CONSOLIDATED FINANCIAL STATEMENTS 2006

EDISON

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CONSOLIDATED FINANCIAL STATEMENTS 2006

EDISON

Edison Group
Balance Sheet

(in millions of euros)	See Note	12.31.2006	12.31.2005 restated pursuant to IFRIC 4
ASSETS			
Property, plant and equipment	1	8,057	8,582
Investment property	2	40	49
Goodwill	3	3,518	3,505
Hydrocarbon concessions	4	323	339
Other intangible assets	5	44	38
Investments in associates	6	44	59
Available-for-sale investments	6	122	74
Other financial assets	7	130	125
Deferred-tax assets	8	102	104
Other assets	9	85	297
Total non-current assets		**12,465**	**13,172**
Inventories		387	315
Trade receivables		1,943	1,593
Due from customers for contract work		-	-
Current-tax assets		15	38
Other receivables		276	337
Current financial assets		42	76
Cash and cash equivalents		298	361
Total current assets	10	**2,961**	**2,720**
Assets held for sale	11	**231**	**-**
Total assets		**15,657**	**15,892**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		4,273	4,273
Equity reserves		606	428
Other reserves		1,116	1,122
Reserve for currency translations		(3)	3
Retained earnings (Loss carryforward)		97	(58)
Profit (Loss) for the period		654	504
Total Group interest in shareholders' equity		**6,743**	**6,272**
Minority interest in shareholders' equity		**147**	**159**
Total shareholders' equity	12	**6,890**	**6,431**
Provision for employee severance indemnities and provision for pensions	13	72	74
Provision for deferred taxes	14	752	1,097
Provision for risks and charges	15	881	1,002
Bonds	16	1,207	2,838
Long-term borrowings and other financial liabilities	17	502	1,822
Other liabilities	18	2	242
Total non-current liabilities		**3,416**	**7,075**
Bonds		1,457	-
Short-term borrowings		1,461	657
Trade payables		1,576	1,275
Due to customers for contract work		-	-
Current taxes payable		26	16
Other liabilities		694	438
Total current liabilities	19	**5,214**	**2,386**
Liabilities held for sale	20	**137**	**-**
Total liabilities and shareholders' equity		**15,657**	**15,892**

Edison Group
Income Statement

(in millions of euros)	See note	2006	2005 restated pursuant to IFRIC 4
Sales revenues	21	8,523	6,629
Other revenues and income	22	777	588
Total net revenues		**9,300**	**7,217**
Raw materials and services used (-)	23	(7,554)	(5,679)
Labor costs (-)	24	(210)	(250)
EBITDA	25	**1,536**	**1,288**
Depreciation, amortization and writedowns (-)	26	(784)	(649)
EBIT		**752**	**639**
Net financial income (expense)	27	(246)	(203)
Income from (Expense on) equity investments	28	16	23
Other income (expense), net	29	37	(17)
Profit before taxes		**559**	**442**
Income taxes	30	(9)	(18)
Profit (Loss) from continuing operations		**550**	**424**
Profit (Loss) from discontinued operations	31	112	86
Profit (Loss)		**662**	**510**
Broken down as follows:			
Minority interest in profit (loss)		8	6
Group interest in profit (loss)		**654**	**504**
Earnings per share (in euros)	32		
basic		0.1522	0.1173
diluted		0.1380	0.1068

Cash Flow Statement

The table below analyzes the **cash flow** as it applies to short-term liquid assets at the end of 2006 and provides a comparison with the corresponding data for 2005.

The information provided below is supplemented by the data presented in a separate statement, included in the Report on Operations, which shows the changes in net financial position. The latter statement is meant to offer a better understanding of the Group's cash generation and utilization dynamics.

