by means of internal estimates based on a model that simulates the forward PUN curve. The PUN curve constructed with this model, which was developed by Edison based on best industry practices, is the sum of a component that reflects expected variable generation costs and a component that represents the expected spark spread. The level thus obtained is then reviewed against available market quotes.

1. Profit at Risk is a statistical measurement of the maximum potential negative variance in the budgeted margin in response to unfavorable market moves, within a given time horizon and confidence interval.

The Edison Group uses the Montecarlo Method to assess the impact of fluctuations in the market price of the underlying assets on the fair value of outstanding derivatives.
Specifically, the Edison Group uses two types of assessment methods, depending on the type of portfolio in question.
For the Industrial Portfolio, which includes activities that are typically carried out both to hedge contracts to buy and sell commodities and to hedge asset production, the method used is the same as the one applied to compute Profit at Risk (PaR). This method requires the simulation of 10,000 scenarios for the entire portfolio, as they apply to each material price driver, taking into account relative volatility data and the relevant correlations, using as a reference level the forward market curves on the date of the financial statements, when available. As mentioned above, for the Italian electric power market, absent an official reference forward curve, the Group uses a model capable of simulating a forward PUN curve
Once a probability distribution for changes in the fair value of outstanding financial contracts is obtained with this method, it then becomes possible to extrapolate the maximum expected negative change in fair value over the length of a reporting year and the corresponding level of probability.
The official PaR of the Edison Group set forth in its Energy Policies considers a confidence interval of 97.5% probability, which, in the case of the consolidated financial statements of the Edison Group, is equal to an expected maximum loss of 50.9 million euros in fair value (107.1 million euros at December 31, 2006), as shown in the table below:

(in millions of euros) Profit at Risk (PaR)	12/31/2007 Level of probability	Resulting expected loss	12/31/2006 Level of probability	Resulting expected loss
Edison Group	97.5%	50.9	97.5%	107.1

This means that the Group expects, with a 97.5% probability, a maximum loss of 50.9 million euros in the fair value of financial instruments, as computed at December 31, 2007, caused by changes in commodity prices. In other words, the chance of losing more than 50.9 million euros by the end of 2008 is limited to 2.5% of the scenarios.

In addition to the work performed in connection with the Industrial Portfolio, Edison also engages in trading, for which it uses special segregated portfolios. The Trading Portfolios are monitored by means of suitable risk limits. At 95%, the daily VaR[2] limit is 2.1 million euros.

2. Foreign Exchange Risk not Related to Commodity Risk

With the exception of the issues reviewed above in the paragraph that discusses the commodity risk, the Group does not have a significant exposure to currency risks. Whatever remaining exposure there is, it is concentrated in the translation of the financial statements of certain foreign subsidiaries and of some foreign currency flows of limited amount that are related to purchases of machinery. As a rule, foreign subsidiaries use the same currency for invoices issued and invoices received.

2. Value at risk is a statistical measurement of the maximum potential negative variance in the portfolio's fair value in response to unfavorable market moves, within a given time horizon and confidence interval.

3. Interest Rate Risk

The Edison Group is exposed to fluctuations in interest rates primarily because they affect its debt service costs.

Borrowings	without derivatives	with derivatives	% with derivatives
- fixed rate portion	756	1,798	62%
- variable rate portion	2,155	1,113	38%
Total borrowings (*)	**2,911**	**2,911**	**100%**

(*) See also the table in the "Liquidity Risk" section of this Report.

As shown by the breakdown in the preceding table, at December 31, 2007, the Group's exposure to the risk of changes in interest rates was equivalent to about 38% of its total gross exposure (33% at December 31, 2006). The remaining 62% at fixed rates (67% at December 31, 2006), is the combined result of borrowings originally structured with a fixed rate and derivatives executed to hedge bank borrowings of bonds payable that are contractually indexed to a variable rate.

The guidelines that govern the policy applied to hedge the interest rate risk is reviewed below. First of all, Edison Spa does not execute derivatives for speculative purposes. On the contrary, the main objective is to reduce volatility-induced changes in financial expense. Some of the hedging transactions executed for this purpose qualify as hedges in accordance with IAS 39. Others qualify as economic hedges. In both cases, the purpose is to reduce the effect of increases in the Euribor on financial expense, while at the same time retaining some of the benefits associated with Euribor decreases. These goals are achieved by establishing, with the help of hedges, an appropriate mix of fixed and variable rates in the indebtedness portfolio.
The adoption of this principle is clearly visible in the main transactions included in the Group's portfolio. As for Edison Spa, most of the hedges applied to bond issues, which constitute the most stable source of financing (for the main characteristics of the outstanding bond issues, see the table provided later in this Report in the section entitled "Default Risk and Debt Covenants"). Through the use of derivatives, the interest rate on a portion (350 million euros) of a 700-million-euro bond issue was changed from a 5.125% fixed rate to a variable rate. In addition, a 200-million-euro portion of a 500-million-euro bond issue with a variable rate was converted to fixed rate of about 3.60%. For the remaining 300 million euros, the Group negotiated a structure that prevents increases in the contractual rate to rise above a preset ceiling of 3.95%.
The strategy for Edipower, which is the recipient of medium- and long-term syndicated loans totaling 2 billion euros that are indexed to a variable rate, was to use a composite structure that prevents increases in the contractual rate to rise above a ceiling set at around 4.20%, with levels of hedging that are higher over the short term (about 80% until September 2008) and lower (about 60%) subsequently, until the maturity of the underlying debt obligations.
The table below provides a sensitivity analysis that shows the impact on the income statement and shareholders' equity of a hypothetical shift of the forward curve of plus or minus 50 basis points compared with the rates actually applied in 2007.

Sensitivity analysis (in millions of euros)	2007 Impact on the income statement			12/31/07 Impact on the cash flow hedge reserve		
	+50 bps	base	-50 bps	+50 bps	base	-50 bps
Edison Group	**189**	**183**	**174**	**13**	**5**	**(3)**

Credit Risk

The credit risk represents Edison's exposure to potential losses that could be incurred if a commercial or financial counterpart fails to meet its obligations. This risk arises primarily from economic/financial factors (i.e., that the counterpart defaults on its obligations), as well as from 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.).

The Edison Group'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 (a task specifically assigned to the Credit Management Office, which is part of the Central Finance Department), the Group has implemented procedures and programs designed to evaluate customer credit worthiness (using specially designed scoring grids) and subsequently monitor the expected cash flows and any collection actions. The policies and tools used to preventively assess credit worthiness and the monitoring and collection activities employed vary depending on the customer type and the consumption level profile.
As required by internal credit policies and depending on the customer's credit worthiness, in some cases the Group may ask customers to provide it with guarantees. Generally, these are sight bank or insurance sureties issued by entities with a high credit rating.
Lastly, when it comes to choosing counterparties for transactions to manage temporary excess liquidity or execute financial hedging contracts (derivatives), the Group deals only with entities with a high credit rating.
The payment terms applied to most customers require payment within 30 days from the date of the invoice, which, as a rule, is issued monthly during the month that follows the month when the service was provided. In cases of late payment, consistent with express provisions of the underlying supply contracts, Edison charges customers delinquent interest at the rate allowed under the applicable laws (as a rule, the delinquent interest rate set forth in Legislative Decree No. 231/2002 is applied), without prejudice to the right to cease providing service (also called supply contract "termination") when a customer continues to be insolvent.

Trade receivables are shown in the financial statements net of any writedowns, which are recognized with a conservative approach using different rates that reflect the degree by which different groups of receivables were in arrears on the balance sheet date.
The table below shows an overview of gross trade receivables, the corresponding allowance for doubtful accounts and the guarantees that the Group holds to secure its receivables. The change, compared with the balance outstanding at December 31, 2006 is due to a significant reduction in receivables due after December 31, including those owed by GSE (Italy's national electrical services manager) for adjustments to the avoided fuel cost component.

(in millions of euros)	12/31/2007	12/31/2006
Gross trade receivables	1,742	2,001
Allowance for doubtful accounts (-)	(88)	(58)
Trade receivables	**1,654**	**1,943**
Guarantees held	286	125
Receivables 9 to 12 months in arrear	13	9
Receivables more than 12 months in arrear	55	35

Trade receivables that are delinquent on the balance sheet date are offset by corresponding allowances. Of the receivables in arrears listed in the preceding table, 30% (9 to 12 months in arrears) and 5% (more than 12 months) is owed by agencies of the Italian public administration that are supplied by Edison Energia Spa under CONSIP contracts.

Operational Risks

Operational risks are the risks that the Company or third parties could incur due to the inadequacy or dysfunction of procedures, human resources and systems. They include legal risks and risks posed by external events. These risks, which for management purposes were identified in the Risk Self Assessment process, did not have an impact on the 2007 financial statements, except as reflected in the provisions for risks and charges. Additional information is provided in the note to the provisions for risks and charges.

Other Risks

Liquidity Risk

The liquidity risk represents the risk that the Company may not have access to sufficient financial resources to meet its financial and commercial obligations in accordance with agreed terms and maturities.
The table that follows provides a worst-case analysis of financial liabilities (including trade accounts payable). The cash flows shown are undiscounted nominal future cash flows determined on the basis of the remaining contractual due dates both for principal and accrued interest. The table also shows the undiscounted nominal cash flows attributable to interest rate derivatives. Borrowings were included based on the first due date when repayment can be demanded. Revocable lines of credit were treated as if repayable on demand.

worst case	1 to 3 months	More than 3 months and up to 1 year	After 1 year
Bonds	7	56	1,343
Borrowings and other financial liabilities	366	147	1,405
Trade accounts payable	1,282	112	-
Total	**1,655**	**315**	**2,748**

The cash flows, financing needs and liquidity of Group companies are managed centrally in order to optimize the use of financial resources. The goal is to ensure that the Group has access at all times to sufficient committed facilities to repay indebtedness maturing over the ensuing 12 months. At December 31, 2007, the Group was abundantly in compliance with this objective. Specifically, the Edison Group has unused committed lines of credit amounting to 1,673 million euros with an average residual life of more than five years. The largest of these facilities is a syndicated standby credit line of 1,500 million euros that expires in 2013, which was unused at December 31, 2007.
The amount of the Group's trade receivables and the corresponding payment terms help create a well balanced working capital and specifically provide adequate coverage for the accounts payable.

The table that follows provides a breakdown by maturity of the Group's gross borrowings at December 31, 2007. However, the amounts shown are not accurately indicative of the exposure to the liquidity risk in that they do not reflect expected nominal cash flow, using instead amortized cost valuations and the fair value of derivatives, which are the amounts at which financial liabilities were recognized in the accounting records at December 31, 2007.

(in millions of euros)	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	After 5 years	Total
Bonds	9	-	700	501	-	-	1,210
Borrowings and other financial liabilities:							
- bank debt	418	249	157	659	99	24	1,606
- due to other lenders	67	11	-	-	-	17	95
Gross borrowings	**494**	**260**	**857**	**1,160**	**99**	**41**	**2,911**

Default Risk and Debt Covenants

This type of risk arises from the possibility that loan agreements or bond indentures to which Group companies are parties may contain provisions that, if certain events were to occur, would empower the lenders, be they banks or bondholders, to demand that the borrower repay immediately the loaned amounts, which, consequently, would create a liquidity risk (see the "Liquidity Risk" section above).
Two issues of debt securities (Euro Medium-term Notes), for a total face value of 1,200 million euros, are still outstanding (see table below):

Description	Issuer	Market where traded	ISIN code	Term (years)	Maturity	Face value nominale (millions of euros)	Coupon	Curr. rate
EMTN 12/2003	Edison Spa	Luxembourg Stock Exch.	XS0181582056	7	12/10/2010	700	Fixed, annual	5.125%
EMTN 12/2003	Edison Spa	Luxembourg Stock Exch.	XS0196762263	7	7/19/2011	500	Variable, quarterly	5.255%

In addition, considering the pro rata consolidation of Edipower's debt, the Group is a party to non-syndicated loan agreements totaling 423 million euros and syndicated loan agreements with a total face value of 2,550 million euros, 1,673 million euros of which were unused at December 31, 2007.
Generally, consistent with international practice for financial transactions of this type, these agreements provide the lenders with the right to demand the payment of the indebtedness and terminate their relationship with the borrower whenever the borrower is declared insolvent and/or is a party to bankruptcy proceedings (such as receivership or composition with creditors) or is undergoing liquidation or another procedure with similar effects.
Specifically, the bond indentures, consistent with market practices, include a series of standard clauses that, in the event of non-performance, require that the issuer immediately redeem the bonds. The main clauses of this type are: (i) negative pledge clauses, by virtue of which the borrower undertakes to refrain to provide Group assets as collateral beyond a specific amount; (ii) cross default/cross acceleration clauses, which establish an obligation to immediately repay the bonds in the event of material failures to perform obligations that arise from or are generated by other loan agreements that affect a significant portion of the indebtedness owed by Group companies; and (iii) clauses that establish an obligation of immediate repayment even if just some Group companies were to be declared insolvent.

As for credit line agreements and bilateral or syndicated loan agreements to which Edison is a party, it is important to note that the agreement for a syndicated credit line of 1,500 million euros provided to Edison sets forth, among other clauses, Edison's obligation to comply with certain commitments, which include making sure that the lender banks are being afforded a treatment equal to the one offered under other unsecured loan agreements (pari passu clause), as well as restrictions on Edison's ability to provide collateral to new lenders (negative pledge clause).

As for the other Group companies, certain loan agreements that some of them are negotiating set forth, in addition to the clauses discussed above, the obligation to achieve and/or maintain certain financial ratios (typically indicative of a borrower's ability to repay the indebtedness over the long term — Long Life Cover Ratio clause) and place restrictions on the ability to distribute dividends or pledge assets as collateral (negative pledge clause). Any violation of these clauses would accelerate the repayment of the loaned amount.

Lastly, the syndicated loan agreement executed by Edipower in January 2007 for a total contractual amount of 2,000 million euros contains negative pledge, pari passu and cross default clauses and includes the obligation to comply with certain financial covenants, which include ratios between Edipower's minimum EBITDA and financial expense and net indebtedness and EBITDA. The content of the abovemen-

tioned financial covenants was determined by Edipower, based on its industrial plan and using a suitably conservative approach. Upon the signing of the abovementioned loan agreement, Edipower repaid ahead of schedule its existing indebtedness. As a result, Edison was no longer required to comply with any of the old financial covenant and rating obligations and all the guarantees provided by Edison to the lender banks in connection with its obligations to provide financial support to Edipower expired.

At present, to the Company's knowledge, none of the Group companies is in default or in violation of any of the abovementioned covenants.

Analysis of Forward Transactions and Derivatives

When disclosing hedging transactions in the financial statements, care is used to ensure compliance with the requirements of IAS 39 for hedge accounting purposes. More specifically:

1) *Transactions that qualify as hedges in accordance with IAS 39.* They can be cash flow hedges or fair value hedges. In the case of cash flow hedges, which are the only ones used by the Group, realized gains and losses are included in EBITDA for commodity transactions or recognized as financial income or as expense for interest rate transactions. 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.

Instruments Outstanding at December 31, 2007

The tables that follow provide an illustration of the information listed below:

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

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

A) Interest Rates and Foreign Exchange Rates

(in millions of euros)	Notional amount (*)	Notional amount (*)	Notional amount (*)	Balance sheet amount (**)	Cumulative impact on the income statement at 12/31/07 (***)
	due within 1 year	due between 2 and 5 years	due after 5 years		
Interest rate risk management					
- cash flow hedges in accordance with IAS 39	33	753	3	6	1
- contracts that do not qualify as hedges in accordance with IAS 39	2,325	1,699	65	(13)	(13)
Total interest rate derivatives	**2,358**	**2,452**	**68**	**(7)**	**(12)**

		Due within 1 year	Due between 2 and 5 years		
	receivable	payable	receivable		
Foreign exchange rate risk management					
- contracts that qualify as hedges in accordance with IAS 39					
. On commercial transactions	581	170	-	(18)	(10)
. On financial transactions	-	12		-	-
- contracts that do not qualify as hedges in accordance with IAS 39					
. On commercial transactions	9	5	-	-	-
. On financial transactions	-	-		-	-
Total foreign exchange rate derivatives	**590**	**187**	**-**	**(18)**	**(10)**

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

B) Commodities

	Unit of measure of notional amount	Notional amount due within one year (*)	Notional amount due within two years (*)	Notional amount after two years (*)	Balance sheet value (**) (millions of euros)	Cumulative impact on the income stmt. 12/31/2007 (***) (millions of euros)
Price risk management for energy products						
A. Cash flow hedges pursuant to IAS 39, broken down as follows:		**-**	**-**		**1**	**-**
- Electric power	TWh	-	-	-	-	-
- LNG, oil	Barrels	456,030	-	-	1	-
- Other commodities	-	-	-	-	-	-
B. Contracts that qualify as fair value hedges pursuant to IAS 39	**-**	**-**	**-**	**-**	**-**	**-**
C. Contracts that do not qualify as fair value hedges pursuant to IAS 39, broken down as follows:					**(3)**	**(3)**
C.1 Margin hedges					**(1)**	**(1)**
- Electric power	TWh	3.17	-	-	(1)	(1)
- LNG and oil	Barrels	(157,200)	(91,735)	-	(2)	(2)
- Coal	millions of tons	0.03	-	-	-	-
- CO_2	millions of tons	0.77	-	-	2	2
C.2 Trading contracts					**(2)**	**(2)**
- Electric power	TWh	7.13	0.22	-	(2)	(2)
- LNG and oil	Barrels	-	-	-	-	-
- CO_2	millions of tons	-	-	-	-	-
TOTAL					**(2)**	**(3)**

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

Operating and Financial Results Generated by Derivative Transactions in 2007

The table below provides an analysis of the financial results generated by derivative transactions in 2007. The income statement line "Materials and services used" includes, as a direct adjustment to the purchases account, the impact of the effective portion of commodity related foreign exchange hedges, which amounted to 64 million euros.