	(in millions of euros)	2006	2005 restated pursuant to IFRIC 4
	Group interest in profit (loss) from continuing operations	542	418
	Group interest in profit (loss) from discontinued operations	112	86
	Group interest in profit (loss)	**654**	**504**
	Minority interest in profit (loss)	8	6
	Amortization and depreciation	700	571
	RInterest in the result of companies valued by the equity method (-)	(2)	(3)
	Dividends received from companies valued by the equity method	-	-
	(Gains) Losses on the sale of non-current assets	1	(137)
	(Revaluations) Writedowns of intangibles and property, plant and equipment	84	78
	Change in the provision for employee severance indemnities	2	(2)
	Change in other operating assets and liabilities	(413)	(476)
A.	**Cash flow from continuing operations**	**1,034**	**541**
	Additions to intangibles and property, plant and equipment (-)	(548)	(644)
	Additions to non-current financial assets (-)	(85)	(239)
	Proceeds from the sale of intangibles and property, plant and equipment	28	21
	Proceeds from the sale of non-current financial assets	345	452
	Capital grants received during the year	-	2
	Change in the scope of consolidation	29	(92)
	Other current assets	34	(11)
B.	**Cash used in investing activities**	**(197)**	**(511)**
	Receipt of new medium-term and long-term loans	1,203	279
	Redemption of new medium-term and long-term loans (-)	(1,712)	(265)
	Capital contributions provided by controlling companies or other shareholders	-	18
	Dividends paid to controlling companies or minority shareholders (-)	(196)	(11)
	Change in short-term debt	(181)	(148)
C.	**Cash used in financing activities**	**(886)**	**(127)**
D.	**Cash and cash equivalents of discontinued operations**	**4**	**-**
E.	**Net currency translation differences**	**-**	**-**
F.	**Net decrease in cash and cash equivalents (A+B+C+D+E)**	**(45)**	**(97)**
G.	**Cash and cash equivalents at beginning of period**	**361**	**458**
H.	**Cash and cash equivalents at end of period (F+G)**	**316**	**361**
I.	**Totale disponibilità e mezzi equivalenti alla fine dell'esercizio (H)**	**316**	**361**
L.	**(-) Cash and cash equivalents of discontinued operations**	**(18)**	**-**
M.	**Cash and cash equivalents of continuing operations (I-L)**	**298**	**361**

Changes in Consolidated Shareholders' Equity

(in millions of euros)	Share capital (a)	Riserves and ret. earnings (loss carryforward) (b)	Reserve for currency translations (c)	Profit for the period (d)	Group inter. in sharehold. equity (a+b+c+d)=(e)	Minority int. in sharehold. equity (f)	Total sharehold. equity (e)+(f)
Balance at December 31, 2004	**4,259**	**1,094**	**-**	**354**	**5,707**	**469**	**6,176**
Restatements for adoption of IAS 32 and 39	-	38	-	-	38	-	38
Restatements for adoption of IFRIC 4	-	(2)	-	-	(2)	-	(2)
Balance at January 1, 2005	**4,259**	**1,130**	**-**	**354**	**5,743**	**469**	**6,212**
Share capital increase due to the conversion of warrants	7	-	-	-	7	-	7
Share capital increase due to the award of stock options	7	4	-	-	11	-	11
Appropriation of the 2004 profit	-	354	-	(354)	-	-	-
Restatements due to the adoption of IAS 32 and IAS 39	-	11	-	-	11	-	11
Change in the scope of consolidation	-	-	-	-	-	(304)	(304)
Dividend distribution	-	-	-	-	-	(11)	(11)
Difference from translation of financial statements in foreign currencies and sundry items	-	(7)	3	-	(4)	(1)	(5)
Profit at December 31, 2005 restated in accordance with IFRIC 4	-	-	-	504	504	6	510
Balance at December 31, 2005	**4,273**	**1,492**	**3**	**504**	**6,272**	**159**	**6,431**
Share capital increase due to the conversion of warrants	-	-	-	-	-	-	-
Appropriation of the 2005 profit	-	504	-	(504)	-	-	-
Restatements due to the adoption IAS 32 and IAS 39	-	(10)	-	-	(10)	-	(10)
Change in the scope of consolidation	-	-	-	-	-	(6)	(6)
Dividend distribution	-	(183)	-	-	(183)	(13)	(196)
Difference from translation of financial statements in foreign currencies and sundry items	-	16	(6)	-	(10)	(1)	9
Profit at December 31, 2006	-	-	-	654	654	8	662
Balance at December 31, 2006	**4,273**	**1,819**	**(3)**	**654**	**6,743**	**147**	**6,890**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2006

ACCOUNTING PRINCIPLES AND CONSOLIDATION CRITERIA

Content and Format of the Financial Statements

The Edison Group's consolidated financial statements, 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, were prepared in accordance with International Financial Reporting Standards (IFRSs), as approved by the European Union.

The abbreviation IFRSs is used to signify the International Financial Reporting Standards (IFRS): they include all interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) that have been approved by the European Union and published on the Official Journal of E.U.

As regards the principles applied, it is also important to note that the IASB and the IFRIC have approved certain changes to the IAS/IFRSs, effective as of January 1, 2006, which have been published in the Official Journal of the European Union (OJEU). The main changes are reviewed below:

- First-time adoption of IFRIC 4 "Determining Whether an Arrangement Contains a Lease." The impact on the balance sheet, financial position and income statement is discussed later in this Report.
- IAS 39. The main change consists of the option to measure financial assets and liabilities at fair value, with any differences recognized in earnings. The Group has chosen not to adopt this option at this point since it was not relevant. This change applies to fair value hedges and requires the recognition at fair value of both the liability and the derivative, with the result recognized in earnings.
- IAS 21. The new version introduces new paragraphs of IAS 21 and amends others concerning investments in a foreign operation. These changes have no impact on the Group.
- Introduction of IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds," IFRIC 6 "Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment" and IFRIC 7 "Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies." These changes had no impact on the Group's consolidated data.

With regard to additional international accounting principles and interpretations published in the OJEU, the following principles will be applicable starting in 2007:

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

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

Unless otherwise stated, the values 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 balance sheet, income statement and cash flow statement have the following characteristics:

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

Change in the Accounting Principles Applied: Impact of First-Time Adoption of IFRIC 4

IFRIC 4 is an interpretation included in the International Financial Reporting Standards applicable as of January 1, 2006. It provides guidance in determining whether or not certain specific arrangements that are not officially lease do in fact constitute leases. When the applicable conditions are met, IFRIC 4 requires that the arrangement be recognized in accordance with the provisions of IAS 17, which makes a distinction between finance leases or operating leases.

An analysis of arrangements concluded prior to first-time adoption of IFRIC 4 uncovered the existence of a finance lease involving Ibiritermo, an electric power producing company owned at 50% by Edison. Specifically, under the existing arrangement, Ibiritermo granted to a third party the use of a power plant that it owns in exchange for a series of payments for a period of time that is substantially the same as the power plant's useful life. In this case, the application of IAS 17 (finance lease as lessor) required the restatement of the balance sheet, income statement, cash flow statement and reconciliation of shareholders' equity for the previous period (at December 31, 2005).
The main changes are reviewed below:

In the balance sheet:
- Derecognition of property, plant and equipment totaling 55 million euros;
- Concurrent recognition of non-current loans receivable amounting to 60 million euros;
- Recognition of current financial liabilities of 2 million euros;
- Establishment of a provision for deferred taxes of 1 million euros;
- An upward adjustment to shareholders' equity of 2 million euros.

In the income statement, which showed an overall improvement of 4 million euros in 2005:
- Derecognition of sales revenues totaling 21 million euros;
- A decrease of 3 million euros in service costs;
- A decrease in depreciation of 8 million euros due to the derecognition of property plant and equipment and the concurrent recognition of loans receivable;
- Recognition of financial income totaling 16 million euros;
- Recognition of income taxes amounting to 2 million euros.

Property, plant and equipment includes certain assets that are covered by agreements that, while not formally a lease, convey the right to use an item of property, plant and equipment in exchange for a series of payments. In accordance with IFRIC 4 and IAS 17, all of these contracts constitute operating leases. Specifically, the assets covered by such contracts involve some thermoelectric power plants and wind farms with regard to which the Group has entered into contracts to supply energy on an exclusive basis to users within the industrial parks where the power plants are located and there is a correlation between costs and revenues. In all the facilities, whose useful life has been calculated with CIP 6/92 rates, this correlation was determined by a price formula (captive plants) or by the application of benefits linked to economic benefits (CIP 6/92).