(in millions of euros)	Realized in 2007 (A)	Fair Value recognized for contracts outstanding at 12.31.06 (B)	Portion of (B) contracts realized in 2007 (B1)	Fair Value recognized for contracts outstanding at 12.31.07 (C)	Change in Fair Value in 2007 (D=C-B)	Amounts recognized in earnings (A+D)
Other revenues and income (Income Statement Note No. 22)						
Price risk hedges for energy products						
- definable as hedges pursuant to IAS 39 (CFH)	74	-	-	-	-	74
- not definable as hedges pursuant to IAS 39	58	5	5	11	6	64
Exchange risk hedges for commodities						
- definable as hedges pursuant to IAS 39 (CFH)	-	-	-	-	-	-
- not definable as hedges pursuant to IAS 39	-	-	-	-	-	-
Total (A)	**132**	**5**	**5**	**11**	**6**	**138**
Raw materials and services used (Income Statement Note No. 23)						
Price risk hedges for energy products						
- definable as hedges pursuant to IAS 39 (CFH)	(35)	-	-	-	-	(35)
- not definable as hedges pursuant to IAS 39	(15)	(3)	(2)	(12)	(9)	(24)
Exchange risk hedges for commodities						
- definable as hedges pursuant to IAS 39 (CFH)	(54)	-	-	(10)	(10)	(64)
- not definable as hedges pursuant to IAS 39	-	-	-		-	-
Total (B)	**(104)**	**(3)**	**(2)**	**(22)**	**(19)**	**(123)**
TOTAL INCLUDED IN EBITDA (A+B)	**28**	**2**	**3**	**(11)**	**(13)**	**15**
Net financial income (expense)						
Price risk hedges for energy products						
- Gains on trading transactions	8	1	1	23	22	30
- Losses on trading transactions	(5)	(1)	(1)	(25)	(24)	(29)
Margin on commodity trading transactions (C)	**3**	**-**	**-**	**(2)**	**(2)**	**1**
Interest rates hedges, broken down as follows:						
Financial income						
- definable as hedges pursuant to IAS 39	22	7	7	1	(6)	16
- not definable as hedges pursuant to IAS 39	97	42	41	7	(35)	62
Total financial income (D)	**119**	**49**	**48**	**8**	**(41)**	**78**
Financial expense						
- definable as hedges pursuant to IAS 39	(24)	(8)	(8)	-	8	(16)
- not definable as hedges pursuant to IAS 39	(108)	(63)	(42)	(20)	43	(65)
Total financial expense (E)	**(132)**	**(71)**	**(50)**	**(20)**	**51**	**(81)**
Margin on interest rate hedging transactions (D+E)=(F)	**(13)**	**(22)**	**(2)**	**(12)**	**10**	**(3)**
Foreign exchange rates hedges, broken down as follows:						
Foreign exchange gains						
- definable as hedges pursuant to IAS 39	-	-	-	-	-	-
- not definable as hedges pursuant to IAS 39	-	-	-	-	-	-
Total foreign exchange gains (G)	**-**	**-**	**-**	**-**	**-**	**-**
Foreign exchange losses						
- definable as hedges pursuant to IAS 39	-	-	-	-	-	-
- not definable as hedges pursuant to IAS 39	-	-	-	-	-	-
Total foreign exchange losses (H)	**-**	**-**	**-**	**-**	**-**	**-**
Margin on foreign exchange hedging transactions (G+H)= (I)	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE) (C+F+I) (Income Statement Note No. 27)	**(10)**	**(22)**	**(2)**	**(14)**	**8**	**(2)**

The table below provides a breakdown of the amounts recognized in the balance sheet following the measurement at fair value of the derivatives outstanding on the date of the financial statements:

(in millions of euros)	12/31/2007		12/31/2006	
	Receivables	Payables	Receivables	Payables
Foreign exchange transactions	3	(21)	8	(10)
Interest rate transactions	12	(19)	4	(27)
Commodity transactions	59	(61)	31	(35)
Fair value recognized as current asset or current liability	**74**	**(101)**	**43**	**(72)**
Broken down as follows:				
- recognized as "Other receivables and payables"	62	(82)	39	(45)
- recognized as "Current financial assets" and "Short-term borrowings"	12	(19)	4	(27)

With regard to the items listed above, please note that the receivables and payables shown are offset by a negative cash flow hedge reserve amounting to 2 million euros, before the corresponding deferred-tax assets and liabilities.

Classes of Financial Instruments

The table provided below, which lists the types of financial instruments recognized in the financial statements showing the valuation criteria applied and, in the case of financial instruments measured at fair value, whether gains or losses are recognized in earnings or in equity, completes the disclosures required by IFRS 7. The last column in the table shows, if applicable, the fair value of financial instruments at December 31, 2007.

Edison chose not to adopt the value option and, consequently, as the table shows, neither borrowings nor bonds were restated at fair value.

(in millions of euros)	Criteria applied to value financial instruments in the financial statements					
	Fin. instruments valued at fair value with change in fair value recognized in:		Financial instruments valued at amortized cost	Equity investments valued at cost	Carrying value at 12/31/07	Fair Value at 12/31/07
Financial instrument type	earnings	equity				
ASSETS						
Available-for-sale equity investments, including:						
- not publicly traded securities	-	-	-	161	161	n.m.
- publicly traded securities	-	23	-		23	23
					184	
Other financial assets [2][4]	-	-	139	-	139	139
Other assets [4]	-	-	61	-	61	61
Trade receivables [4]	-	-	1,654	-	1,654	1,654
Other receivables [1][4]	58	4	309	-	371	371
Other current financial assets [3][4]	17	5	3	-	25	25
Cash and cash equivalents [4]	-	-	103	-	103	103
LIABILITIES						
Bonds			1,210	-	1,210	1,218
Borrowings [1][4]	19	-	1,682	-	1,701	1,700
Trade payables [4]	-	-	1,394	-	1,394	1,394
Other liabilities [1][4]	71	11	570	-	652	652

(1) Includes receivables and payables resulting from the measurement of derivatives at fair value, a breakdown of which is provided on he preceding page.
(2) Includes 81 million euros in loans receivable classified as long term following the adoption of IFRIC 4.
(3) Includes receivables from the measurement at fair value of derivatives and equity investments held for trading.
(4) The fair value of the components of these items that are not derivatives or loans was not computed because it is substantially the same as their carrying value.

SEGMENT INFORMATION

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

INCOME STATEMENT	Electric Power			Hydrocarbons		Corporate Activities		Adjustments		Core Businesses	
	2007	2006	of which Edison Rete and Serene	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Sales revenues	**6,783**	**6,945**	**198**	**3,937**	**4,171**	**44**	**43**	**(2,517)**	**(2,670)**	**8,247**	**8,489**
- Intra-Group Revenue	5	10	1	2,475	2,624	37	36	(2,517)	(2,670)		
EBITDA	**1,238**	**1,162**	**37**	**427**	**434**	**(67)**	**(70)**			**1,598**	**1,526**
as a % of revenues	18.3%	16.7%	18.7%	10.8%	10.4%	n.m.	n.m.			19.4%	18.0%
Depreciation, amortization and writedown	(557)	(668)	(21)	(140)	(106)	(10)	(9)			(707)	(783)
EBIT	**681**	**494**	**16**	**287**	**328**	**(77)**	**(79)**			**891**	**743**
as a % of revenues	10.0%	7.1%	8.1%	7.3%	7.9%	n.m.	n.m.			10.8%	8.8%
Net financial income (expense)										(198)	(246)
Interest in result of companies valued by equity method										(1)	16
Income taxes										(170)	(7)
Profit from continuing operations										**518**	**548**
Profit (loss) from discontinued operations											
Minority interest in profit (loss) for the period										**21**	**8**
Group interest in profit (loss) for the period										**497**	**540**

BALANCE SHEET	Electric Power		Hydrocarbons		Corporate Activities		Adjustments		Core Businesses	
	12.31.07	12.31.06	**12.31.07**	12.31.06	**12.31.07**	12.31.06	**12.31.07**	12.31.06	**12.31.07**	12.31.06
Total assets	**11,409**	**12,521**	**2,718**	**2,434**	**3,007**	**2,988**	**(2,712)**	**(2,466)**	**14,422**	**15,477**
Total liabilities	**3,489**	**4,189**	**1,396**	**1,090**	**2,544**	**4,248**	**(978)**	**(918)**	**6,451**	**8,609**
Net borrowings									**2,700**	**4,220**

OTHER INFORMATION	Electric Power			Hydrocarbons		Corporate Activities		Adjustments		Core Businesses	
	2007	2006	of which Edison Rete and Serene	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Capital expenditures	234	347	3	183	133	1	1			418	481
Investments in intangibles	2	8	1	-	-	3	10			5	18
Investments in exploration	-	-	-	58	41	-	-			58	41
Total capital investments	**236**	**355**	**4**	**241**	**174**	**4**	**11**			**481**	**540**

	Electric Power		Hydrocarbons		Corporate Activities		Adjustments		Core Businesses	
	12.31.07	12.31.06	**12.31.07**	12.31.06	**12.31.07**	12.31.06	**12.31.07**	12.31.06	**12.31.07**	12.31.06
Number of employees	**1,851**	**1,956**	**460**	**433**	**554**	**525**			**2,865**	**2,914**

Other		Adjustments		Disposal Group		Edison Group	
2007	2006	2007	2006	2007	2006	2007	2006
29	34	-	-	-	-	8,276	8,523
7	10	-	-	-	-	1,605	1,536
24.1%	29.4%					19.4%	18.0%
(2)	(1)	-	-			(709)	(784)
5	9	-	-	-	-	896	752
17.2%	26.5%					10.8%	8.8%
						(198)	(246)
						(1)	16
-	(2)	-	-	-	-	(170)	(9)
(9)	2	8				517	550
					112	-	112
(1)	-	-	-		-	20	8
(8)	2	8			112	497	654

Other		Adjustments		Disposal Group		Edison Group	
12.31.07	12.31.06	12.31.07	12.31.06	12.31.07	12.31.06	12.31.07	12.31.06
50	44	(67)	(95)	318	231	14,723	15,657
44	31	-	(10)	77	137	6,572	8,767
2	(10)			(15)	46	2,687	4,256

Other		Adjustments		Disposal Group		Edison Group	
2007	2006	2007	2006	2007	2006	2007	2006
13	8	-	-	-	-	431	489
		-	-	-	-	5	18
		-	-	-	-	58	41
13	8	-	-	-	-	494	548

Other		Adjustments		Disposal Group		Edison Group	
12.31.07	12.31.06	12.31.07	12.31.06	12.31.07	12.31.06	12.31.07	12.31.06
319	3	-	-	93	6	3,277	2,923

NOTES TO THE BALANCE SHEET

Assets

Non-current Assets

1. Property, Plant and Equipment

Property, plant and equipment, which comprise the Group's production assets, totaled 7,619 million euros, for a net decrease of 438 million euros compared with December 31, 2006. This decrease is the net result of additions totaling 431 million euros, depreciation expense of 612 million euros, and a reclassification of 264 million euros to "Assets held for sale" booked in connection with the sale of some thermoelectric facilities that operated under CIP 6/92 contracts.
The table that follows shows a breakdown of the changes that occurred in 2007:

(in millions of euros)	Land and buildings	Plant and machinery	Manufact. and distrib. equipment	Other	Constr. in progress and advances	Total
Balance at 12/31/06 (A)	**937**	**6,431**	**24**	**11**	**654**	**8,057**
Changes at December 31, 2007:						
- Additions	10	215	3	1	202	431
- Disposals (-)	(12)	(16)	-	-	-	(28)
- Depreciation (-)	(49)	(557)	(4)	(2)	-	(612)
- Writedowns (-)	(2)	(1)	-	-	-	(3)
- Restatement of decommissioning costs	-	43	-	-	-	43
- Reclassification to assets held for sale	(18)	(241)	(2)	-	(3)	(264)
- Currency translation difference	-	-	-	-	-	-
- Other changes	37	358	-	1	(401)	(5)
Total changes (B)	**(34)**	**(199)**	**(3)**	**-**	**(202)**	**(438)**
Balance at 12/31/07 (A+B)	**903**	**6,232**	**21**	**11**	**452**	**7,619**
Breakdown:						
- Historical cost	1,072	8,241	32	16	452	9,813
- Writedowns (-)	(5)	(191)	(2)	-	-	(198)
- Accumulated depreciation	(164)	(1,818)	(9)	(5)	-	(1,996)
Net carrying amount	**903**	**6,232**	**21**	**11**	**452**	**7,619**

The total value of the assets, virtually all of which are located in Italy, includes construction in progress and advances totaling 452 million euros, broken down as follows: 214 million euros for the electric power operations and 225 million euros for the hydrocarbons operations. The large decrease shown for "Construction in progress and advances" compared with December 31, 2006 is due to the commissioning of the Simeri Crichi thermoelectric power plant.

Additions of 431 million euros are mainly the result of the following capital expenditures:

- The investments of the **electric power operations** totaled 234 million euros. The lion's share (181 million euros) was used in the *thermoelectric area* primarily to build power plants in Simeri Crichi (CZ) that went on stream on October 1, 2007 (88 million euros), Candela (FG) (6 million euros) and Torviscosa (UD) (5 million euros). In addition, Edipower invested 42 million euros (Edison's pro rata share) mainly to repower the Turbigo (MI) and San Filippo del Mela (ME) power plants.

- In the *hydroelectric area*, investments totaling 31 million euros were used mainly for the Belviso, Ganda and Taio power plants (19 million euros). Edipower invested 11 million euros (Edison's pro rata share) and 22 million euros were invested in *wind power* facilities.
- The **hydrocarbons operations** invested 183 million euros. The main projects pursued in Italy included construction of the Caverzere-Minerbio natural gas pipeline (64 million euros), development of gas fields in the Adriatic (32 million euros), in Garaguso (6 million euros) and in Candela (5 million euros) and expansion of the Collalto storage field (17 million euros). Investments outside Italy of 43 million euros were earmarked mainly for Egypt (28 million euros) and Algeria (11 million euros).

Investments by the **diversified activities** of the IWH Group account for the remaining 14 million euros.

Disposals, which totaled 28 million euros, reflect the sale of buildings and other real estate, which generated both a gain of 14 million euros (especially the buildings appurtenant to the power line networks sold earlier to Terna, which produced a positive effect of 9 million euros) and losses amounting to 15 million euros.

Depreciation of property, plant and equipment totaled 612 million euros. It included 550 million euros for the electric power operations (572 million euros at December 31, 2006) and 57 million euros for the hydrocarbons operations (46 million euros at December 31, 2006). Corporate activities and the water operations account for the balance.

Decommissioning costs refer to additions to facilities belonging to the hydrocarbons operations (38 million euros) and the electric power operations (5 million euros) that were put into service in 2007. In the case of the hydrocarbons operations, the increase in decomissioning costs reflects primarily a revision of expected costs that was carried out in 2007 by the operator of some of the gas fields in which the Group is involved.

The **reclassification to assets held for sale** (264 million euros) refers to the business operations represented by seven thermoelectric power plants, which, based on the preliminary contracts currently in effect, constitute a disposal group.

Among **other changes,** the change in construction in progress is mainly due to the commissioning of the Simeri Crichi thermoelectric power plant.

In addition:

- The net carrying amount of property, plant and equipment includes **assets transferable at no cost** with an aggregate value of 591 million euros (641 million euros at December 31, 2006) attributable to the hydroelectric operations, which hold 69 concessions, and to the gas and water distribution operations, which hold 62 concessions. The decrease reflects primarily the depreciation taken in 2007, offset in part by the reclassification of assets transferable at no cost held by the natural gas distribution division.

Assets transferable at no cost (in millions of euros)	Historical cost	Accum. deprec. and writedowns	Net value at 12/31/2007	Net value at 12/31/2006
Buildings and other assets	11	(3)	8	9
Plant and machinery	855	(272)	583	632
Total	**866**	**(275)**	**591**	**641**

- Property, plant and equipment includes **assets acquired under finance leases** totaling 117 million euros (127 million euros at December 31, 2006), which are recognized in accordance with the IAS 17 (revised) method. The balance outstanding on finance leases, which amounts to 20 million euros, is shown under "Long-term borrowings and other financial liabilities" (9 million euros) and "Short-term borrowings" (11 million euros). A breakdown of assets acquired under finance leases is provided below:

Assets acquired under finance leases (in millions of euros)	Historical cost	Accum. deprec. and writedowns	Net value at 12/31/2007	Net value at 12/31/2006
Land and building	8	(2)	6	7
Plant and machinery	142	(31)	111	120
Totale	**150**	**(33)**	**117**	**127**

2. Investment Property

The Group's investment property, which consists of land and buildings that are not used for production purposes, totaled 11 million euros. The decrease compared with December 31, 2006 is due mainly to the sale of residential building with a net carrying value of 28 million euros, which generated a gain of 17 million euros. The depreciation for the period amounted to about 1 million euros. A breakdown of the changes that occurred in 2007 is provided below:

(in millions of euros)	12/31/2007
Balance at 12/31/06 (A)	**40**
Changes in 2007:	
- Disposals	(28)
- Depreciation	(1)
Total changes (B)	**(29)**
Balance at 12/31/07 (A+B)	**11**
Breakdown:	
- Historical cost	19
- Accumulated depreciation	(1)
- Writedowns	(7)
Net carrying amount	**11**

3. Goodwill

Goodwill totaled 3,518 million euros, unchanged compared with December 31, 2006.
The remaining balance is an intangible asset with an indefinite useful life. As such, it cannot be amortized in regular installments, but must be tested for impairment at least once a year.
As explained later in this Report, goodwill was tested for impairment, as required by IAS 36.

4. Hydrocarbons Concessions

Concessions for the production of hydrocarbons, which include 84 mineral leases in Italy and abroad (including 2 storage concessions) for the extraction of hydrocarbon deposits, were valued at 299 million euros. The amortization for the period accounts for most of the decrease of 24 million euros from the amount reported at December 31, 2006.

(in millions of euros)	12/31/2007
Balance at 12/31/06 (A)	**323**
Changes in 2007:	
- Amortization	(24)
Total changes (B)	**(24)**
Balance at 12/31/07 (A+B)	**299**
Breakdown:	
- Historical cost	420
- Accumulated depreciation	(117)
- Writedowns	(4)
Net carrying amount	**299**

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	7	17
Hydroelectric concessions	69	1	24
Distribution concessions	62	2	12
Hydrocarbon concessions	82	"unit of production" (*)	

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

In 2007, the Group was awarded several new exploration licenses abroad, including five in Norway, four in Egypt, one in Qatar and one in the Ivory Coast, and sold a distribution concession in Italy with a positive effect of one million euros.

5. Other Intangible Assets

The amount of 36 million euros shown for patents, licenses and similar rights refers mainly to software licenses. Hydrocarbon research and exploration costs, which are charged in full to income in the year they are incurred, totaled 58 million euros in 2007.

(in millions of euros)	12/31/2007
Balance at 12/31/06 (A)	**323**
Changes in 2007:	
- Additions	63
- Amortization	(69)
- Writedowns/Other changes	(2)
Total changes (B)	**(8)**
Balance at 12/31/07 (A+B)	**36**
Breakdown:	
- Historical cost	202
- Accumulated amortization (-)	(165)
- Writedowns (-)	(1)
Net carrying amount	**36**

Impairment Test Applied to the Value of Goodwill, Property, Plant and Equipment and Other Intangibles

Because goodwill is an intangible asset with an indefinite useful life and, therefore, cannot be amortized in regular installments, IAS 36 requires that its value be tested for impairment at least once a year. Since goodwill does not generate cash flow independently and cannot be sold separately, IAS 36 requires a test of the value that can be recovered on a residual basis. This is accomplished by determining the cash flows generated by the complex of assets that constitute the business or businesses to which goodwill is attributable: the cash generating units (CGUs).

Keeping in mind the strategic and organizational decisions of the Edison Group, goodwill was tested by making reference to the two different cash generating units to which goodwill has been allocated (the electric power operations and the hydrocarbons operations) and the Group as a whole.

Allocation of goodwill (in millions of euros)	12/31/2007	12/31/2006
- Electric power operations	2,836	2,836
- Hydrocarbon operations	682	682
Total	**3,518**	**3,518**

Consistent with past practice, the test was carried out by an independent appraiser, using financial flows that were determined on the basis of the financial plan approved by the Board of Directors. The test was extended to subsequent periods covered by the useful lives of the various assets and took into account any changes in their destination and/or profitability.

Specifically, the recoverable value (understood as value in use) of each of the two abovementioned operations was determined by estimating the present value of future cash flows from operations before taxes (as expressly required by the applicable rules) that these operations are expected to generate over the length of the Company's plan (until 2015) and a terminal value beyond the plan's horizon, taking into account the nature of the investments and the types of businesses in which Edison operates. The terminal value of both operations was estimated by determining an operating cash flow, duly normalized to reflect regular operating conditions and a nominal annual growth rate between zero and 2%. In addition, for terminal value computation purposes, the cash flows attributed to the electric power operations until 2019 were estimated taking into account for each year the impact of the expiration of CIP 6/92 contracts and incentives.

Consistent with the cash flows described above, the discount rates applied were estimated by determining the average weighted cost of capital.

The recoverable value was estimated using the financial method. It was obtained by using simulations for different variables - the most significant of which include discount rates, growth rates and nondiscretional investments required to keep the Company operating at a normal level - and applying such statistical simulation techniques as the Montecarlo method. Specifically, the median pretax rates used were 10% for the electric power operations and 11.3% for the hydrocarbons operations.

The recoverable values determined by applying the statistical process described above were greater than the corresponding carrying amounts of the various cash generating units.

In order to determine if the value of its property, plant and equipment and intangibles had been impaired, Edison tested in the same manner the components of property, plant and equipment and intangibles held by the Group's core businesses that could be identified as cash generating units. These assets are used for the production activities of the electric power and hydrocarbons operations and for natural gas distribution and storage activities.