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

As of January 1, 2006, a new depreciation method was applied to thermoelectric power plants that sell energy under the CIP 6/92 rate schedule. Assuming the same residual useful life, the old straight-line depreciation method, which was based on the useful lives of the individual components, was replaced with a method that allocates cost in regular declining installments. This method reflects the differences between the amounts charged under the CIP 6/92 rate schedule (for the 8-year incentivized period and the following 7-year contract period) and market terms (applicable from the expiration of the CIP 6/92 contracts and the end of each asset's useful life).

In view of the abovementioned differences between prices under the CIP 6/92 contracts and standard market terms, a different level of depreciation was chosen for each of the three periods (CIP 6/92 incentivized, CIP 6/92 contractual and market). The resulting depreciation process follows a step-down process, with straight line depreciation for each of the periods.

The use of this method (and the resulting change in estimates)became possible only in 2006 as a result of the following circumstances:

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

The different levels of depreciations were determined separately for each power plant, consistently over the entire residual life of the facilities.

The abovementioned change in estimate caused depreciation expense to increase by about 81 million euros in 2006.
Since this process involved a revision of a valuation estimate, as defined in IAS 8, the comparative data were not restated.

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.

The consolidated financial statements include the total amount of the assets, liabilities, revenues and expenses of the companies consolidated on a line-by-line basis. 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.

When Edison shares control with other shareholders over the financial and operating policies of an associate pursuant to a contract, the associate in question is consolidated by the proportional method. The joint control is valid only when, on basis of a contractual agreement, the financial and economic strategies are approved unanimously by all the owners. In this case the consolidated financial statements must show the interest of the Group in the assets, liabilities, revenues and expenses of the associate, all of which must be proportional to the interest held. Edipower is being consolidated at 50%, even though Edison owns 40% of the company. The 50% figure reflects Edison's interest in the tolling contract, the percentage of Edipower's indebtedness that is guaranteed by Edison and buy and sell rights secured by put-and-call options exchanged by Edison and 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 financial position is not significant.

Changes in the Scope of Consolidation Compared with December 31, 2005

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

Electric Power Operations

- STEL Spa, which previously was consolidated line by line, was liquidated and deconsolidated as of January 1, 2006.
- In October 2006, Edison Spa acquired 100% ownership of EDF Energia Italia which was consolidated as of October 1, 2006. In December, this company was merged into Edison Energia Spa.
- In November 2006, Edison Rete Spa was sold to RTL Spa, a subsidiary of Terna Spa. As a result, Edison Rete was deconsolidated as of November 1, 2006. Even though this company does not constitute a disposal group, as defined in IFRS 5, its costs and revenues for the first half of 2006 are recognized line by line in the consolidated income statement, while the net result for the period from July 1, 2006 to October 31, 2006 and the net gain earned on the sale were classified in the income statement under the heading "Profit (Loss) from discontinued operations."
- In November 2006, Edison Spa acquired a 70% interest in Eneco Energia at a price of about 4 million euros. As of November 1, 2006, Eneco Energia Spa is being consolidated line by line, because of the value assigned to put-and-call agreements that give Edison Spa the right to purchase the remaining 30% and can be exercised between July 1, 2007 and July 31, 2008.
- On December 14, 2006, Edison Spa and British Gas Italia Spa executed an agreement for the sale by Edison Spa of 66.32% of the shares of Serene Spa (British Gas Italia Spa owned the remaining 33.68% of the shares). The terms of this transaction are described in the section of this Report entitled "Information About the Discontinued Operations (IFRS 5)." In any case, even though they did not constitute a disposal group, as defined in IFRS 5, the assets and liabilities of Serene Spa at December 31, 2006, were classified in the balance sheet as "Assets held for sale" and "Liabilities held for sale," while costs and revenues for 2006 were recognized line by line in the consolidated income statement.

Hydrocarbons Operations

- Due to a non proportional division, Estgas became a 100% owned company and consequently it has been consolidated line by line as of 1 October 2006. Subsequently, Estgas has been merged into Edison Energia Spa. For the first nine months of the year, Estgas was valued by the equity method in the consolidated financial statements.
- In December 2006 Edison per Voi Spa has been merged into Edison Energia Spa.
- Further to new agreements and changes in the Bylaws that occurred in December 2006, Galsi Spa was deconsolidated as of December 31, 2006. Consequently, the financial statements reflect the proportional consolidation of 18% of the income statement for all of 2006. The balance sheet was deconsolidated.