The composition of the CGUs to which property, plant and equipment is allocated takes into account the current makeup of the Group's markets and businesses and is consistent with its management reporting and segment information systems. From a management standpoint, the portfolio of property,

plant and equipment is divided into macro-groups that are operated as separate units (CIP 6/92 Thermoelectric, Captive Thermoelectric, Merchant Thermoelectric, Merchant Hydroelectric, CIP 6/92 Wind Power, Merchant Wind Power, Natural Gas Italy, Natural Gas International, Natural Gas Distribution and Natural Gas Storage), while the flows generated by market sales of electric power and natural gas (Power Exchange and wholesalers) reflect the total quantity of commodities traded, irrespective of the production asset from which they originated.

Therefore, the CGUs to which specific non-current assets are allocated are based on a three-dimensional approach that takes into account: the source (electric power or hydrocarbons), the current target market (dedicated, captive, market) and whether the party that owns a given non-current asset is a separate legal entity.
As was the case for the goodwill impairment test, the analysis was carried out by identifying the recoverable value (understood as value in use) of the CGUs, based on the operating and financial plans for each CGU and on a time horizon equal to the useful lives of the assets.
As was done when testing goodwill for impairment, the recoverable value was estimated by applying the financial method, used in combination with the Montecarlo simulation technique.
The financial flows used in connection with the abovementioned plans were indicative of specific production profiles and prices and took into account such items as decommissioning costs and residual values, when identifiable.
The pretax cash flows used for each CGU, which were consistent with those provided in the Company Plan, were discounted at rates that were the same as those applied when testing goodwill for impairment. These rates were increased further when the CGUs were located in a foreign country with a significant country risk.
The impairment test performed in accordance with the statistical method described above showed that no impairment loss had occurred.

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

The total includes 44 million euros in investments in companies valued by the equity method and 184 million euros in investments in companies valued at fair value. The latter amount includes an investment in RCS Mediagroup (about 23 million euros) and an investment in Terminale GNL Adriatico (151 million euros). The table below shows the main changes that occurred in 2007:

(in millions of euros)	Investments in associates	Available-for-sale investments	Total
Balance at 12/31/06 (A)	**44**	**122**	**166**
Changes in 2007:			
- Changes in share capital	5	67	72
- Revaluations and valuations at equity	1	-	1
- Writedowns and valuations at equity (-)	(2)	(7)	(9)
- Derecognition of dividends (-)	(3)	-	(3)
- Reclassifications and other changes	(1)	2	1
Total changes (B)	**-**	**62**	**62**
Balance at 12/31/07	**44**	**184**	**228**
Breakdown:			
- Historical cost	41	194	235
- Revaluations	9	-	9
- Writedowns (-)	(6)	(10)	(16)
Net carrying amount	**44**	**184**	**228**

An analysis of the changes is as follows:

- **Changes in share capital** of 72 million euros consist mainly of capital contributions provided to the associated companies Terminale GNL Adriatico (66 million euros) and Galsi (5 million euros);
- **Writedowns and valuations at equity** totaling 9 million euros reflect the impact of valuing at fair value the investment in RCS (6 million euros, with the offset posted to shareholders' equity), and writedowns of other investments accounting for the remaining 3 million euros.
- The **derecognition of dividends** refers to those companies that in the consolidated financial statements are valued by the equity method.

7. Other Financial Assets

Other financial assets, which totaled 139 million euros, or 9 million euros more than at December 31, 2006, consist of loans receivable due in more than one year. The table that follows shows the changes that occurred in 2007:

(in millions of euros)	Loans receivable	Long-term equity investments	Total other financial assets
Balance at 12/31/06 (A)	**128**	**2**	**130**
Changes in 2007:			
- decreases (-)	(7)	(2)	(9)
- increases	18	-	18
Total changes (B)	**11**	**(2)**	**9**
Balance at 12/31/07	**139**	**-**	**139**
Breakdown:			
- Historical cost	139	-	139
- Writedown (-)	-	-	-
Net carrying value	**139**	**-**	**139**

Other financial assets include the following:

- a 81-million-euro receivable under a finance lease for the Ibiritermo power plant recognized as required by IFRIC 4;
- 39 million euros for the IPSE 2000 escrow deposit, which is offset by a provision for risks of the same amount due to uncertainty about its repayment;
- 13 million euros for an interest-bearing escrow deposit provided in connection with the sale of Serene Spa, the disbursement of which depends on changes in CIP 6/92 regulations;
- 6 million euros for other long-term financial receivables, which include 4 million euros in bank deposits that secure project financing facilities.

8. Deferred-tax Assets

Deferred-tax assets of 78 million euros reflect a tax-loss carryforward (31 million euros), differences in the valuation of property, plant and equipment (22 million euros) and tax-deductible provisions for risks (19 million euros). Other differences stemming from the adoption of IAS 39 account for the balance.
Insofar as the recognition of these items is concerned, they were valued in accordance with new 2008 fiscal rates and with realistic assumptions that they would be realized and the tax benefits realized within the limited time horizon covered by the industrial plans approved by the Companies. Accordingly, only a portion of the amount of the theoretical prepaid taxes computed on the reserves for risks was used for valuation purposes.

9. Other Assets

Other assets totaled 61 million euros, or 24 million euros less than at December 31, 2006. The main components of this account are tax refunds receivable, including accrued interest through

December 31, 2007, and security deposits totaling 6 million euros. The collection of 22 million euros in tax refunds receivable accounts for most of the decrease that occurred in 2007.

10. Current Assets

(in millions of euros)	12/31/2007	12/31/2006	Change
Inventories	250	387	(137)
Trade receivables	1,654	1,943	(289)
Current-tax assets	13	15	(2)
Other receivables	371	276	95
Current financial assets	25	42	(17)
Cash and cash equivalents	103	298	(195)
Total current assets	**2,416**	**2,961**	**(545)**

A review of the individual components is provided below:

Inventories

Inventories totaled 250 million euros. A breakdown by type of business is provided below:

(in millions of euros)	Engineering consumables	Stored natural gas	Fuel oil	Other materials	Total at 12/31/2007	Total 12/31/2006	Change
Electric power operations	35	-	30	2	67	151	(84)
Hydrocarbons operations	10	152	17	-	179	233	(54)
Corporate activities	-	-	-	-	-		-
Total core businesses	**45**	**152**	**47**	**2**	**246**	**384**	**(138)**
Diversified activities	-	-	-	4	4	3	1
Total for the Group	**45**	**152**	**47**	**6**	**250**	**387**	**(137)**

The decrease of 137 million euros compared with December 31, 2006 reflects a decrease for the hydrocarbons operations (54 million euros) due to the utilization of stored natural gas and inventory reductions by the electric power operations (84 million euros) caused mainly by the utilization of green certificates to meet the Group's requirements.
Inventories also include 9 million euros in strategic reserves of natural gas the use of which is restricted.

Trade Receivables

Trade receivables totaled 1,654 million euros. A breakdown by type of business is provided in the table that follows:

(in millions of euros)	12/31/2007	12/31/2006	Change
Electric power operations	1,190	1,649	(459)
Hydrocarbons operations	525	325	200
Corporate activities and eliminations	(70)	(41)	(29)
Total core businesses	**1,645**	**1,933**	**(288)**
Diversified activities	9	10	(1)
Total trade receivables	**1,654**	**1,943**	**(289)**
Allowance for doubtful accounts	**(88)**	**(58)**	**(30)**

Trade receivables stem from contracts to supply electric power and steam, contracts to supply natural gas, contracts to sell natural gas and Power Exchange transactions. The decrease compared with December 2006 is due to a significant reduction in receivables due after December 31, including about 300 million euros owed by GSE for avoided fuel cost adjustments.

Current-tax Assets

The balance of 13 million euros includes amounts owed by the tax authorities for overpayments of corporate income taxes (IRES) and local income taxes (IRAP) by companies that are not included in the consolidated income tax return filed by Transalpina di Energia, the Group's controlling company.

Other Receivables

Other receivables totaled 371 million euros. They include amounts owed by partners and associates in hydrocarbon exploration projects (34 million euros), advances paid to suppliers (31 million euros), receivables from public institutions and local entities (39 million euros, including 10 million euros for hydroelectric concession fees), credits arising from the valuation of commodity and foreign exchange derivatives (62 million euros), security deposits (20 million euros), receivables from the tax administration (59 million euros, including 28 million euros for excise tax overpayments) and amounts owed by the controlling company (Transalpina di Energia) in connection with the filing of a consolidated income tax return (18 million euros). The above amounts are net of an allowance for doubtful accounts of 25 million euros.

Current Financial Assets

A breakdown of current financial assets, which totaled 25 million euros, is as follows:

(in millions of euros)	12/31/2007	12/31/2006	Change
Equity investments held for trading	10	11	(1)
Loans receivable	3	27	(24)
Derivatives	12	4	8
Total current financial assets	**25**	**42**	**(17)**

A review of the financial assets listed above, all of which are included in the computation of the Group's net borrowings, is provided below:

Equity Investments Held for Trading

The balance of 10 million euros represents held-for-trading investments in the following publicly traded companies: ACEGAS Spa (5 million euros), ACSM Spa (2 million euros) and American Superconductor Corporation (3 million euros). The valuation of these investments at fair value produced a loss of about 1 million euros in 2007.

Loans Receivable

Loans receivable of 3 million euros include the short-term portion of a receivable under a finance lease for the Ibiritermo power plant. Loans owed by subsidiaries account for the balance.

Derivatives

These receivables stem exclusively from the valuation at fair value of derivatives hedging interest rate risk that were outstanding at December 31, 2007. A comprehensive explanation of the impact of financial derivatives is provided in a separate disclosure included in this Report.

Cash and Cash Equivalents

Cash and cash equivalents of 103 million euros consist of short-term deposits in bank and postal accounts and other short-term investments. The balance in this account was 195 million euros lower than the previous year, when it included the cash proceeds generated at the end of December 2006 by factoring income tax refunds receivable.

11. Assets Held for Sale

The balance of 318 million euros represents the assets of a Disposal Group consisting of the business operations of seven thermoelectric power plants that operate under CIP 6/92 contracts.
In 2006, this item included the assets of Serene Spa, which was sold in February 2007.

Liabilities and Shareholders' Equity

12. Shareholders' Equity Before Minority Interest

The Group's interest in shareholders' equity amounted to 8,004 million euros, or 1,261 million euros more than at December 31, 2006. This increase is mainly the result of the exercise of about 1,019 million warrants and of the profit earned in 2007 (497 million euros), net of the distribution of dividends totaling 233 million euros (equal to a dividend of 0.048 euros per common share and 0.078 euros per savings share, which includes amounts in arrears).

Minority interest in shareholders' equity totaled 147 million euros, about the same as at December 31, 2006, after minority interest in net profit of 20 million euros and the distribution of dividends attributable to minority shareholders.

At December 31, 2007, the subscribed and paid-in share capital of Edison Spa amounted to 5,292 million euros. The increase of 1,019 million euros compared with December 31, 2006 reflects the exercise during the year of 1,018,525,047 "2007 Edison Common Share Warrants".

Overall, 99.992% of the 1,094,832,730 "2007 Edison Common Share Warrants" issued in April/May 2003 have been exercised (76,215,806 were exercised between 2003 and 2006). Consequently, pursuant to the Warrant regulations, the remaining 91,877 unexercised warrants have expired.

A breakdown of share capital, which consists of shares with a par value of 1 euro each, all with regular ranking for dividends, is as follows:

Share class	Number of shares	Millions of euros
Common shares	5,181,072,080	5,181
Savings shares	110,592,420	111
Total		**5,292**

The reserve for cash flow hedges, which was established upon the adoption of IAS 32 and IAS 39 to account for derivatives and is included in shareholders' equity, shows a net positive change of 4 million euros compared with December 31, 2006. A breakdown is provided below:

Reserve for cash flow hedge transactions

(in millions of euros)	Gross reserve	Deferred taxes	Net reserve
Reserve at December 31, 2006	(8)	3	(5)
Changes in 2007	6	(2)	4
Reserve at December 31, 2007	**(2)**	**1**	**(1)**

The changes that affected shareholders' equity also include the impact of the valuation of available-for-sale investments, which produced a net negative change of 6 million euros compared with December 31, 2006.

Reserve for Available-for-sale investments

(in millions of euros)	Gross reserve	Deferred taxes	Net reserve
Reserve at December 31, 2006	18	(1)	17
Changes in 2007	(6)	-	(6)
Reserve at December 31, 2007	**12**	**(1)**	**11**

The tables that follow provide a "Reconciliation of the net profit of Edison Spa to the Group's interest in net profit" and a "Reconciliation of the shareholders' equity of Edison Spa to the Group's interest in shareholders' equity."

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

(in millions of euros)	12/31/2007	12/31/2006
Net profit of Edison Spa	**448**	**632**
Intra-Group dividends eliminated in the consolidated financial statements	(233)	(167)
Results of subsidiaries, affiliated companies and joint ventures not recognized in the financial statements of Edison Spa	285	213
Impact of the different carrying value assigned to divested assets for the purposes of the consolidated financial statements	-	1
Difference in valuation of the result of discontinued operations	-	(15)
Other consolidation adjustments	(3)	(10)
Group interest in net profit	**497**	**654**

Reconciliation of the Shareholders' Equity of Edison Spa to the Group's Interest in Shareholders' Equity

(in millions of euros)	12/31/2007	12/31/2006
Shareholders' equity of Edison Spa	**6,847**	**5,609**
Carrying value of equity investments eliminated against the pro rate interest in the shareholders' equity of investee companies, including:		
- Elimination of the carrying value of consolidated equity investments	(1,822)	(2,558)
- Recognition of the shareholders' equities of consolidated companies	2,967	3,609
Valuation of equity investments valued by the equity method	2	6
Other consolidation adjustments	10	77
Group interest in shareholders' equity	**8,004**	**6,743**

Non-current Liabilities

13. Provision for Employee Severance Indemnities and Provisions for Pensions

This reserve, which amounted to 68 million euros, reflects the accrued severance indemnities and other benefits owed to employees, computed in accordance with the actuarial criteria of IAS 19.
In accordance with the provisions of Budget Law No. 296 of December 27, 2006, only the liability for the vested employee severance benefits that remained with the Company was valued for IAS 19 purposes, since the portion applicable to future vesting benefits is being paid to separate entities. This change produced a gain of about 1 million euros in the income statement.
The operating and financial parameters used for valuation purposes are listed below:

- Technical annual discount rate	4.60%
- Annual inflation rate	2.00%
- Estimated annual increase of the provision for severance indemnities	3.20%

The computation process also resulted in the recognition of financial expense totaling about 3 million euros.
The table below shows the changes that occurred in 2007:

(in millions of euros)	Provision for sever. indemn.	Provision for pensions	Total
Balance at 12/31/06 (A)	**63**	**9**	**72**
Changes in 2007:			
- Service costs	4	-	4
- Financial expense	3	-	3
- Actuarial (gains) losses (+/-)	(2)	-	(2)
- Decrease for changes due to Law No. 296 of 12/27/07	(1)	-	(1)
- Reclassification to "Liabilities held for sale"	(2)	-	(2)
- Utilizations (-) / Other changes	(6)	-	(6)
Total changes (B)	**(4)**	**-**	**(4)**
Total at 12/31/07 (A+B)	**59**	**9**	**68**

At December 31, 2007, counting the employees of companies consolidated by the proportional method, the Edison Group had 3,277 employees, or 354 more than at the end of 2006, when 2,923 employees were on the payroll. The average payroll numbered 3,017 employees.

The table below provides a breakdown by type of business of the Group's payroll and shows the changes that occurred in 2007 in each category of employees:

Type of Business

(number of employees)	12/31/2007	12/31/2006	Change
Electric Power operations	1,851	1,956	(105)
Hydrocarbons operations	460	433	27
Corporate activities	554	525	29
Total core businesses	**2,865**	**2,914**	**(49)**
Diversified activities	319	3	316
Groups of assets held for sale	93	6	87
Total for the Group	**3,277**	**2,923**	**354**

Change by category

(number of employees)	1/1/07	Added to payroll	Removed from payroll	Other/ Reclassifications	12/31/07	Average payroll
Executives	160	3	(18)	10	155	161
Office staff and middle managers	2,062	475	(126)	28	2,439	2,162
Production staff	701	45	(25)	(38)	683	694
Total for the Group	**2,923**	**523**	**(169)**	**-**	**3,277**	**3,017**

Most of the staff increase is attributable to the diversified operations (+317 employees) and reflects the insourcing of foreign operational staff to comply with changes in local Ecuadorian laws. The Group is planning to divest these activities with their employees.

14. Provision for Deferred Taxes

The balance of 560 million euros reflects mainly the deferred tax liability from the use during the transition to the IFRS of fair value as deemed cost to value property, plant and equipment.
The following table shows a breakdown of this reserve by type of underlying temporary difference, keeping in mind that certain Group companies that met the requirements of IAS 12 offset their deferred-tax liability against deferred-tax assets:

(in millions of euros)	12/31/2007	12/31/2006	Change
Deferred-tax liabilities:			
- Differences in the valuation of property, plant and equipment	579	791	(212)
- Adoption of standard on finance leases (IAS 17)	40	43	(3)
- Adoption of standard on financial instruments (IAS 39) with impact on:			
- the income statement	1	2	(1)
- shareholders' equity	2	2	-
- Other deferred taxes	14	12	2
Total deferred-tax liabilities (A)	**636**	**850**	**(214)**
Deferred-tax assets usable for offset purposes:			
- Taxed provisions for risks	67	83	(16)
- Adoption of standard on financial instruments (IAS 39) with impact on:			
- the income statement	7	6	1
- shareholders' equity	2	4	(2)
- Difference in value of property, plant and equipment	-	5	(5)
Total deferred-tax assets (B)	**76**	**98**	**(22)**
Total provision for deferred taxes (A-B)	**560**	**752**	**(192)**

At the end of 2007, the deferred-tax assets and liabilities that will be reversed in subsequent years were restated to comply with the provisions of Law No. 244/07 (the 2008 Budget Law), which changed the IRAP rates and taxable base. This process required an extraordinary utilization of deferred-tax assets and liabilities, which, as explained in the note to "Income taxes," produced a net gain of 135 million euros in the income statement.

15. Provisions for Risks and Charges

The reserves for risks and charges, which are established to cover contingent liabilities, totaled 899 million euros, an increase of 18 million euros compared with December 31, 2006.
The table below shows the changes that occurred in 2007:

(in millions of euros)	12/31/2006	Additions	Utilizations	Other changes and reclassifications	12/31/2007
- Disputed tax items	23	1	-	1	25
- Risks for disputes, litigation and contracts	170	10	(12)	10	178
- Charges for contractual guarantees on the sale of equity investments	151	2	(32)	3	124
- Provisions for decommissioning and remediation of industrial sites	261	13	(4)	43	313
- Environmental risks	69	2	(2)	13	82
- Risks on the sale of equity investments	16	16	-	(3)	29
- Other risks and charges	191	20	(35)	(28)	148
Total for the Group	**881**	**64**	**(85)**	**39**	**899**

The changes that occurred in 2007 are reviewed below:

- **Additions** of 64 million euros include 23 million euros for a charge stemming from uncertainties in valuing certain assets, 16 million euros for contingent risks related to Group companies, 13 million euros for finance charges related to decomissioning provisions, 7 million euros for legal and contractual risks and 5 million euros to accrue statutory interest on existing provisions.
- **Utilizations** of 85 million euros include 32 million euros related to the cancellation of guarantees provided in previous years in connection with the sale of equity investments; 20 million euros recognized upon the settlement of a dispute made possible by a decision handed down by the Council of State, which removed the risk of a fine levied by the Electric Power and Natural Gas Authority (abbreviated AEEG in Italian) for alleged improper use of storage capacity in 2004 and 2005; 12 million euros recognized upon the settlement of pending disputes; 5 million euros related to provisions established in connection with assets sold in 2007; and 2 million euros related to environmental costs.
- The increase of 43 million euros in **other changes** refers to the provisions for site decomissioning and restoration, which are posted directly to the corresponding asset account. The abovementioned amount includes 38 million euros for a restatement of decommissions attributable to the production assets of the hydrocarbons operations and 5 million euros attributable to thermoelectric area.

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 "Status of the Main Legal and Tax Disputes Pending at December 31, 2007."

16. Bonds

The balance of 1,201 million euros represents the non-current portion of outstanding bond issues valued at amortized cost.

The table below provides a breakdown of the bond liability at December 31, 2007 and shows the fair value of each bond issue:

(in millions of euros)	Market where traded	Currency	Par value outstanding	Coupon	Rate	Maturity	Long-term amortized cost	Short-term amortized cost	Fair value
Euro Medium Term Notes:									
Edison Spa	Luxembourg Securities Exchange	euro	700	Annual in arrears	5.125%	12/10/10	699	2	710
Edison Spa	Luxembourg Securities Exchange	euro	500	Quarterly in arrears	5.255%	7/19/11	502	7	508
Total for the Group			**1,200**				**1,201**	**9**	**1,218**

17. Long-term Borrowings and Other Financial Liabilities

This account, which totaled 1,216 million euros at December 31, 2007 (502 million euros at the end of 2006), includes bank borrowings of 1,188 million euros, 900 million euros of which correspond to Edison's pro rate share of a new financing owed by Edipower.

A breakdown is as follows:

(in millions of euros)	12/31/2007	12/31/2006	Change
Due to banks	1,188	440	748
Due to leasing companies	9	19	(10)
Due to subsidiaries in liquidation	-	28	(28)
Due to other lenders	19	15	4
Total for the Group	**1,216**	**502**	**714**

The amount owed to other lenders includes 15 million euros payable to minority shareholders of consolidated companies.

18. Other Liabilities

The balance of 2 million euros includes liabilities that arise from different types of obligations.

19. Current Liabilities

(in millions of euros)	12/31/2007	12/31/2006	Change
Bonds	9	1,457	(1,448)
Short-term borrowings	485	1,461	(976)
Trade payables	1,394	1,576	(182)
Current taxes payable	9	26	(17)
Other liabilities	652	694	(42)
Total current liabilities	**2,549**	**5,214**	**(2,665)**

The main current liability accounts are reviewed below:

- **Bonds** payable were down substantially year over year. The reduction of 1,430 million euros in face value reflects the redemption of bond issues that matured in 2007. The remaining balance of 9 million euros represents the amount accrued at December 31, 2007 of the current portion of bonds due after one year.

- **Short-term borrowings** totaled 485 million euros. The main reason for the sharp decrease compared with December 31, 2006 is the replacement of the bank financing received by Edipower with a new facility now included under "Long-term borrowings and other financial liabilities." Short-term borrowings include 418 million euros due to banks, 19 million euros of which was generated by measuring at fair value interest rate derivatives; 11 million euros owed to leasing companies; 28 million euros payable to companies that are being divested (13 million euros due to Termica Celano and 15 million euros payable to Termica Boffalora); and 28 million euros owed to unconsolidated subsidiaries in liquidation.

- **Trade payables** decreased to 1,394 million euros. A breakdown of this item by type of business is provided below:

(in millions of euros)	12/31/2007	12/31/2006	Change
Electric power operations	883	1,157	(274)
Hydrocarbons operations	586	466	120
Corporate activities and eliminations	(79)	(50)	(29)
Total core businesses	**1,390**	**1,573**	**(183)**
Diversified activities	4	3	1
Total trade payables	**1,394**	**1,576**	**(182)**

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** of 9 million euros represent the liability for income taxes owed by Group companies that are not included in the consolidated tax return filed by the controlling company (Transalpina di Energia).

- The main components of **other liabilities** of 652 million euros include the following: the remaining liability arising from the put-and-call options related to Edipower (138 million euros), the amount owed to the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (124 million euros), amounts owed to joint holders of permits and concessions for the production of hydrocarbons (72 million euros), payables owed for miscellaneous services (54 million euros), liabilities stemming from the measurement of commodity and foreign exchange derivatives at fair value (82 million euros) and amounts payable to employees and to pension and social security institutions (52 million euros).

20. Liabilities Held for Sale

The balance of 77 million euros represents the liabilities of a Disposal Group consisting of the business operations of seven thermoelectric power plants that operate under CIP 6/92 contracts.
In 2006, this item included the liabilities of Serene Spa, which was sold in February 2007.

Net Borrowings

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

At December 31, 2007, net borrowings totaled 2,687 million euros, a substantial reduction compared with the 4,256 million euros owed at December 31, 2006.

This improvement reflects the positive contribution provided by the operating cash flow, which more than offset outlays for capital investments (494 million euros), net borrowing costs (198 million euros), the purchase of an additional 5% interest in Edipower due to the exercise of a call option (127 million euros), investments in the affiliated company Terminale GNL (66 million euros) and dividends (248 million euros). The proceeds generated during the year by the conversion of warrants (1,019 million euros) and those resulting from the sale of Serene Spa in February 2007 (117 million euros) were also significant debt-reduction factors.

A breakdown of indebtedness by maturity shows that the medium- and long-term component has increased, due to new financing facilities received by Edipower in 2007, while bond issues payable decreased by a total of 1,430 million euros in face value due to the redemption of bonds that matured in 2007.

The table below provides an overview of net borrowings. The amounts shown include the indebtedness attributable to the operations treated as a disposal group (in 2006, the indebtedness of Serene Spa).

(in millions of euros)	Balance sheet Note No.	12/31/2007	12/31/2006	Change
Net long-term debt				
Bonds - non-current portion	16	1,201	1,207	(6)
Non-current bank loans	17	1,188	440	748
Amounts due to other lenders - non current portion	17	28	62	(34)
Other non-current financial assets (*)	7	(81)	(77)	(4)
Net long-term debt		**2,336**	**1,632**	**704**
Net short-term debt				
Bonds - current portion	19	9	1,457	(1,448)
Current loans payable	19	485	1,461	(976)
Current financial assets	10	(25)	(42)	17
Cash and cash equivalents (**)	10	(103)	(298)	195
Loans payable of divested operations	20	13	64	(51)
Loans receivable of divested operations	11	(28)	(18)	(10)
Net short-term debt		**351**	**2,624**	**(2,273)**
Net borrowings		**2,687**	**4,256**	**(1,569)**

(*) Includes the long-term portion of financial receivables, as required by the adoption of IFRIC 4.

(**) Cash and cash equivalents

(in millions of euros)	12/31/2007	12/31/2006	Change
Deposits in bank and postal accounts and other short-term investments	(103)	(298)	195
Cash and cash equivalents	**(103)**	**(298)**	**195**

Net borrowings include 264 million euros stemming from transactions with related parties (212 million euros owed to Mediobanca and 24 million euros owed to Banca Popolare di Milano). In the balance sheet these items are classified as “Long-term borrowings and other financial liabilities” (220 million euros) and as “Short-term borrowings” (16 million euros).

In addition, “Short-term borrowings” includes 28 million euros owed to unconsolidated subsidiaries and affiliated companies.

Information about compliance with the obligation to maintain certain financial indicators within predetermined minimum/maximum levels (as set forth in the financial covenants) is provided in a special section of the “Risk Management” section of this Report.

NOTES TO THE INCOME STATEMENT

In 2007, the Group reported a significant increase in EBITDA, which grew to 1,605 million euros compared with 1,536 million euros at December 31, 2006 (+4.5%).

This improvement is the net result of the following factors:

- A year-over-year gain of 6.5% in the contribution provided by the **electric power operations**, which benefited from greater availability of highly efficient production facilities and from an effective policy of optimizing the sources and uses mix in the deregulated market, where Edison has been increasing unit sales. These two positive developments more than offset a reduction of profitability in the CIP 6/92 business segment, caused by the expiration of incentives, and the absence of the EBITDA contribution provided by Serene Spa and Edison Rete Spa prior to being divested.
- A decrease in EBITDA reported by the **hydrocarbons operations** (-1.6% compared with the previous year) due mainly to the lower sales prices charged for the gas sold to the CIP 6/92 thermoelectric power plants, as required by Resolution No. 249/06, offset in part by the positive impact of the following non-recurring events: reversal of about 56 million euros due to the renegotiation of contract terms with end customers to comply with Resolution No. 248/04 (a charge of about 53 million euros had been recognized in 2006) and reversal of another provision amounting to 20 million euros made possible by the favorable a settlement of a dispute with the AEEG for alleged improper use of storage capacity in 2004 and 2005.

In 2007, the Group's interest in net profit totaled 497 million euros, compared with 654 million euros the previous year.

A change in the tax rate, applicable as of the 2008 fiscal year in accordance with the 2008 Budget Law, which resulted in a reversal in earnings of deferred-tax liabilities had a positive impact of 135 million euros on the net profit. Moreover, in 2006, the Group's result benefited from a net tax benefit of 202 million euros generated by the realignment of the taxable base of a significant portion of Edison's production assets to the amounts used for reporting purposes, as allowed by Law No. 266 of December 23, 2005.

The table below, which shows a breakdown by quarter and a comparison with corresponding data the previous year, provides a clearer understanding of cumulative sales revenues and EBITDA at December 31, 2007:

(in millions of euros)	First quarter			Second quarter			Third quarter			Fourth quarter			Total		
	2007	2006	% Change	2007	2006	% Change	2007	2006	% Change	2007	2006	% Change	2007	2006	% Change
Sales revenues	2,231	2,435	(8.4%)	1,821	1,831	(0.5%)	1,862	1,965	(5.2%)	2,362	2,292	3.1%	8,276	8,523	(2.9%)
EBITDA	397	334	18.9%	507	440	15.2%	366	445	(17.8%)	335	317	5.7%	1,605	1,536	4.5%
as a % of sales revenues	17.8%	13.7%	29.7%	27.8%	24.0%	15.9%	19.7%	22.6%	(13.2%)	14.2%	13.8%	2.5%	19.4%	18.0%	7.6%

The quarterly breakdown provided above was computed based on balance sheets and income statements approved by the Board of Directors. Individual quarterly data are not audited.

21. Sales Revenues

Sales revenues totaled 8,276 million euros, for a decrease of 247 million euros (-2.9%) compared with 2006. The absence of the revenues contributed in the past by companies sold last year (Serene Spa and Edison Rete) accounts for 125 million euros of this decrease. On a comparable consolidation basis, sales revenues show a decrease of 1.5%.

The table below provides a breakdown of sales revenues, which were booked for the most part in Italy:

(in millions of euros)	2007	2006	Change	% change
Revenues from the sales of:				
- Electric power	5,856	6,025	(169)	(2.8%)
- Natural gas	1,448	1,478	(30)	(2.0%)
- Steam	161	170	(9)	(5.3%)
- Oil	100	77	23	29.9%
- Green certificates	16	73	(57)	(78.1%)
- Water and other utilities	32	37	(5)	(13.5%)
- Other revenues	31	32	(1)	(3.1%)
Total sales revenues	**7,644**	**7,892**	**(248)**	**(3.1%)**
Revenues from managing the electrical network	-	18	(18)	(100.0%)
Revenues from services provided	19	15	4	26.7%
Storage services	18	15	3	20.0%
Transmission revenues	595	583	12	2.1%
Total for the Group	**8,276**	**8,523**	**(247)**	**(2.9%)**

Sales Revenues by Type of Business

(in millions of euros)	2007	2006	Change	% change
Electric power operations	6,783	6,945	(162)	(2.3%)
Hydrocarbons operations	3,937	4,171	(234)	(5.6%)
Corporate activities	44	43	1	2.3%
Eliminations	(2,517)	(2,670)	153	(5.7%)
Core businesses	**8,247**	**8,489**	**(242)**	**(2.9%)**
Diversified operations	29	34	(5)	(14.7%)
Total for the Group	**8,276**	**8,523**	**(247)**	**(2.9%)**

The revenues generated by the Group's core businesses were 242 million euros less (-2.9%) than in 2006, with both businesses reporting a decrease:

- The revenues generated by the **electric power operations** were down 2.3% compared with the previous year, due to a 2.5% reduction in unit sales prices attributable largely to the sale of Serene and Edison Rete, which accounted for 197 million euros. Restated on a comparable consolidation basis, sales revenues show an increase of 0.5%.

- The revenues generated by the **hydrocarbons operations** were 5.6% lower than in 2006 due to a reduction in unit sales prices attributable primarily to the impact of Resolution No. 249/06, which introduced a new mechanism for computing the avoided fuel cost component applicable to CIP 6/92 power plants.

22. Other Revenues and Income

Other revenues and income totaled 583 million euros. A breakdown is as follows:

(in millions of euros)	2007	2006	Change	% change
Commodity derivatives	138	336	(198)	(58.9%)
Recovery of costs from Edipower's Tollers	147	141	6	4.3%
Recovery of costs from partners in hydrocarbon exploration projects	48	32	16	50.0%
Utilizations of provisions for risks	45	19	26	n.m.
Swaps and exchanges of oil and natural gas	25	40	(15)	(37.5%)
Out of period income	81	134	(53)	(39.6%)
Sundry items	99	75	24	32.0%
Total for the Group	**583**	**777**	**(194)**	**(25.0%)**

The significant reduction (198 million euros) shown for commodity derivatives compared with 2006 should be viewed in conjunction with the changes that occurred in “Raw materials and services used.” A comprehensive view of the impact of commodity derivatives is disclosed in a separate section provided elsewhere in this Report.

The main utilizations of provisions for risks, which totaled 45 million euros, include 20 million euros related to the cancellation of a fine levied by the AEEG for alleged improper use of storage capacity in 2004 and 2005, which was made possible by the favorable a settlement of a dispute with the AEEG, and 10 million euros for site remediation and restoration. Utilizations recognized in connection with charges incurred by the operating units account for the balance.

Out of period income of 81 million euros includes a refund from GSE for CIP 6/92 transmission costs for the 2002-2005 period and the reversal of a corresponding charge recognized in 2006 (23 million euros) and the recovery of 16 million euros made possible by the voiding of Resolution No. 48/04 on transmission capacity fees by the Council of State. Penalties charged to suppliers for failure to provide or delays in providing services to some thermoelectric power plants, the payment of fees for access to strategic reserves of natural gas in 2004 and 2005 and reversals of costs recognized in previous years account for the balance.

In 2006, out of period income included a gain on the renegotiation of the price paid for natural gas under certain long-term contracts, a reduction in the penalties owed for using the strategic storage of natural gas during the first quarter of 2005 and the recovery of green certificate costs by CIP 6/92 thermoelectric power plants for the incentivized period, in accordance with AEEG Resolution No. 113/06. These items account for the decrease from the amount reported in 2006.

Sundry items refers to gains earned on the sale of property, plant and equipment totaling about 31 million euros, insurance settlements of about 6 million euros and recoveries of costs incurred by the hydrocarbons operations amounting to about 44 million euros.

23. Raw Materials and Services Used

The cost of raw materials and services used totaled 7,035 million euros, or 6.9% less than in 2006. Lower prices paid for some raw materials, including electric power and natural gas, and the absence of the costs incurred by companies sold last year (92 million euros) account for this reduction. If the data are restated on a comparable consolidation basis, the decrease is 5.8%. A breakdown is as follows:

(in millions of euros)	2007	2006	Change	% change
Purchases of:				
- Natural gas	3,204	3,471	(267)	(7.7%)
- Electric power	948	1,061	(113)	(10.7%)
- Dispatching and balancing market	116	146	(30)	(20.5%)
- Blast furnace, recycled and coke furnace gas	351	392	(41)	(10.5%)
- Oil and fuel	336	331	5	1.5%
- Demineralized industrial water	41	33	8	24.2%
- Green certificates	95	49	46	93.9%
- CO_2 emissions rights	4	42	(38)	n.m
- Other materials and utilities	156	147	9	6.1%
Total purchases	**5,251**	**5,672**	**(421)**	**(7.4%)**
- Facilities maintenance	258	234	24	10.3%
- Transmission of electric power and natural gas	989	982	7	0.7%
- Professional services	82	84	(2)	(2.4%)
- Insurance services	28	31	(3)	(9.7%)
- Commodity derivatives	59	264	(205)	(77.7%)
- Additions to provisions for risks	23	42	(19)	(45.2%)
- Writedowns of trade receivables	39	24	15	62.5%
- Change in inventory of work in progress, semifinished goods and finished goods	60	(74)	134	n.m
- Sundry charges	246	295	(49)	(16.6%)
Total for the Group	**7,035**	**7,554**	**(519)**	**(6.9%)**

The main components of other costs are 989 million euros in electric power and natural gas transmission costs (758 million euros and 231 million euros, respectively +0.7%) and 258 million euros (+10.3%) in facilities maintenance costs incurred by electric power operations (180 millions euros) and the hydrocarbons operations (74 millions euros).

Sundry charges of 246 million euros include out-of-period charges (about 52 million euros) and losses on the sale of property, plant and equipment (about 15 million euros). Sundry operating costs account for the balance.

The overall decrease in the cost of raw materials and services used is also due to a reduction of about 4 million euros in charges related to CO_2 risks, which in 2006 amounted to 42 million euros.

As discussed in detail in a separate disclosure provided earlier in this Report, the value of commodity derivatives decreased.

Breakdown of Raw Material and Services Used by Type of Business

(in millions of euros)	2007	2006	Change	% change
Electric power operations	5,800	6,238	(438)	(7.0%)
Hydrocarbons operations	3,649	3,894	(245)	(6.3%)
Corporate activities	92	90	2	2.2%
Eliminations	(2,522)	(2,687)	165	(6.1%)
Core businesses	**7,019**	**7,535**	**(516)**	**(6.8%)**
Diversified activities	16	19	(3)	(15.8%)
Total for the Group	**7,035**	**7,554**	**(519)**	**(6.9%)**

24. Labor Costs

Labor costs totaled 219 million euros, up from 210 million euros in 2006. Provisions booked to fund a liability stemming from the closure of the former Electric Workers Fund and regular wage increases account in part for this 4% rise in costs. The recognition of the impact on the income statement of the Long-term Management Incentive Program approved by the Board of Directors, which is discussed in the Report on Operations, was also a contributing factor.

25. EBITDA

EBITDA grew to 1,605 million euros, or 4.5% more than in 2006. If the data are restated on a comparable consolidation basis, i.e., taking into account the impact of the sale of Serene Spa and Edison Rete Spa (37 million euros) in 2006, EBITDA show an increase of 7.1%.
A breakdown by type of business is as follows:

(in millions of euros)	2007	as a % of sales revenues	2006	as a % of sales revenues	EBITDA % change
Electric power operations	1,238	18.3%	1,162	16.7%	6.5%
Hydrocarbons operations	427	10.8%	434	10.4%	(1.6%)
Corporate activities	(67)	n.m.	(70)	n.m.	n.m.
Core businesses	**1,598**	**19.4%**	**1,526**	**18.0%**	**4.7%**
Diversified activities	7	24.1%	10	29.4%	(30.0%)
Total for the Group	**1,605**	**19.4%**	**1,536**	**18.0%**	**4.5%**

The overall increase in EBITDA is the net result of the following changes:

- The EBITDA increase reported by the **electric power operations** (+6.5% compared with 2006) was made possible by higher unit sales in the deregulated markets (+2.0%). This improvement, which reflects a rise in production made possible by the full availability of the Altomonte and Torviscosa power plants, more than offset the impact of lower profitability in the CIP 6/92 segment and the absence of the contribution provided in 2006 by the divested companies (37 million euros). On a comparable consolidation basis, the electric power operations show an EBITDA gain of 10.0%.
- The slight decrease in EBITDA reported by the **hydrocarbons operations** (-1.6% compared with 2006) is due mainly to the strong negative impact of the lower sales prices charged for the gas sold to the CIP 6/92 thermoelectric power plants, as required by Resolution No. 249/06. Nevertheless, profit margins were held at a satisfactory level, thanks to the diversification and optimization of the portfolio of sources. Moreover, as mentioned earlier in this Report, the hydrocarbons operations benefited from the reversal of a provision due to the renegotiation of contract terms with end customers established in connection with Resolution No. 248/04 (or No. 79/07), which added 56 million euros to EBITDA, as against a negative impact of 53 million euros in 2006, and the reversal of another provision, amounting to 20 million euros, set aside in connection with Resolution No. 248/06 which was made possible by the favorable a settlement of a dispute with the AEEG.