Corporate Activities

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

Diversified Operations (Water)

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

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 50.00%	Serene 66.32%	Sel Edison 42.00%	Ibiritermo 50.00%	Parco Eolico Castelnuovo Srl 50.00%	ED-Ina D.O.O. 50.00%	IWH 50.00%	Bluefare 50.00%
INCOME STATEMENT								
Sales revenues	654	178	11	-	1	3	34	-
EBITDA	216	25	6	(3)	-	-	10	-
as a % of net revenues	33.1%	14.0%	54.5%	n.a.	0.0%	0.0%	23.4%	-
Depreciation, amortization and writedowns (-)	(134)	(17)	(3)	-	-	-	(2)	-
EBIT	**82**	**8**	**3**	**(3)**	**-**	**-**	**8**	**-**
Profit (Loss)	**12**	**4**	**1**	**14**	**-**	**-**	**(4)**	**-**
BALANCE SHEET								
Total assets	**2,414**	**231**	**59**	**100**	**3**	**1**	**44**	**-**
Shareholders' equity	**1,048**	**102**	**37**	**12**	**1**	**-**	**16**	**-**
Net borrowings (financial assets)	**946**	**45**	**18**	**(27)**	**1**	**-**	**(10)**	**-**

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.

Depreciation is taken on a straight-line basis over the useful lives of the assets using the following rates:

	Electric Power Operations		Hydrocarbons Operations		Corporate	
	min.	max.	min.	max.	min.	max.
- Buildings	2.8%	11.1%	2.5%	17.3%	-	2.0%
- Plant and machinery	3.3%	21.9%	2.7%	45.8%	5.0%	21.0%
- Manufacturing and distribution equipment	5.0%	25.0%	17.5%	35.0%	5.0%	30.0%
- Other assets	6.0%	25.0%	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 unit of product method (U.O.P.), 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.

Starting in 2006, 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 and those for the following 7-year contract period.

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 booked 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 is 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.
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.
Emissions 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. Emission rights assigned for free are inscribed at zero. Since this asset is designed for instantaneous use, it cannot be depreciated or tested for impairment. 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 the reserves for risks set aside the previous year.

Impairment of Assets

IAS 36 requires that an impairment 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, this test must be conducted annually.
The recoverability of a carrying amount is tested by comparing it against an asset's fair value, less cost to sell, when there is an active market, or its value in use, whichever is greater.
Value in use is the present value of future cash flows expected to be derived from an asset or a Cash Generating Unit (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 that are available for sale and other non-current financial assets such as securities that the Company plans to hold to maturity, long-term loans and receivables, trade receivables and other receivables generated by the Company, as well as current financial assets such as cash and cash equivalents. Cash and cash equivalents include bank and postal account deposits, 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, financial liabilities and derivatives.
The initial measurement of financial instruments 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:

- **Assets held for trading**, which consist of trading securities and equity investments, are valued at fair value, and any resulting gains or losses are recognized in the income statement.

- **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.

- **Financial assets with fixed or determinable** payments and fixed maturities that the Company intends to hold to maturity (other than equity investments) are valued at their amortized cost. Purchasing costs are deducted directly from the face value of the corresponding asset. Financial income is computed in accordance with the effective interest rate method.

- **Other financial liabilities** are valued at their amortized cost. More specifically, the costs incurred to secure loans (transaction costs) and any issue premiums or discounts are posted directly as adjustments to the face value of the loan. The financial expense for a given period is determined by using the effective interest rate method.

- **Items hedged with derivatives** are valued at fair value when the price risk has been hedged (fair value hedge) or at their amortized value or fair value if their future cash flow has been hedged (cash flow hedge).

- **Derivatives** must be recognized at their fair value in the financial statements. When a derivative cannot be defined as a hedging instrument pursuant to IAS 39 or if it hedges price risks (fair value hedge), any resulting gain or loss is reflected in the income statement. Gains or losses are recognized in equity when the derivative hedges a future cash flow or a contractual commitment that remains outstanding on the balance sheet date (cash flow hedge).