26. Depreciation, Amortization and Writedowns

A breakdown of depreciation, amortization and writedowns, which totaled 709 million euros, is provided below:

(in millions of euros)	2007	2006	Change	% change
Depreciation of property, plant and equipment	612	623	(11)	(1.8%)
Depreciation of investment property	1	1	-	-
Amortization of hydrocarbon concessions	24	25	(1)	(4.0%)
Amortization of other intangible assets	69	51	18	35.3%
Writedowns of property, plant and equipment	3	90	(87)	n.m.
Writedowns of intangibles	-	2	(2)	n.m.
Reversals of writedowns of property, plant and equipment	-	(2)	2	n.m.
Reversals of writedowns of hydrocarbon concessions	-	(6)	6	n.m.
Total for the Group	**709**	**784**	**(75)**	**(9.6%)**

Breakdown by Type of Business

(in millions of euros)	2007	2006	Change	% change
Electric power operations	557	668	(111)	(16.6%)
Hydrocarbons operations	140	106	34	32.1%
Corporate activities	10	9	1	11.1%
Core businesses	**707**	**783**	**(76)**	**(9.7%)**
Diversified activities	2	1	1	n.m.
Total for the Group	**709**	**784**	**(75)**	**(9.6%)**

The main reason for the decrease in depreciation reported by the **electric power operations** is the absence of the writedowns of property, plant and equipment recognized in 2006 in accordance with the results of an impairment test, which had a negative impact of 86 million euros. In addition, an increase in depreciation due to the full availability of new power plants in Piacenza and Altomonte (in the first quarter of 2006) and Torviscosa (in the third quarter of 2006) and the commissioning of the Simeri Crichi facility (in the fourth quarter of 2007) offset only in part the impact of a change in the scope of consolidation caused by the sale of Serene and Edison Rete (22 million euros).

In the **hydrocarbons operations,** the increase in amortization of other intangible assets is due mainly to a rise in exploration costs (58 million euros, compared with 41 million euros in 2006). These costs, which were incurred mainly in Algeria (22 million euros) and the Ivory Coast (19 million euros) are amortized in full in the year they are incurred. Depreciation also increased due to a restatement of decomissioning costs, which is discussed in detail in the note to “Property, plant and equipment.”

Writedowns of property, plant and equipment (3 million euros) refer mainly to some thermoelectric power plant assets that will be removed from the production process.

27. Net Financial Income (Expense)

Net financial expense declined to 198 million euros, or 50 million euros less than in 2006. This decrease, which was achieved against the background of a generalized, significant rise in market interest rates, was made possible by a sharp reduction in indebtedness, which helped lower the Group's debt service costs. A breakdown of net financial expense is as follows:

(in millions of euros)	2007	2006	Change
Financial income			
Financial income from commodity derivatives	30	1	29
Financial income from financial derivatives	78	90	(12)
Interest earned on finance leases	13	15	(2)
Interest earned on bank and postal accounts	9	6	3
Interest earned on amounts due from the tax administration	1	3	(2)
Other financial income	23	20	3
Total financial income	**154**	**135**	**19**
Financial expense			
Interest paid on bond issues	(115)	(147)	32
Financial expense from commodity derivatives	(29)	(1)	(28)
Financial expense from financial derivatives	(81)	(110)	29
Interest paid to banks	(80)	(88)	8
Bank fees	(4)	(20)	16
Interest paid on decommissioning projects	(13)	(9)	(4)
Interest paid on finance leases	(1)	(1)	-
Interest paid in connection with employee severance benefits	(3)	(3)	-
Interest paid to other lenders	(3)	(3)	-
Other financial expense	(29)	(20)	(9)
Total financial expense	**(358)**	**(402)**	**44**
Foreign exchange translation gains (losses)			
Foreign exchange translation gains	19	26	(7)
Foreign exchange translation losses	(13)	(5)	(8)
Net foreign exchange translation gain (loss)	**6**	**21**	**(15)**
Net financial income (expense) for the Group	**(198)**	**(246)**	**48**

Specifically:

- **Interest earned on finance leases** of 13 million euros reflects the adoption of IFRIC 4.
- **Other financial income** of 23 million euros includes 8 million euros in income from reverse repurchase agreement transactions and 10 million euros in interest earned on trade receivables.
- **Interest paid on decomissioning projects,** which amounted to 13 million euros, is offset by a provision for decommissioning and remediation of industrial sites attributable mainly to the hydrocarbons operations.
- **Other financial expense** of 29 million euros includes 16 million euros related to Edipower put-and-call transactions and 6 million euros in interest paid to banks for factoring transactions.

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

28. Income from (Expense on) Equity Investments

The sharp increase on the expense side, which produced a net negative balance of 17 million euros, is the combined result of a reduction in gains generated by disposals of equity investments (Nile Valley, Sat, AMGA and ACEA were sold in 2006) and a rise in writedowns of equity investments recognized in 2007. A breakdown is provided in the table that follows:

(in millions of euros)	2007	2006	Change
Income from equity investments			
Dividends	2	2	-
Revaluations and valuations by the equity method of investments	3	4	(1)
Gains on the sale of equity investments	3	14	(11)
Total income from equity investments	**8**	**20**	**(12)**
Expenses on equity investments			
Writedowns and valuations by the equity method of investments	(22)	(4)	(18)
Losses on the sale of equity investments	(3)	-	(3)
Total expenses on equity investments	**(25)**	**(4)**	**(21)**
Total income from (expenses on) equity investments	**(17)**	**16**	**(33)**

The main components of this item are reviewed below:

Income:

- 2 million euros in dividend income, including 1 million euros from RCS Mediagroup;
- 3 million euros from the revaluation of equity investments, including 2 million euros from the marking to market of trading securities;
- 3 million euros in gains on disposals of equity investments.

Expense:

- 22 million euros booked in connection with risks related to investments in some Group companies (mainly the Diversified Activities) and to recognize the impact of marking to market trading securities;
- 3 million euros for losses on the sale of equity investments.

29. Other Income (Expense), Net

Net other income of 6 million euros (net other income of 37 million euros in 2006) is the result of nonrecurring items that are not related directly to the Group's regular operations. The main items included in this account are:

- **Income** of 32 million euros mainly from the reversal in earnings of existing provisions for risks, made possible by the cancellation of guarantees provided and the settlement of disputes related to the sale of equity investments executed in previous years;

- **Expense** of 26 million euros, including 19 million euros added to provisions to cover additional risks and accrued statutory and tax interest and 7 million euros in non-operating charges consisting mainly of legal costs incurred in connection with the abovementioned disputes.

30. Income Taxes

The income tax liability recognized in 2007 was 170 million euros, compared with 9 million euros the previous year. These two figures reflect the beneficial impact of the following nonrecurring extraordinary events: in 2006, a net extraordinary positive effect of 202 million euros generated by the realignment of the tax base of some of the Group's non-current assets to the corresponding values used for reporting purposes and, in 2007, a benefit of 135 million euros made possible by the 2008 Budget Law, which lowered income tax rates starting in 2008.
A breakdown of income taxes is as follows:

(in millions of euros)	2007	2006	Change
Current taxes	302	317	(15)
Net deferred-tax liabilities (assets)	(132)	(308)	176
Total for the Group	**170**	**9**	**161**

Current taxes include 267 million euros for corporate income taxes (IRES) and 54 million euros for local taxes (IRAP)and sundry 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, amounted to 21 million euros.

Net deferred-tax assets amounted to 132 million euros, compared with net deferred-tax assets of 308 million euros in 2006, when the balance reflected the extraordinary positive effect discussed above. The abovementioned balance reflects a net reversal of deferred taxes arising from the impact of the change in tax rates that will go into effect in 2008, which produced a net benefit of 135 million euros.

A breakdown of deferred-tax liabilities and deferred-tax assets is as follows:

(in millions of euros)	12/31/06	Additions	Utilizations	Restat. for new rates	IAS 39 to sharehold. equity	Reclassif. of Disposal Group	Other changes/ Reclassif./ Offsets	12/31/07
Provision for deferred taxes:								
Valuation differences of property, plant and equipment	791	13	(54)	(198)	-	(40)	67	579
Adoption of IAS 17 to value finance leases	43	3	-	(6)	-	-	-	40
Adoption of IAS 39 to value financial instruments:								
- impact on the income statement	2	-	(1)	-	-	-	-	1
- impact on shareholders' equity	2	-	-	-	-	-	-	2
Other deferred-tax liabilities	12	3	(1)	-	-	-	-	14
	850	**19**	**(56)**	**(204)**	**-**	**(40)**	**67**	**636**
Offsets	(98)						22	(76)
Provision for deferred taxes net of offsets	**752**	**19**	**(56)**	**(204)**	**-**	**(40)**	**89**	**560**
Deferred-tax assets:								
Tax loss carryforward	45	-	(8)	(6)	-	-	-	31
Taxed provisions for risks	113	20	(36)	(13)	-	-	2	86
Adoption of IAS 39 to value financial instruments:								
- impact on the income statement	9	2	(1)	(1)	-	-	-	9
- impact on shareholders' equity	4	-	-		(2)	-	-	2
Valuation differences of property, plant and equipment	26	3	(21)	(49)	-	(1)	64	22
Other deferred-tax assets	3	3	(2)	-	-	-	-	4
	200	**28**	**(68)**	**(69)**	**(2)**	**(1)**	**66**	**154**
Offsets	(98)						22	(76)
Deferred-tax assets net of offsets	**102**	**28**	**(68)**	**(69)**	**(2)**	**(1)**	**88**	**78**

The amounts shown under the column heading "Reclassifications of disposal group" include 1 million euros in prepaid taxes and a 40-million-euro provision for deferred taxes attributable to the assets and liabilities classified as held for sale.

31. Profit (Loss) from Discontinued Operations

No entries were posted to this account in 2007.

32. Profit (Loss) per Share

The share capital of Edison Spa consists of common shares and savings shares, each with different rights with regard to dividend distributions. Accordingly, the portion of net profit allocated to these two classes of shares was determined taking into account their respective rights in this area.

The total amount allocated to the common and savings shares was determined as follows:

- Basic earnings per share were computed based on the weighted average number of shares outstanding during the year;
- Diluted earnings per share were computed taking into account the potential common shares represented by the outstanding portion of the warrants issued in 2003 and the shares reserved for the exercise of stock options.

(in millions of euros)	2007		2006	
	Common shares	Savings shares [1]	Common shares	Savings shares [1]
Group interest in profit	497	497	654	654
Profit attributable to the different classes of shares	482	15	634	20
Weighted average number of shares outstanding (common and savings) determined for the purpose of computing profit per share:				
- basic (B)	4,638,069,829	110,592,420	4,162,525,771	110,592,420
- diluted (C) [2]	4,939,211,526	110,592,420	4,600,887,390	110,592,420
Profit per share (in euros)				
- basic (A/B)	0.1040	0.1340	0.1522	0.1822
- diluted (A/C) [2]	0.0976	0.1340	0.1377	0.1822

(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 Provided Pursuant to IFRS 5

Disposal Group - "CIP 6/92 Thermoelectric Power Plants"

Under an agreement signed on December 6, 2007, Edison will sell to Cofathec Servizi, a company of the Cofathec Group, seven thermoelectric power plants with a total installed capacity of about 540 megawatts. Specifically, Edison Spa will sell the power plants located in Castelmassa (RO), Nera Montoro (TR), Pomigliano (NA), Settimo Torinese (TO) and Spinetta Marengo (AL), which it owns outright, and the 70% interests it holds in the two companies that control the Boffalora (MI) and Celano (AQ) power plants, provided the relevant minority shareholders fail to exercise their preemptive rights.
In a subsequent development, the minority partner in Termica Celano Srl exercised its preemptive right to purchase Edison's equity interest in this subsidiary. As a result, on January 21, 2008, the parties executed a preliminary agreement for the sale of Edison's equity interest in Termica Celano. The terms are identical to those set forth in the preliminary agreement signed on December 6, 2007.

This transaction, which is valued at about 226 million euros, is expected to close once it is cleared by the relevant antitrust authorities. The final sales price will be adjusted to reflect any changes in the net financial position of the divested businesses.
All power plants are located within compounds that house industrial facilities and operate under CIP 6/92 contracts that are scheduled to expire between 2008 and 2014.

Even though the assets ad liabilities subject of the transaction do not constitute a business operation, they were treated as a "Disposal Group", as required by IFRS 5, and are shown on the balance sheet under "Assets and Liabilities held for sale", without any reclassification in the income statement.

The assets and liabilities included in the "Disposal Group" are listed below:

BALANCE SHEET (in millions of euros)	12/31/2007
Non-current assets	264
Current assets	54
Total assets	**318**
Shareholders' equity	**241**
Non-current liabilities	50
Current liabilities	27
Total liabilities and shareholders' equity	**318**

Commitments and Contingent Risks

(in millions of euros)	2007	2006	Change
Guarantees provided	1,237	2,300	(1,063)
Collateral provided	1,596	2,054	(458)
Other commitments and risks	410	634	(224)
Total for the Group	**3,243**	**4,988**	**(1,745)**

Guarantees Provided

Guarantees provided totaled 1,237 million euros. This figure is equal to the undiscounted amount of potential commitments on the balance sheet date.

The main guarantees provided include the following:

- 539 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.
- Guarantees provided by the Group's Parent Company to secure the performance of contractual obligations by its subsidiaries account for most of the balance.

The following items account for most of the large decrease that occurred compared with December 31, 2006:

- 425 million euros for the cancellation of guarantees upon the early repayment, on February 2, 2007, of a loan received by Edipower and guaranteed in part by Edison. On January 29, 2007, Edipower signed a new loan agreement to replace the old facility. Under the new agreement, Edison is no longer required to guarantee the provision of resources to this Group company.
- 368 million euros for the cancellation of Parent Company Guarantees issued by Edison Spa on behalf of Tecnimont when it was a Group company. These commitments are offset by the obligation undertaken by the buyer of Tecnimont to take over these commitments (with the approval of the third-party beneficiaries). The buyer secured some of these commitments with bank guarantees and promised to hold Edison harmless if these guarantees are enforced.
- 241 million euros for the cancellation of a portion of the guarantees provided on behalf of subsidiaries in connection with VAT credits.
- 61 million euros for the cancellation of a guarantees provided to secure performance of the obligations incurred by Bluefare Ltd's toward The Royal Bank of Scotland Plc in connection with the exercise of the Edipower call option.

Collateral Provided

Collateral provided, which amounted to 1,596 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 (910 million euros) pledged to a pool of banks to secure financing facilities.

Collateral provided includes additional collateral for liabilities listed on the balance sheet (622 million euros), which generally consist of mortgages and encumbrances granted on facilities of the electric power operations to secure financing. A total of 84 million euros refers to mortgages that secured loans used to build wind farms. Since these loans have been repaid, the mortgages are in the process of being deleted and will cease to be effective on June 30, 2008.

Other Commitments and Risks

Other commitments and risks of 410 million euros reflect mainly commitments undertaken to complete investment projects that are being carried out by Edison Spa and by the Group's operations in the wind power area and for natural gas storage facilities and pipelines.

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

1) The Group's **hydrocarbons** operations have entered into contracts for the importation of natural gas. As is usually the case, contracts of this magnitude and of these durations contain take-or-pay clauses that obligate the buyer to pay for any shortage between the stipulated maximum quantities and the quantity actually used (unless the shortage is due to causes not provided for in the contract), with the option for the buyer to make up, at certain conditions, the paid but unused volume over the life of the contract.
   In 2007, these clauses were activated due to the Company's decision to take advantage of temporary price opportunities that were available in the spot market. Pursuant to these clauses, the Company will pay a certain amount to its contractual counterparts. However, considering the projected trend of natural gas deliveries in future years, these payments should be viewed not as penalties but as downpayments on future deliveries. Consequently they were classified as advances to suppliers.
   The import contracts with Russia, Libya and Norway, which are already operational, provide total supplies of 7.4 billion cubic meters of natural gas a year. In addition, the Group signed three new contracts to import additional quantities of natural gas in future years:
   - The first of these supply contracts is with RasGas (Qatar). It calls for deliveries to begin upon completion by Terminale GNL Adriatico Srl of the Isola di Porto Viro LNG terminal, which is currently being built and is expected to go on stream in 2008. When this agreement is fully operational, RasGas will supply a total of 6.4 billion cubic meters of natural gas per year.
   - The second contract, which was signed with Sonatrach, involves importing 2 billion cubic meters of natural gas a year from Algeria. Deliveries are scheduled to start in 2008, once the first phase of the expansion of the pipeline linking Algeria and Italy through Tunisia (TTPC: Trans Tunisian Pipeline Company) is completed.
   - The third contract (*Protocole d'accord*), which was signed with Sonatrach in November 2006, calls for the supply of 2 billion cubic meters of natural gas a year through the new pipeline linking Algeria with Sardinia and Tuscany that will be built by Galsi. The implementation of this agreement is subject to the construction of the pipeline, which is currently in the project development phase.

Take-or-pay payments are made at a price based on the supply contract price, indexed to current market conditions. These contracts have terms ranging between 4 and 25 years and, when all of them are fully implemented, will supply the Group with 18 billion cubic meters of natural gas per year.

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

2) Insofar as the **electric power** operations are concerned:

- Edison has agreed to sell to Cartiere Burgo Spa a call option to purchase a 51% interest in Gever. This option is exercisable when the contract under which Gever supplies Cartiere Burgo with electric power and steam expires (in 2017) at a price equal to the corresponding pro rata interest in the company's shareholders' equity.
- In June 2007, Edison Spa signed two ERPAs (Emission Reductions Purchase Agreements) for the purchase of CERs (Certified Emission Reductions), which are CO_2 emission reduction certificates. These certificates are generated in connection with two hydroelectric power plants in China with an installed capacity of 69 MW and 6.4 MW, for a total of 1.38 million CERs during the 2007-2012 period. Under the agreements, payment will be due upon the delivery of the CERs on March 1 of each year. The CERs must still be validated and registered in accordance with the UNFCC (United Nations Framework Convention on Climate Change), which is expected to occur in the first half of 2008.
- Edison Spa entered into a management agreement with EDF Trading (EDF Carbon Fund) involving the purchase for a fixed price of Certified Emission Reduction/Emission Reduction Units (CER/ERU - CO_2 emission certificate). The terms of the agreement are consistent with the Investment Guidelines. Edison's interest in the fund will amount up to 30 million euros over the next 5 years.

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

Status of the Main Legal and Tax Disputes Pending at December 31, 2007

A review, based on information currently available, of the main legal and tax disputes currently outstanding is provided below, listing separately actions involving Edison Spa and actions involving other Group companies. Legal disputes were subdivided further between probable liabilities, 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 contingent liabilities, which are dependent on the occurrence of events that are possible, but not probable, or are probable but their impact cannot be quantified reliably. With regard to contingent liabilities, only a disclosure is provided in the Notes to the financial statements.

Legal disputes involving a probable liability for which a provision for risks was recognized in the balance sheet are reviewed below.

A) Edison Spa

European Commission - Antitrust Proceedings Against Ausimont

In the appeal filed by Edison before the E.U. Court of First Instance 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, the parties are waiting for the Court of First Instance to set a date for oral arguments. The purpose of the appeal is to see the fine voided or, alternatively, reduced. In 2006, 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.