The valuation of receivables must also take into account the solvency of creditors and the level of credit risk, which is indicative of individual debtors' ability to pay. Receivables assigned with recourse can be derecognized only when they meet the derecognition requirements of IAS 39.

Inventories

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

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.

Stock option plans are valued at the time the options are awarded by determining the fair value of the option rights issued. This value 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. Costs due to green certificates are included among the costs of period; the purchase of green certificates held for negotiation are included among inventories. 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. 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 de-

ferred-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 measure certain sales revenues, the reserves for risks and charges, the allowances for doubtful accounts, depreciation and amortization, as well as to value derivatives, employee benefits and income taxes, and to perform impairment tests. Estimates and assumptions are revised on a regular basis, and the impact of any such revision is immediately recognized in the income statement.

Types of Risks and Hedging Strategies

In 2006, as required by the provisions of the Code of Conduct for Listed Companies, Edison began to implement an integrated risk control model based on international enterprise risk management standards and on the definition of a global corporate risk management model and risk mapping and risk scoring methods.
The risk model adopted classifies risks in accordance with two fundamental criteria:
- the origin of the risk, which, consistent with the guideline of the COSO Framework, is used to classify risks as external risks, process risks and strategic and business objective risks;
- the method most frequently used to quantify risk, which divides risks into market risk, credit risk, operational risks and other risks, which consist primarily of strategic and reputational risks, in accordance with the guidelines of Basel II.

Market Risk

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

With a few minor exceptions that concern mainly Edipower, Edison manages the risk linked with the price of energy commodities and the related foreign exchange risk through a process based on the principle of segregating and separating the risk control and management function, which is handled centrally by Edison Spa under the direct supervision of the Chief Financial Officer, from the transaction activity in the financial markets, which is handled by Edison Trading Spa for the commodity markets and by the Finance Department for exchange rates.
Specifically, the Energy Risk Policies adopted to manage the commodity price risk and the related foreign exchange risk allow the ongoing monitoring of the Group's net exposure, which is computed, for the Group's entire portfolio of assets and contracts, as the sum of the transactions executed by all Group entities, and compares the total level of financial risk assumed (Profit at Risk) against a predetermined ceiling approved by the Board of Directors concurrently with the annual Budget.
The Risk Management Committee, which is headed by the top management, reviews monthly the Group's net exposure and, if the Profit at Risk is higher then the predetermined ceiling, defines the appropriate hedging strategies, which may involve the use of derivatives.

Commodity Risk and Exchange Rates Risk Related to Commodity Transactions

The Group is exposed to price risk, including the related currency risk, for all of the energy commodities with which it is involved, including electric power, natural gas, coal, oil and refined products. This risk exists because both purchases and sales are affected by fluctuations in the prices of energy commodities (mainly affecting fuels priced in US dollars). The effect of these fluctuations can be felt both directly and indirectly, through pricing formulas and indexing mechanisms included in pricing structures.
In its management of price risk, the Group uses the financial markets for hedging purposes only to a limited degree, relying instead on exploiting the vertical and horizontal integrations of its different business operations.
The first step toward achieving this goal is to plan how to physically balance the volumes of the Group's actual market sales of energy commodities among the various delivery deadlines by using proprietary production assets and the existing portfolio of medium/long-term contracts and spot contracts.
In addition, the Group pursues a policy designed to achieve homogeneity of physical sources and uses, so that the formulas and indexing mechanisms that affect revenues from the sale of energy

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

Foreign Exchange Risk not Related to Commodity Risk

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

Interest Rate Risk

Edison is exposed to fluctuations in interest rates because they affect the fair value of financial assets and liabilities and the amount of its net financial expense. The strategy pursued by the Group is to have substantially balanced positions in its fixed- and variable-interest exposure, with the goal of minimizing the impact of market-rate fluctuations.
At December 31, 2006, the Group's exposure to the risk of changes in interest rates was roughly equivalent to about 33% of its total exposure, mainly due to the reduction of the average net borrowings despite the fact that some of the existing hedges entail the use of variable interest rates.