Stava Dam Disaster

Negotiations are continuing to settle the remaining claims of parties injured by the collapse of the Prestavel Dams in 1985.

Actions for Damages Arising from the Operation of Chemical Facilities Transferred to Enimont
There were no significant new developments in the proceedings pending before the courts for damages caused by the operation of certain facilities prior to their transfer to Enimont. The status of pending lawsuits is as follows: (i) The suit filed in the Court of Milan by the Region of Lombardy against EniChem, BASF Italia, Dibra and Montecatini (now Edison) for environmental damages caused by the operation of a factory in Cesano Maderno is still in the investigative phase; and (ii) The action in which Dibra is suing EniChem and Montecatini (now Edison) for damages stemming from the sale of the Cesano Maderno factory has been suspended, pending the outcome of the related lawsuit mentioned above.

Porto Marghera Petrochemical Facility - Criminal Proceedings for Injuries Caused by Exposure to Monovinyl Chloride and for Damages to the Environment
In the criminal proceedings for injuries caused by exposure to monovinyl chloride and for damages to the environment at the Porto Marghera petrochemical facility, following a final court decision that found five former Montedison Directors and executives guilty of involuntary manslaughter in the death of an employee, who died of liver sarcoma in 1999, and ordered the defendants and Edison, in its capacity as defendant in the civil action, to pay damages, refund the legal fees of other parties in the civil action and pay court costs, Edison reached settlements with all of the injured individuals who won the right to receive compensation for damages. The Company is currently negotiating settlements of other claims from plaintiffs in civil proceedings that concern legal costs incurred in connection with these proceedings.

Brindisi Petrochemical Facility - Criminal Proceedings for Injuries Sustained Through Exposure to Monovinyl Chloride and Polyvinyl Chloride and for Damages to the Environment
Hearings to discuss the briefs opposing the motion filed by the Office of the Public Prosecutor of Brindisi asking that the case be dropped are continuing in the proceedings that are pending before the Court of Brindisi against former Montedison Directors and executives for alleged injuries caused by exposure to monovinyl chloride and polyvinyl chloride and damages to the environment.

Mantua Petrochemical Complex - Criminal Proceedings for Personal Injuries and Environmental Damages
The preliminary investigation into an allegedly statistically significant excess of mortality from tumors among the local population and the employees of the Mantua facility due to the environmental impact of the waste incinerator and landfills located within the complex is continuing. No significant developments have occurred thus far.

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

Verbania Factory - Criminal Proceedings for Injuries Caused by Exposure to Asbestos Dust
At the conclusion of the trial of certain former Directors and executives of Montefibre in connection with events at the Verbania plant that was pending before the Court of Verbania, three of the defendants were found guilty of involuntary manslaughter. The court also found the company who is a defendant

in the civil action (Montefibre) jointly liable for the payment of damages owed to the plaintiffs in the civil action, which were quantified on a provisional basis, and court costs. An appeal against this decision has been filed with the Turin Court of Appeal

Verbania Factory/2 - Criminal Proceedings for Injuries Caused by Exposure to Asbestos Dust
As a result of the decision handed down by the Court of Verbania finding three former Directors and executives of Montefibre guilty of involuntary manslaughter, the Office of the Public Prosecutor of Verbania began a new investigation targeting former Directors and executives of Montefibre Spa in connection with the death or illness of employees allegedly caused by exposure to asbestos in different forms at a factory in Verbania formerly owned by Montedison (now Edison).

Claims for Damages Caused by Exposure to Asbestos
In recent years, there has been a significant increase in the number of claims for damages arising from the deaths or illnesses of workers that were allegedly caused by exposure to different forms of asbestos at factories formerly owned by Montedison (now Edison) or from judicial cases taken over by Edison as a result of corporate transactions. Without rendering an opinion on the merits of these claims, considering the long latency of illnesses related to exposure to different types of asbestos and the industrial activities carried out in the past by Group companies that belonged to the chemical industry, the presence of these companies throughout Italy and the manufacturing technologies used (considering the dates when these activities were carried out and the state of technological advancement at the time), which complied fully with the laws in force at that time, the possibility that new legitimate claims for damages may emerge in addition to those that are already the subject of several civil and criminal proceedings cannot be excluded.

Sale of Ausimont: Solvay Arbitration
In the arbitration proceedings initiated on May 11, 2005 by Solvay Sa and Solvay Solexis Spa, acting through the International Chamber of Commerce (ICC) - International Arbitration Chamber, against Edison in connection with certain disputes that have arisen between the parties with respect to the representations and warranties contained in the contract covering Edison's sale of its interest in Agorà Spa (parent company of Ausimont Spa), the filing of the conclusion clarifications has been completed and the arbitrators are now expected to hand down their award.

Savings Shareholders/UBS: Lawsuit for Damages Caused by the Merger of Edison into Italenergia
There have been no significant developments in the proceedings concerning the combined lawsuits pending before the Court of Milan, in which the Joint Representative of the savings shareholders and UBS AG sued Edison, Italenergia Spa and others challenging the merger of the abovementioned companies and asking the Court to award them compensation for damages. In the course of the proceedings, the technical consultant appointed by the Investigating Judge filed a technical report that, while finding that the valuation criteria used were indeed adequate, concluded that there were some flaws in the valuation process (lack of control methods) and instances of incorrect application of the chosen valuation criteria that may have produced adverse consequences for the holders of savings shares.

Sesto Siderservizi - Environmental Remediation of Concordia South Properties
Sesto Siderservizi has sued Edison (in its capacity as the company that absorbed Termica Narni Spa) before the Court of Milan seeking payment for part of the costs incurred for the environmental remediation of the properties called Concordia South, in the city of Sesto San Giovanni. The lawsuit is based on a series of agreements that the companies allegedly concluded when they were both part of the Falck Group. Edison has joined the proceedings asking for the dismissal of the action filed by the plaintiff.

B) Other Group Companies

Farmoplant - 1988 Accident at the Massa Plant

The civil action filed by the Province of Massa-Carrara and the Municipalities of Massa and Carrara for damages caused by an accident that occurred at Farmoplant's Massa facility in 1988 is continuing before the Court of Genoa.

Edison International Holding NV (formerly Montedison Finance Europe) - Bankruptcy of Domp BV

There have been no significant developments requiring disclosure in the appeal against a decision by the Dutch trial court that found Montedison Finance Europe liable for J. Domp's bankruptcy and, therefore, liable for all of the respective liabilities, which have been quantified by the Trustee in Bankruptcy at a total of about 11.6 million euros.

Multiutility vs Edison Energia

Multiutility Spa is suing Edison Energia Spa alleging numerous instances of failure to comply with obligations arising from contracts executed by the two companies between 2004 and 2006 and involving the wholesale supply of electric power. Specifically, the disputed items include a claim that a transaction executed by Multiutility and Edison Energia pursuant to the abovementioned contracts is void and involve the manner in which the sales prices of electric power were determined in accordance with or disregarding certain resolutions issued by the Electric Power and Gas Authority that were later challenged before the Regional Administrative Court of Lombardy. The Company is currently reviewing the complaint before responding in the most effective manner.

* * * * *

The current status of the principal **legal disputes** that have arisen from past events which are dependent on the occurrence of events that are possible, but non probable, or are probable but their impact cannot be quantified reliably and that are likely to result in a cash outlay of an amount that cannot reasonably be estimated as a result of obligations that existed on the balance sheet date, based on available information, is reviewed below:

Environmental Legislation

In recent years, we have witnessed an expansion and evolution of environmental laws (most recently with Legislative Decree No. 152 of April 3, 2006 "Environmental Regulations"), specifically with regard to liability for environmental damages, which is especially relevant to the purposes of these notes. In particular, the discussion and adoption in several legal systems of the principle of "internalization" of environmental costs (summarized in the expression "those who pollute must pay") have resulted in the development of two new types of liabilities for the act of polluting-objective liability (which does not require the objective element of guilt) and indirect liability (which stems from the actions of others), which can arise as a result of an earlier act that constitutes a violation of acceptable contamination levels under current laws.

In Italy, this approach is becoming established practice at both the administrative level (the relevant provisions are being enforced very aggressively) and the judicial level (criminal laws and civil liability provisions concerning instances of environmental damage are being interpreted very restrictively).

In this area, several proceedings are pending before administrative judges, at different stages of development and judicial levels, against decisions issued by national and local governments ordering the Company to carry out environmental remediation projects both at facilities that the Company no longer owns and at industrial properties that it still owns (mainly thermoelectric power plants) that were contaminated by work carried out in past years. More in general, without questioning the validity of these new legislative assumptions and the procedural accuracy of their implementation and interpretation, and taking into account the current and past scope of the Company's industrial operations, particularly in the chemical industry, their wide geographical distribution and their environmental impact based on the

time when they were being carried out and the technology existing at the time, which was in compliance with the statutes then in force, it cannot be excluded that in light of current legislation, new charges may be levied against the Company in addition to those issued in the existing administrative and civil proceedings. It is also probable that current legislation will be applied with the strictness and severity mentioned above to all contamination events that occurred in the past.
At this point, based on the available information and the documents filed in the proceedings reviewed above, it is impossible to determine whether damages will in fact be assessed nor the amount of those damages.

A) Edison Spa

ACEA Unfair Competition

The discovery phase in the lawsuit filed by ACEA Spa before the Court of Rome in connection against several parties, including, among others, AEM Spa (now A2A Spa), EdF Sa, Edipower Spa and Edison Spa is continuing. ACEA alleges that the acquisition of joint control of Edison by EdF Sa and AEM Spa (now A2A 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 (A2A 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).

Montedison (now Edison) - Finanziaria Agroindustriale Merger

No significant new developments have occurred with regard to the appeal to overturn the decision handed down by the Court of Genoa in December 2000 in the suit filed by Mittel Investimenti Finanziari and other shareholders of Finanziaria Agroindustriale. The parties that refused to join in the settlement concluded by Edison and Mittel Investimenti Finanziari are still waiting for a decision.

Sale of Tecnimont: Edison/Falck Arbitration

In the arbitration proceedings concerning the dispute that arose when Falck failed to purchase Edison's interest in Tecnimont, the technical consultant retained by Board of Arbitrators is continuing to work on determining the damages suffered by Edison because of Falck's failure to perform its obligations.

MEMC Lawsuits

In the proceedings concerning the lawsuit 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, the plaintiff appealed the decision handed down by the Court rejecting all of the claims of the opposing party and ordering payment of all costs.

Pagnan vs Edison

By means of a third-party summons, Pagnan Spa, a defendant in an action filed by the Ministry of the Environment and for the Protection of Land and Sea and the Ministry of Infrastructures for alleged environmental damages caused in the area of the South Channel Dockyard in the Malcontenta section of the Porto Marghera Industrial Park, sued Edison before the Court of Venice. The Company is currently reviewing the complaint, also in light of the settlement reached by the Office of the Prime Minister and Edison concerning issues related to the Porto Marghera Industrial Park.

Vega Offshore Hydrocarbon Field - Vega Oil Vessel

The Porto di Pozzallo (RG) Coast Guard took a series of official actions, which culminated with the issuance of a cease and desist order demanding that Edison remove the Vega Oil vessel, which is used to store hydrocarbons extracted from the Vega offshore field, to a dockyard to complete extraordinary

maintenance work that was already being performed on site. Edison challenged this and other orders asking that they be held in abeyance but without success. The Company is currently defining the operational program needed to comply with the Coast Guard's order.
As a result of the orders issued by the Coast Guard, some of which were forwarded to the Public Prosecutor in Modica, the latter launched two separate preliminary investigations. In the course of one of these proceedings, the Public Prosecutor carried an evidence gathering procedure to determine if the Vega Oil vessel was in compliance with the applicable safety regulations. This procedure is currently being carried out.

B) Other Group Companies

Pizzo Sella Real Estate Development and Seizure of Assets in Sicily

There were no significant new developments worth mentioning with regard to the negative assessment action filed by Finimeg, parent company of Poggio Mondello (currently in receivership), asking the administrative law judge to rule that the seizure of the Pizzo Sella real estate development for unlawful property subdivision ordered by the Court of Palermo and upheld by the Italian Supreme Court in December 2001 be ruled unenforceable. The seizure also covers other real estate assets owned by Poggio Mondello. In proceedings addressing the same issues that were pending before the Court of Palermo, the lower court handed down a decision stating that it lacked jurisdiction (the criminal court being the proper court of venue) and denying the claims for damages filed by Finimeg against the City of Palermo.
The lawsuits filed by certain buyers and prospective purchasers of the homes included in the real estate development affected by the order of seizure for criminal violations at the Pizzo Sella development, who sued Edison, Finimeg, Poggio Mondello and the Municipality of Palermo to recover damages incurred as a result of the seizure of their properties, proceeded through the various levels of the court system. Early pronouncements by the Court of Palermo ruling that Poggio Mondello could not be held contractually liable and finding, among other issues, that a seizure for criminal violations cannot be enforced against bona fide third-party buyers who have registered their ownership title prior to the recording of any administrative penalty measure, have been followed by a decision that, while ruling that the purchase agreement for one of the buildings included in the unlawful property subdivision was null and void, ordered Poggio Mondello to repay approximately 400,000 euros, which is the same amount as the price collected by Poggio Mondello.
In the proceedings concerning a challenge to an order of attachment, which was later converted into the confiscation of the shares, partnership interests and assets of the Finsavi and Generale Impianti affiliates and of the Calcestruzzi Palermo, Frigotecnica and Poggio Mondello subsidiaries issued by the Court of Palermo on May 15, 2002 within the context of an action involving the issuance of preventive measures, the Court of Appeals of Palermo concurred with Edison's defense brief by which the Company claimed that there was no connection whatsoever between Edison and the Mafia member who was the target of the asset confiscation order. Consequently, the Court set aside the attachment and confiscation of the equity capital and assets of the Frigotecnica and Poggio Mondello subsidiaries and of the equity capital of Finsavi and Generale Impianti owned by Edison, but upheld the confiscation order for the assets of Finsavi and Generale Impianti.

Edison Trading and Edipower - Brindisi Coal Storage Facility

Following the issuance of an order of seizure on March 3, 2005 by the Public Prosecutor of the Court of Brindisi in response to the excessive dust caused by the coal storage facility at Edipower's Brindisi North power plant, the technical consultant appointed by the Public Prosecutor of the Court of Brindisi is currently working to determine the existence, if any, of contamination of the subsoil and aquifer.

Montedison Srl - Property in Bussi sul Tirino (PE)

The Public Prosecutor of Pescara is continuing an investigation in connection with the alleged poisoning of the aquifer and environmental disaster in the Aterno River basin, near Bussi sul Tirino, where for over a century a factory has been in operation, most recently by Ausimont Spa, which was sold to Solvay

Solexis Spa (a subsidiary of Solvay Sa) in 2002. As a result of these proceedings, the Court order the seizure of a parcel of land adjoining the abovementioned factory. A large quantity of industrial waste was found on this parcel of land, which is owned by Montedison Srl. Specifically with regard to the contamination of this property, the Prime Minister, by an order dated October 4, 2007, appointed a Commissioner empowered to carry out on an urgent basis characterization, safety and remediation projects.

Action Filed by the AEEG with Resolution No. 186/06 Against EdF Energia Italia (now Edison Energia Spa), Edison Trading Spa and Edipower Spa

On July 23, 2007, the AEEG issued a notice ending an official investigation of various parties, including Edison Trading Spa, Edipower Spa and EDF Energia Italia Srl (now Edison Energia Spa), which was the subject of Resolution No. 186/06. The AEEG began this action when it issued AEEG Resolution No. 186/06 charging EdF Energia Italia (now Edison Energia), Edison Trading and Edipower with multiple violations of Resolution No. 50/05, which requires all operators in and users of the dispatching market to communicate the data and information necessary to evaluate control and linkage relationships that could fit into one of the categories listed in Article 7 of Law No. 287 of October 10, 1990. The AEEG concurred with some of the arguments put forth by the abovementioned companies and agreed that they will not be required to pay any fine.

Edison Stoccaggio - Cavarzere-Minerbio Natural Gas Pipeline (Dedicated to the Offshore Regasification Terminal Being Built by Adriatic LGN Near Rovigo)

Based on statements provided voluntarily by a former employee of a company hired to build a section of the Cavarzere-Minerbio natural gas pipeline, the Office of the Public Prosecutor of Rovigo launched a series of preliminary investigations. As part of this process, in July 2007, it ordered that allegedly defective pipes used by Edison Stoccaggio to build a section of the natural gas pipeline be seized as evidence. The company challenged the seizure in a motion asking for a review by the Court of Rovigo, which, in September 2007, handed down a decision lifting the seizure of the pipes. The public prosecutor appealed to the Court of Cassation, which, after a hearing held in January 2008, set aside the lower court's decision. In the meantime, the case was transferred to the Office of the Public Prosecutor at the Court of Venice, which has geographical jurisdiction. No further action has been taken in these proceedings.

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

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

The disputed items arose from a Report of Contested Violations issued by the Italian Revenue Police following a general audit that took place in 2000. The resulting assessments concerned the annual tax liability from 1993 to 1997. Currently, the assessments for the 1996, 1996 and 1997 fiscal years are still pending. The assessments for all of the remaining years have been settled.
In March 2007, the Regional Tax Commission upheld the decision of the Provincial Tax Commission, voiding the corporate income tax (IRPEG) and local income tax (ILOR) assessments for the 1995 and 1996 fiscal years.
As for the IRPEG and ILOR assessment for the 1997 fiscal year, oral arguments before the Regional Tax Commission in the appeal filed by the Revenue Office against the favorable decision handed down by the Provincial Tax Commission have been scheduled for April 2008.

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

The appeal filed against the assessments issued following a tax audit for the 2002 fiscal year, which was discussed in November 2006 before the Milan Provincial Tax Commission, was substantively upheld and the full amount of the assessment was voided, except for an addition of 26,000 euros to taxable income. The deadline by which the Tax Office must fined an appeal has not yet expired.

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

Edison Energia, as successor to EDF Energia Italia, filed a motion before the Milan Provincial Tax Commission contesting a notice of assessment it received in December 2006 for customs VAT due for 2001, 2002 and 2003, asking that the entire amount of the assessment be voided. The Tax Commission heard oral arguments in October 2007 and its decision is forthcoming.

A similar motion has been filed against a notice of penalty assessment received in May 2007 in connection with the same issue.

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

Transactions Among Group Companies and with Related Parties

During 2007, Edison Spa and its subsidiaries engaged in a number of commercial and financial transactions with some of its current shareholders and/or companies controlled by them. The table that follows provides an overview of these transactions, which were carried out in the normal course of business based on contractual terms mutually agreed upon by the parties that are consistent with market practice. A breakdown is as follows:

(in millions of euros)			Other related parties								
	With unconsolidated Group companies	With the controlling company	EdF Group	AEM Group (now A2A)	ENIA Group	SEL Group	Banca Popolare Milano	Medio-banca	Total related parties	Total for financial statem. line item	% of financial statem. line item
Balance sheet transactions											
Trade receivables	29	-	9	18	78	-	-	-	134	1,654	8.1%
Other receivables	-	18	10	-	-	-	-	-	28	371	7.5%
Trade payables	1	-	8	21	7	-	-	-	37	1,394	2.7%
Other payables	-	124	1	-	-	-	-	-	125	652	19.2%
Short-term borrowings	28	-	-	-	-	-	1	15	44	485	9.1%
Long-term borrowings and other financial liabilities	-	-	-	-	-	-	23	197	220	1,216	18.1%
Income statement transactions											
Sales revenues	133	-	49	78	351	6	-	-	617	8,276	7.5%
Other revenues and income	-	-	-	59	-	-	-	-	59	583	10.1%
Raw materials and services used	10	-	96	81	23		-	-	210	7,035	3.0%
Financial income	-	-	-	-	-	-	-	-	-	154	-
Financial expense	-	-	-	-	-	-	1	10	11	358	3.1%
Commitments and contingent risks											
Guarantees provided	-	-	-	-	-	-	5	-	5	1,237	0.4%
Collateral provided	-	-	-	-	-	-	-	74	74	1,596	4.6%

A. Transactions Among Group Companies

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

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

All of the transactions listed above are governed by contracts with conditions that are consistent with market terms, with the exception of those related to the VAT Pool and the Consolidated corporate income tax (IRES) return, which were executed pursuant to law.

Consolidated VAT Return - Edison Spa files a consolidated VAT return (so-called VAT Pool) that includes those companies of the Edison Group that meet the requirements of Article 73, Section 3, of Presidential Decree No. 633/72, as amended, and of the Ministerial Decree dated December 13, 1979. Under the consolidated return system, Group companies transfer to Edison Spa, either monthly or quarterly, VAT payable and receivable positions in order to allow Edison Spa to offset these positions and pay only the resulting debit balance, if any. The Group VAT return for December 2007 shows that the

Group's tax liability was about 21 million euros, 20.5 million euros of which was covered by estimated payments made during the year.

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

B. Other Transactions with Related Parties

An analysis of these transactions is provided below.

1) Commercial Transactions

Electric Power Operations

EDF Group:

- The parties executed contracts for the supply of electric power, which resulted in the purchase of electric power worth about 66 million euros, mainly from ENBW and EDF Trading, and the sale of electric power valued at about 25 million euros.
- The provision of technical, engineering and management services at power plants in Taranto and Piombino, and at the Milan headquarters resulted in the recognition of revenues totaling about 12 million euros from Fenice Spa for recovery of maintenance costs.

AEM Group (now A2A Group):

- During the period, Edison Spa supplied AEM Spa (now A2A Spa) with steam valued at about 7 million euros from its Sesto San Giovanni power plant. Other transactions included purchases of electric power for about 15 million euros, green certificates for 13 million euros and miscellaneous services for 4 million euros;
- 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 about 59 million euros from Aem Trading Srl.
- Edipower booked revenues of 71 million euros (Edison's pro rata share) from the sale of electric power to Aem Trading (61 million euros in tolling revenues and 10 million euros in revenues related to the dispatching services market) and costs totaling 43 million euros, mainly for purchases related to the dispatching services market.
- Other transactions included purchases of electric power for 15 million euros, green certificated for 13 million euros and miscellaneous services for 4 million euros.
- Transactions with companies of the AEM Group that involve balance sheet items include trade receivables totaling about 18 million euros and trade payables amounting to about 21 million euros.

ENIA Group:

- Sales of electric power to companies of the ENIA Group totaled about 61 million euros. At the same time, Edison Trading purchased energy valued at less than 1 million euros from Enìa Spa.

SEL Group:

- Sel Edison sold to Sel Trade (SEL Group) electric power valued at about 6 million euros.

Hydrocarbons Operations

EDF Group:

- Purchases of natural gas from the EDF Group totaled 23 million euros (12 million euros from ENBW and 11 million euros from EDF Trading). At the same time, EDF Trading bought natural gas valued at 7 million euros.

AEM Group (now A2A Group):

- Purchases of natural gas from Plurigas amounted to about 5 million euros.

ENIA Group:

- Transactions with companies of the ENIA Group included sales of natural gas valued at 285 million euros and purchases of natural gas amounting to 21 million euros.
- Transactions with companies of the ENIA Group that involve balance sheet items include trade receivables totaling about 78 million euros and trade payables amounting to about 7 million euros.

2) Financial Transactions

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

- Banca Popolare di Milano provided Edison with a 50-million-euro revocable line of credit that accrues interest at market rates. A total of about 5 million euros had been drawn down as of December 31, 2007. The same bank was also one of the lenders in a syndicated financing facility totaling 2 billion euros provided to Edipower in January 2007. Banca Popolare di Milano's share of the loan was 50 million euros (25 million euros attributable to Edison). At December 31, 2007, a total of 45 million euros had been drawn against this credit line (22.5 million euros attributable to Edison).
- In 2004, Mediobanca provided Edison Spa with 120 million euros in financing against EIB funds. Mediobanca was also one of the banks that provided Edipower with the abovementioned 2-billion-euro syndicated loan. Mediobanca's share of the loan was 169 million euros (84.5 million euros attributable to Edison). Since this credit line was used only in part at December 31, 2007 based on a total available amount of 200 million euros, Edipower's exposure toward Mediobanca was about 152 million euros (76 million euros attributable to Edison). The Edison group companies Gever and Termica Celano (currently being divested) hold lines of credit in a financing pool totaling about 17.6 million euros, of which about 15.4 million euros have been drawn down. Lastly, Mediobanca is a party to interest risk hedging transactions executed by Group companies.

3) Other Transactions

- On July 27, 2007, following the expiration of the "Agreement to Permanently Settle Disputes Concerning the Shareholder Agreement and for the Temporary Management of Blumet Spa" on June 15, 2007, the contracting parties - Edison Spa, Enìa Spa and SAT Finanziaria Spa - executed a new contract called "Addendum Amending and Replacing the Agreement to Permanently Settle Disputes Concerning the Shareholder Agreement and for the Temporary Management of Blumet Spa" by which they agreed to extend the deadline for reaching an agreement to renew long-term stipulations concerning the governance of the equity interests held by the parties in Blumet (now called Enìa Energia Spa) and the supply by Edison Spa of the natural gas and electric power that Enìa Energia Spa needs for its distribution and sales operations. With the Addendum and following a full demerger of

Blumet Spa, which was completed in October 2007, the parties agreed to transfer to Enìa Energia Spa all relevant interests, rights and commitments attributable to Blumet Spa under the Agreement and the Addendum and to transfer to Enìa Spa the interest held by Edison in the share capital of Sat Finanziaria Spa as of the same date. In October 2007, following a further exchange of correspondence, the parties ultimately agreed to postpone from November 30, 2007 to June 30, 2008 the deadline set forth in the Addendum by which Edison Spa is required to sell to Enìa Spa its interest in the share capital of Enìa Energia Spa, with the understanding that the parties have the option of extending to June 30, 2008 the deadline for defining and executing a new long-term agreement for the governance of the equity interests held by the parties in the share capital of Enìa Energia Spa.

- In November 2007, Edison and Dolomiti Energia, a company based in the Province of Trent, signed an agreement to establish a joint venture that will operate hydroelectric facilities in the province of Trent. Under the agreement, Edison will convey to a newly established limited liability company the business operations consisting of three hydroelectric power plants (Taio-Santa Giustina, Mezzocorona/Mollaro and Pozzolago) it owns. These facilities, which operate by virtue of concessions expiring in 2008, 2017 and 2016, respectively, have a combined installed capacity of about 180 MW and an average annual potential output of more than 500 million KWh. Subsequently, 51% of the new company's capital will be sold to Dolomiti Energia, with Edison retaining a 49% interest. Pursuant to the terms of the agreement, the sales price for a 51% interest in the new company, which amounts to 53.75 million euros, was arrived at based on a total value of 105 million euros for all of the conveyed business operations. The abovementioned consideration reflects the fact that Edison will continue to manage the dispatching of and, until the existing concessions empire, will take delivery of all of the energy produced by the conveyed power plants. If the concessions are not extended, Edison will have the right to buy back (and Dolomiti Energia will have the right to sell) the 51% interest owned by Dolomiti Energia, during the period from June 30, 2008 to December 31, 2014. The criteria for determining the exercise price of these options, which are set forth in the terms of the agreement, are based on the consideration paid for a 51% interest in the company and take into account the benefits received in the intervening years by managing the company. Given the structure of the contractual stipulations, the company will be consolidated line by line, in accordance with the provisions of IAS 27 and SIC 12, as long as a majority of the risks and benefits that derive from the company's business operations continue to be attributable to Edison.

Significant Nonrecurring Events and Transactions

As required by the CONSOB Communication No. DEM/6064293 of July 28, 2006, the followign disclosure lists the signficant nonrecurring transactions that the Edison Group executed in 2007:

- Sales of Serene Spa, which had no impact on the income statement but reduced net borrowings by 117 million euros.
- In December 2007, Edison agreed to sell to Cofathec Servizi seven thermoelectric power plants with an aggregate installed capacity of about 540 MW. The transaction was valued at 226 million euros. Additional information is provided in a separate IFRS 5 disclosure.

Changes Resulting from Atypical and/or Unusual Transactions

As required by CONSOB Communication No. DEM/6064293 of July 28, 2006, the Group declares that in 2007 it did not execute any atypical and/or unusual transactions, as defined in the abovementioned Communication.

Treasury Shares

At December 31, 2007, the Group did not own any treasury shares.

Compensation of Directors and Statutory Auditors, Stock Options Awarded to Directors and Equity Investments of Directors

For information concerning:

- the compensation of Directors and Statutory Auditors;
- stock options awarded to Directors;
- equity investments of Directors;

please consult the chapter on Corporate Governance of the Report on Operations.

Significant Events Occurring Since December 31, 2007

Edison Signs a Hydrocarbon Exploration Contract in Iran

On January 9, 2008, after submitting the winning bid for an 8,600-km^2 offshore block in the Persian Gulf that was being offered by the National Iranian Oil Company (NIOC), Edison signed a hydrocarbon exploration contract. The contract calls for a four-year exploration period of 4 years that will be used to carry out surveys, acquire and process seismic data and drill an exploratory well, at a cost of approximately 30 million euros. If reserves are discovered, Edison will proceed directly with the development phase.

Constitutional Court - Law No. 266 of December 23, 2005 (Article 1, Section 483, Sections from 485 to 488, and Section 492)

By a decision handed down on January 18, 2008, the Italian Constitutional Court ruled that certain provisions of Law No. 266 of December 23, 2005 (Article 1, Section 483, Sections from 485 to 488, and Section 492), which provide a comprehensive regulatory framework with regard to concessions for large-scale diversion of water for hydroelectric power plants and include both regulations with an immediate and temporary effect and regulations that will apply when the law is fully enacted, are unconstitutional. Specifically, in settling jurisdictional conflicts between the central government and regional governments raised in actions filed by some regional administrations, the court found that the provision according to which the concessions that existed on the date when the law went into effect could be extended for 10 years, provided substantial projects to modernize the production facilities are carried out, was unconstitutional because it infringed on the competing jurisdiction of the regional administrations with regard to energy production, transmission and national distribution referred to in Article 117, Section 3, of the Constitution.
The Company availed itself of the procedures required for the purpose of securing for three of its hydroelectric concessions the extension provided in the provisions that were found to be unconstitutional. Based on the requirements of the abovementioned law, these procedures have been completed. Consequently, it would seem reasonable to assume that they will not be adversely affected by the abovementioned court decision.

Edison Signs a declaration of intent to establish by March 2008 Poseidon Co.

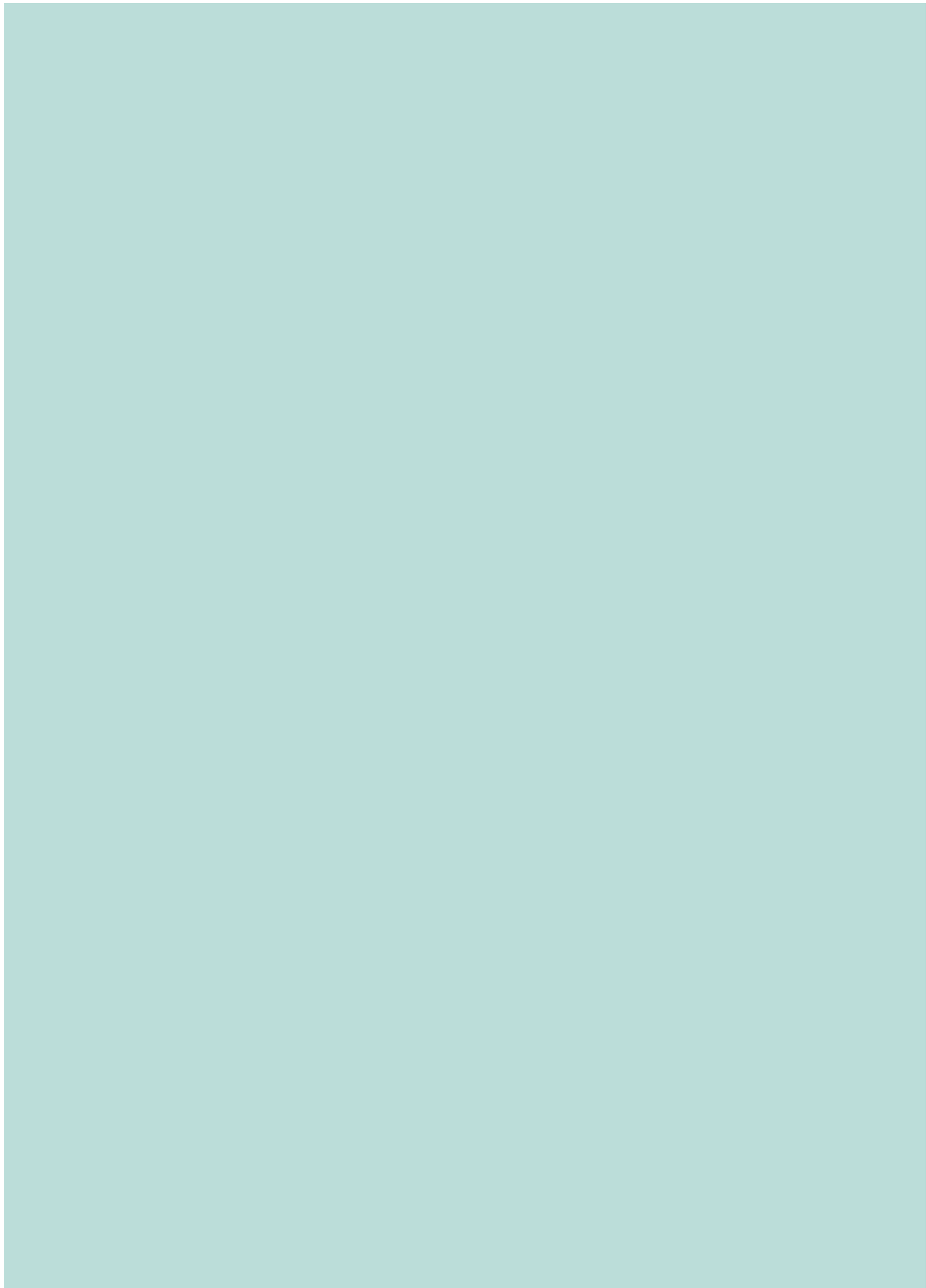
On January 25, 2008, Edison and Depa signed a declaration of intent pledging to establish by March 2008 a 50-50 joint venture called Poseidon that will develop a project for the construction of the natural gas pipeline linking Italy with Greece within the framework of the ITGI Project. The Poseidon Pipeline, which will run from the Greek coast to the Apulia region, in Italy, will have an initial transmission capacity of 8 billion cubic meters a year.

Edison grows to 50% of Edipower

The transfer of 72,065,000 Edipower shares (equal to 5% of the share capital), which represented the lat block of shares covered by the put-and-call options exercised by Unicredit Spa in July 2007 was completed on January 31, 2008. As a result of this transaction, Edison increased to 50% its interest in Edipower's share capital.

Milan, February 12, 2008

The Board of Directors
by Giuliano Zuccoli
Chairman



SCOPE OF CONSOLIDATION

at December 31, 2007

SCOPE OF CONSOLIDATION AT DECEMBER 31, 2007

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

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12.31.2007	12.31.2006
A) Investments in Companies Included in the Scope of Consolidation					
A.1) Companies Consolidated Line by Line					
Parent Company					
Edison Spa	Milan (IT)	EUR	5,291,664,500		
Core Business - Electric Power Operations					
Electric Power Business Unit					
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	55.000	61.000
Sondel Dakar Bv	Rotterdam (NL)	EUR	18,200	100.000	100.000
Termica Cologno Srl	Milan (IT)	EUR	9,296,220	65.000	65.000
Termica Milazzo Srl	Milan (IT)	EUR	23,241,000	60.000	60.000
Thisvi Power Generation Plant Sa	Athens (GR)	EUR	948,000	65.000	-
Renewable Sources					
Edison Energie Speciali Spa (Single Shareholder)	Milan (IT)	EUR	4,200,000	100.000	100.000
Core Business - Hydrocarbons Operations					
Hydrocarbons Business Unit					
Edison D.G. Spa (Single Shareholder)	Selvazzano Dentro (PD) (IT)	EUR	460,000	100.000	100.000
Edison International Spa	Milan (IT)	EUR	17,850,000	100.000	100.000
Edison Stoccaggio Spa (Single Shareholder)	Milan (IT)	EUR	81,497,301	100.000	100.000
Euroil Exploration Ltd	London (GB)	GBP	9,250,000	100.000	100.000
Core Business - Energy Management					
Energy Management Business Unit					
Edison Trading Spa (Single Shareholder)	Milan (IT)	EUR	30,000,000	100.000	100.000
Volta Spa	Milan (IT)	EUR	130,000	51.000	51.000

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

List of Equity Investments (continued)

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

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12.31.2007	12.31.2006
Core Business - Marketing and Sales					
Marketing and Sales Business Unit					
Edison Energia Spa (Single Shareholder)	Milan (IT)	EUR	22,000,000	100.000	100.000
Eneco Energia Spa	Bolzano (IT)	EUR	222,000	100.000	100.000
Core Business - Corporate Activities					
Italian and Foreign Holding Companies					
Atema Limited	Dublino 2 (IE)	EUR	1,500,000	100.000	100.000
Edison Hellas Sa	Athens (GR)	EUR	263,700	100.000	100.000
Edison International Holding Nv (ex Montedison Finance Europe Nv)	Amsterdam (NL)	EUR	4,582,803	100.000	100.000
Edison Nederland Bv	Amsterdam (NL)	EUR	18,000	60.000	-
Selm Holding International Sa	Luxembourg (LU)	EUR	24,000,000	100.000	100.000
Real Estate					
Montedison Srl (Single Shareholder)	Milan (IT)	EUR	2,583,000	100.000	100.000
Nuova Alba Srl (Single Shareholder)	Milan (IT)	EUR	2,016,457	100.000	100.000
Disposal Group					
Electric Power Business Unit					
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

A.2) Companies Consolidated by the Proportional Method

Name	Head office	Currency	Share capital	12.31.2007	12.31.2006
Core Business - Electric Power Operations					
Electric Power Business Unit					
Bluefare Ltd	London (GB)	GBP	1,000	50.000	50.000
Ibiritermo Sa	Ibirité - Estado de Minas Gerais (BR)	BRL	7,651,814	50.000	50.000
Sel Edison Spa	Castelbello (BZ) (IT)	EUR	84,798,000	42.000	42.000
Seledison Net Srl (Single Shareholder)	Castelbello Ciardes (BZ) (IT)	EUR	200,000	42.000	42.000
Renewable Sources					
Parco Eolico Castelnuovo Srl	Castelnuovo di Conza (SA) (IT)	EUR	10,200	50.000	50.000
Other Electric Power Assets					
Edipower Spa	Milan (IT)	EUR	1,441,300,000	50.000	50.000
Core Business - Hydrocarbons Operations					
Hydrocarbons Business Unit					
Ed-Ina D.o.o.	Zagreb (HR)	HRK	20,000	50.000	50.000

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

List of Equity Investments (continued)

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

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12.31.2007	12.31.2006
Core Business - Marketing and Distribution					
Marketing and Distribution Business Unit					
Ascot Srl	Bressanone (BZ) (IT)	EUR	10,330	50.000	50.000
Other Operations					
Water					
Internat. Water Serv. (Guayaquil) Interagua C. Ltda	Guayaquil (EC)	USD	32,180,000	45.000	45.000
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	50.000
International Water Services Ltd	Zug (CH)	CHF	100,000	50.000	50.000

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

List of Equity Investments (continued)

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

Name	Head office	Currency	Share capital	Consolidated Group interest % 12.31.2006 (a)
B) Investments in Companies Valued by the Equity Method				
Core Business - Electric Power Operations				
Electric Power Business Unit				
Consorzio Barchetta	Jesi (AN) (IT)	EUR	2,000	
GTI Dakar Ltd	George Town Gran Caiman (GBC)	EUR	14,686,479	
Kraftwerke Hinterrhein Ag	Thusis (CH)	CHF	100,000,000	
Roma Energia Srl	Rome (IT)	EUR	50,000	
Renewable Sources				
Sistemi di Energia Spa	Milan (IT)	EUR	10,475,000	
Core Business - Hydrocarbons Operations				
Hydrocarbons Business Unit				
Soc. Svil. Rea. Gest. Gasdot. Alg-Ita.V. Sardeg. Galsi Spa	Milan (IT)	EUR	25,838,000	
Core Business - Marketing and Distribution				
Marketing and Distribution Business Unit				
Eta 3 Spa	Arezzo (IT)	EUR	2,000,000	
Gasco Spa	Bressanone (BZ) (IT)	EUR	350,000	
Prometeo Spa	Osimo (AN) (IT)	EUR	2,164,498	
Utilità Spa	Milan (IT)	EUR	2,307,692	
Core Business - Corporate Activities				
Real Estate Companies				
Iniziativa Universitaria 1991 Spa	Varese (IT)	EUR	16,120,000	
Disposal Group				
Electric Power Business Unit				
Consorzio Montoro	Narni (IT)	EUR	4,000	
Consorzio Vicenne	Celano (IT)	EUR	1,000	
Total Equity Investments Valued with the Equity Method				

Interest held in share capital % (b)	By	Voting security held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
50.000	Jesi Energia Spa	-	-		ASS
30.000	Sondel Dakar Bv	-	-	5.7	ASS
20.000	Edison Spa	-	-	14.5	ASS
35.000	Edison Spa	-	-	-	ASS
40.570	Edison Spa	-	-	5.1	ASS
18.000	Edison Spa			3.3	ASS
33.010	Edison Spa	-	-	1.1	ASS
40.000	Edison Spa	-	-	0.2	ASS
18.810	Edison Spa	-	-	0.7	ASS
35.000	Edison Spa	-	-	0.9	ASS
32.260	Montedison Srl (Single Shareholder)	-	(h)	4.7	ASS
25.000	Edison Spa	-	-		ASS
50.000	Termica Celano Srl	-	-		ASS
				36.2	

List of Equity Investments (continued)

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

C) Investments in Companies in Liquidation or Subject to Long-Term Restrictions

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12.31.2006
Core Business - Hydrocarbons Operations				
Hydrocarbons Business Unit				
Auto Gas Company S.A.E. (In liquid.)	Cairo (EG)	EGP	1,700,000	
Core Business - Corporate Activities				
Dormant Companies and other Companies				
Codest Srl	Pavia di Udine (UD) (IT)	EUR	15,600	
Finsavi Srl	Palermo (IT)	EUR	18,698	
Poggio Mondello Srl (Single Shareh.)	Palermo (IT)	EUR	364,000	
In Liquidation and Subject to Restrictions				
C.F.C. Consorzio Friulano Costruttori (In liquid.)	Udine (IT)	LIT	100,000,000	
Calbiotech Srl (In bankruptcy)	Ravenna (IT)	LIT	90,000,000	
Cempes Scrl (In liquid.)	Roma (IT)	EUR	15,492	
CI.FAR. Scarl (In bankruptcy)	Udine (IT)	LIT	20,000,000	
Compo Chemical Company (In liquid.)	Wilmington - Delaware (US)	USD	1,000	
Coniel Spa (In liq.)	Rome (IT)	EUR	1,020	
Consorzio Carnia Scrl (In liquid.)	Rome (IT)	EUR	45,900	
Consorzio Friulano per il Tagliamento (In liquid.)	Udine (IT)	EUR	10,330	
Convolci Scnc (In liquid.)	Sesto San Giovanni (MI) (IT)	EUR	5,165	
Ferruzzi Trading France Sa (In liquid.)	Paris (FR)	EUR	7,622,451	
Frigotecnica Srl (Single Shareh.) (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	
Sistema Permanente di Servizi Spa (In bankruptcy)	Rome (IT)	EUR	154,950	
Soc. Gen. per Progr. Cons. e Part. Spa (Under Extraordinary Administration)	Rome (IT)	LIT	300,000,000	
Sorrentina Scarl (In liquid.)	Rome (IT)	EUR	46,480	
Total Equity Investments in Liquidation or Under Permanent Restrictions				

Interest held in share capital % (b)	By	Voting security held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
30,000	Edison International Spa	-	-	0.1	ASS
33.330	Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	-	-		ASS
50.000	Edison Spa	-	-		ASS
100.000	Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	-	-		SUB
20.000	Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	-	-		ASS
55.000	Edison Spa	-	(i)		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)	-	(l)		SUB
100.000	Nuova Alba Srl (Single Shareholder)	-	-		SUB
35.250	Edison Spa	-	-	0.3	ASS
17.000	Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	-	-		OC
16.300	Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	-	-		OC
27.370	Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	-	-		ASS
100.000	Edison Spa	-	-	5.9	SUB
100.000	Edison Spa	-	-		SUB
50.000	Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	-	-		ASS
20.000	Edison Spa	-	-		ASS
100.000	Edison Spa	-	(g)	2.4	SUB
33.330	Montedison Srl (Single Shareholder)	-	-		ASS
12.600	Edison Spa	-	-		OC
59.330	Edison Spa	-	-		SUB
25.000	Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	-	-		ASS
				8.7	

List of Equity Investments (continued)

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

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12.31.2006
D) Investments in Other Companies Valued at Fair Value				
D.1) Trading Investments				
Core Business - Corporate Activities				
Publicly Traded Securities				
Acegas-Aps Spa	Trieste (IT)	EUR	283,690,763	
Acsm Spa	Como (IT)	EUR	46,870,625	
Amsc-American Superconductor	N/A (US)	USD	19,128,000	
D.2) Available-for-sale Investments				
Core Business - Hydrocarbons Operations				
Hydrocarbons Business Unit				
Terminale GNL Adriatico Srl	Milan (IT)	EUR	200,000,000	
Core Business - Marketing and Distribution				
Marketing and Distribution Business Unit				
Global Power Spa	Verona (IT)	EUR	500,000	
Core Business - Corporate Activities				
Publicly Traded Securities				
RCS Mediagroup Spa	Milan (IT)	EUR	762,019,050	
Investments in Companies that are not Publicly Traded				
Emittenti Titoli Spa	Milan (IT)	EUR	4,264,000	
Enia Energia Spa	Reggio Emilia (IT)	EUR	2,240,000	
European Energy Exchange-Eex	Leipzig (DE)	EUR	40,050,000	
Istituto Europeo di Oncologia Srl	Milan (IT)	EUR	79,071,770	
MB Venture Capital Fund I Partecipating Comp. e Nv	Amsterdam (NL)	EUR	50,000	
Syremont Spa	Messina (IT)	EUR	750,000	
Total Investments in Other Companies Valued at Fair Value				
Total				

Interest held in share capital % (b)	By	Voting security held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
1.300	Edison Spa	-	-	4.8	OC
3.170	Edison Spa	-	-	2.7	OC
0.840	Edison Spa	-	-	3.0	OC
10.000	Edison Spa	-	-	151.5	OC
12.250	Eneco Energia Spa	-	-	0.3	OC
0.990	Edison Spa	1.030	1.030	22.5	OC
3.890	Edison Spa	-	-	0.2	OC
9.134	Edison Spa	-	-	1.1	OC
0.750	Edison Spa	-	-	0.7	OC
4.370	Edison Spa	-	-	3.5	OC
7.000	Edison International Holding Nv	-	-	2.8	OC
40.000	Edison Spa	-	(m)		ASS
				193.1	
				238.0	

Companies Added to the Scope of Consolidation During the Year Ended 12.31.2007

Name	Head office	Currency	Share Capital at 12.31.2007	Consolidated Group Interest %
Companies Acquired				
Thisvi Power Generation Plant Sa	Atene (GR)	EUR	948,000	65.000
Newly Established Companies				
Edison Nederland Bv	Amsterdam (NL)	EUR	18,000	100.000

Companies Removed from the Scope of Consolidation During the Year Ended 12.31.2007

Name	Head office	Currency	Share Capital at 12.31.2006	Consolidated Group interest in 2007 %	Consolidated Group interest at 12.31.2006 %
Companies Sold					
Serene Spa	Milan (I)	EUR	25,800,000	66.320	66.320
Companies Merged					
Consorzio di Sarmato Soc. Cons. P. A.	Milan (I)	EUR	200,000	55.000	52.500
Edison Treasury Services Srl (Single Shareholder)	Conegliano (I)	EUR	10,000	100.000	100.000
Finanziaria di Partecipazioni Elettriche Finel Spa	Milan (I)	EUR	194,000,000	100.000	100.000
Monsei Esco Srl (Single Shareholder)	Milan (I)	EUR	100,000	100.000	100.000

Notes

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

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

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

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

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

(f) The carrying value is shown only for companies valued by the equity method or at cost, owned directly by the Parent Company. For other companies consolidated on a line-by-line basis or by the proportional method.

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

(h) 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. A notice that this court decision was being been appealed was notified on November 17, 2006. On November 14, 2007, the Court of Varese voided the attachment and deletion of the attachment from the Shareholders' Register is pending.

(i) The deletion of this company from the Company Register is pending pursuant to a decision handed down by the Court of Ravenna on July 12, 2007, which closed the bankruptcy proceedings upon final allocation of assets. However, on July 17, 2007, the Ravenna Company Register recorded the court decision as if the company was still active.

(l) The deletion of this company from the Company Register is pending following a decision handed down by the Court of Udine on April 20, 2007, which closed the bankruptcy proceedings upon to total distribution of assets. However, on May 2, 2007, the Udine Company Register recorded the court decision as if the company was still active.

(m) On January 30, 2007, Edison exercised its put option but the counterpart is currently in default.

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

BRL Brazilian real	HRK Croatian Kuna
CHF Swiss franc	LIT Italian lira
EGP Egyptian pound	PTE Portuguese escudo
EUR Euro	USD U.S. dollar
GBP British pound	XAF Central African franc

CERTIFICATION

of the Consolidated Financial Statements Pursuant to Article 81-ter of Consob Regulation No. 11971 of May 1999, as amended

1. We, the undersigned Umberto Quadrino, in my capacity as “Chief Executive Officer,” and Marco Andreasi, in my capacity as “Corporate Accounting Documents Officer,” employees of Edison Spa, taking into account the provisions of Article 154-*bis*, Sections 3 and 4, of Legislative Decree No. 58 of February 24, 1998, certify that the administrative and accounting procedures applied in 2007 to prepare the consolidated financial statements:
   a) were adequate in light of the Company’s characteristics; and
   b) were properly applied.

2. We further certify that the consolidated financial statements as of December 31, 2007:
   a) are consistent with the data in the accounting records and other corporate documents;
   b) were prepared in accordance with International Accounting Standards (IAS/IFRS), as required by Article 154-*bis*, Section 5, of the Uniform Financial Code (Legislative Decree No. 58/1998) and, to the best of our knowledge, provide a truthful and fair presentation of the balance sheet, income statement and financial position of the issuer and of the companies included in the scope of consolidation.

Milan, February 12, 2008

Umberto Quadrino

Chief Executive Officer

Marco Andreasi
Corporate Accounting
Documents Officer

REPORT OF THE INDEPENDENT AUDITORS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

To the shareholders of
EDISON SpA

1 We have audited the consolidated financial statements of EDISON SpA and its subsidiaries ('EDISON Group') as of 31 December 2007, comprising the consolidated balance sheet, income statement, changes in shareholders' equity, cash flow statement and related notes. These consolidated financial statements are the responsibility of EDISON' s directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 8 March 2007.

3 In our opinion, the consolidated financial statements of EDISON SpA as of 31 December 2007 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the consolidated financial position, results of operations, changes in

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shareholders' equity and cashflows of EDISON Group for the year then ended.

Milan, 29 February 2008

PricewaterhouseCoopers SpA

Marco Sala
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation

(2)

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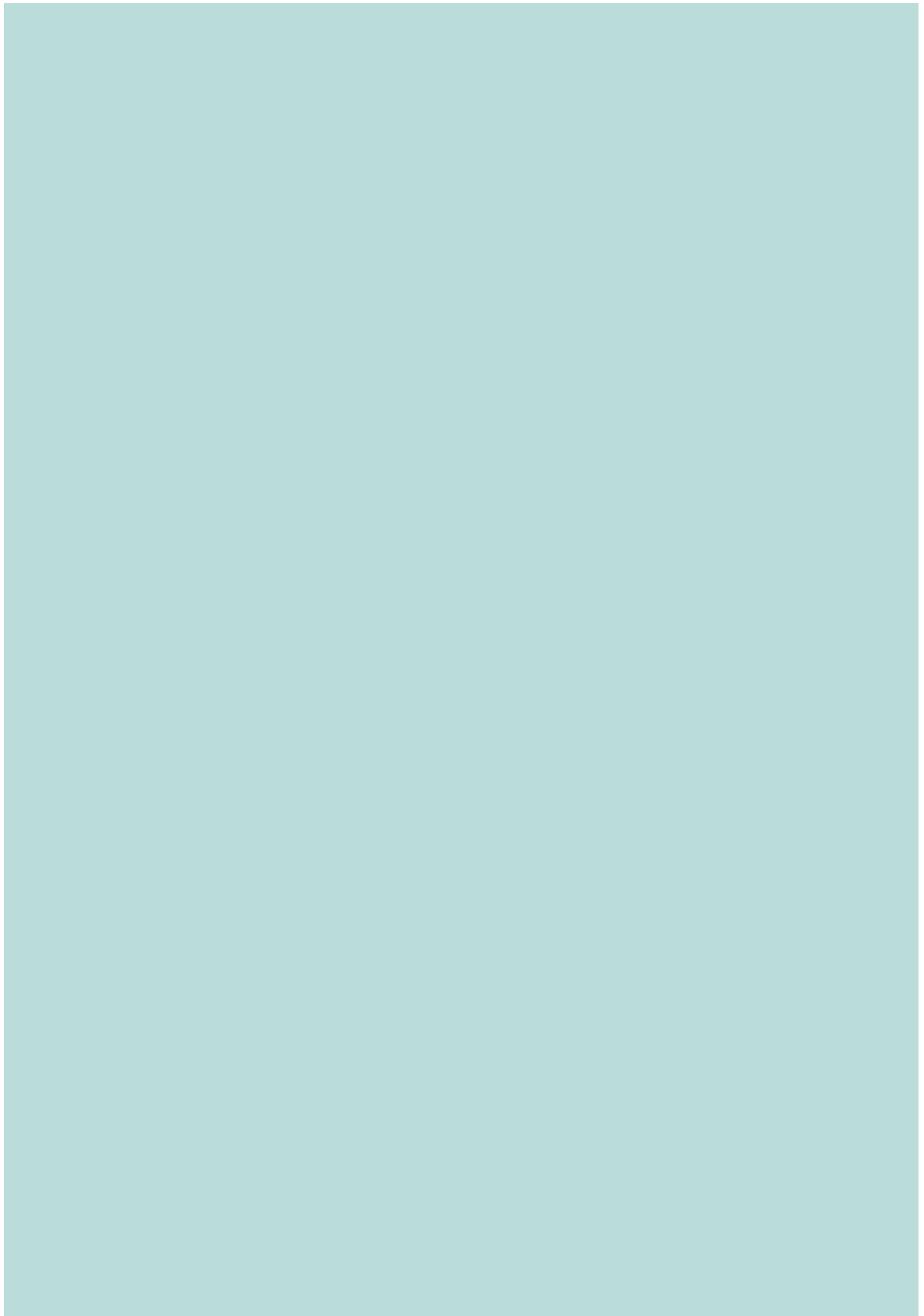

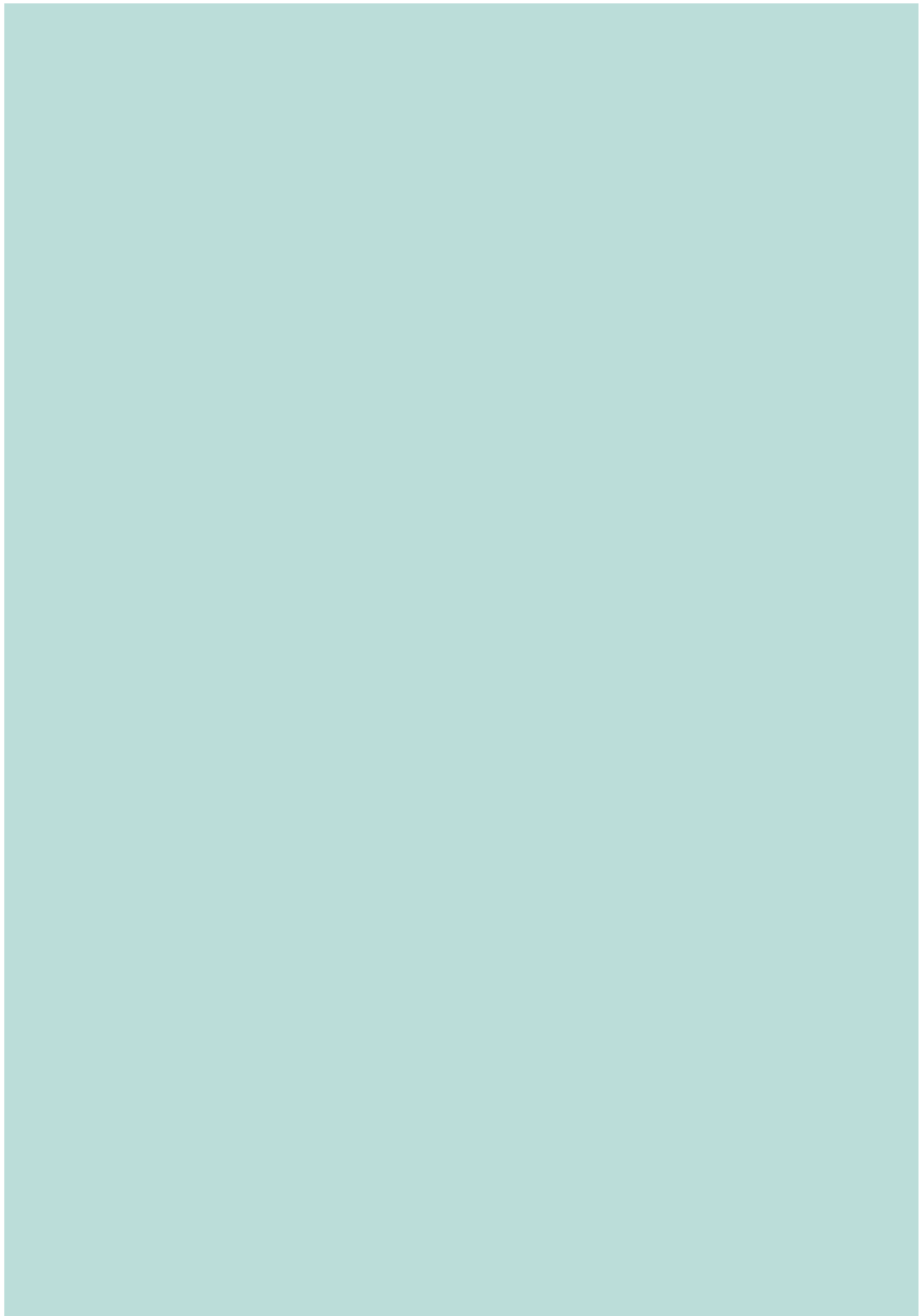

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