Liquidity Risk

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

Credit Risk

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

Lastly, when it comes to choosing counterparties for transactions to manage temporary excess liquidity or execute financial hedging contracts (derivatives), the Group deals only with top-flight, reliable entities that enjoy a high standing in the international markets.

Operational Risks

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

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

In the area of operational risk, the information systems that help manage the technical, commercial and administrative aspects of the Group's operations are especially significant. In order to limit the risk of an interruption of activity due to a system fault, Edison has adopted hardware and software architectures with a high reliability configuration for those applications that support critical activities. In addition, the services provided by IBM, the Group's outsourcer, include a disaster recovery service (tested in 2006) that guarantees short recovery times.

Analysis of Forward Transactions and Derivatives

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

More specifically:

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

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

Instruments Outstanding at December 31, 2006

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

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

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

A) Interest Rates and Foreign Exchange Rates

(in millions of euros)	Notional amount (*)		Notional amount (*)		Notional amount (*)	Balance sheet value (**)	Cumulative impact on the income stat. at 12.31.06 (***)
	due within 1 year		due between 2 and 5 years		due after 5 years		
	receivable	payable	receivable	payable			
Interest rate risk management							
- cash flow hedges in accordance with IAS 39	-	1,020	-	200	14	-	(1)
- contracts that do not qualify as hedge accordance IAS 39	-	1,543	-	3,987	225	(23)	(23)
Total interest-rate derivatives	**-**	**2,563**	**-**	**4,187**	**239**	**(23)**	**(24)**
Foreign exchange rate risk management							
- contracts that qualify as hedges in accordance with IAS 39							
• On commercial transactions	1,148	333	-	-	-	(2)	-
• On financial transactions	-	12	-	-	-	-	-
- contracts that do not quality as hedges in accordance with IAS 39							
• On commercial transactions	37	1	-	-	-	-	-
• On financial transactions	-	-		-	-	-	-
Total foreign exchange rate derivatives	**1,185**	**346**	**-**	**-**	**-**	**(2)**	**-**

(*) 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 statement at 12.31.06 (***) (millions of euros)
Price risk management for energy products						
A. Cash flow hedges pursuant to IAS 39 broken down as follows:					**(7)**	**-**
- Electric power	TWh	(0.2)			1	-
- LNG, oil	Barrels	3,341,689			(8)	-
- Other commodities	-	-			-	-
B. Contracts that qualify as fair value hedge pursuant to IAS 39					**-**	**-**
C. Contracts that do not qualify as fair value hedge pursuant to IAS 39, broken down as follows.					**3**	**3**
C.1 Margin hedges					**3**	**3**
- Electric power	TWh	2			4	4
- LNG and oil	Barrels	-			-	
- Coal	Millions of ton	-			-	-
- CO_2	Millions of ton	-	1	1	(1)	(1)
C.2 Trading contracts					**-**	**-**
- Electric power	TWh	-			-	-
- LNG and oil	Barrels	-			-	-
Totale					**(4)**	**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.

Notes on the Valuation of the "CIP 6/92 2007" Contract

In December, the Edison Group and the Manager of Electric Services (abbreviated as GSE in Italian) signed a financial hedging instrument called CIP 6/92 2007 that covered 389 MWh. This instrument is irrevocably linked with the allocation of CIP 6/92 energy.

Article 3.4 of a Decree issued by the Ministry of Economic Development on December 14, 2006 to regulate the procedure for awarding this instrument in 2007 requires that the issue price (64 euros per MWh for the first quarter of 2007) be adjusted during the year in the manner designated by the Electric Power and Gas Authority (abbreviated as AEEG in Italian), based on changes, computed quarterly, in the price index referred to in Article 5 of the Decree issued by the Ministry of Economic Development on December 19, 2003.

However, this indexing percentage is not currently available and the AEEG has not made known its position on this issue, therefore, this instrument cannot be valued for IAS 39 purposes as of the balance sheet date.

Even though this instrument cannot be broken down into quarterly maturities, a valuation for the first quarter is possible, since the Decree set a price of 64 euros per MWh for the first quarter. This valuation produces a positive result as of the balance sheet date, since the Single National Price (abbreviated PUN in Italian) is estimated at a value higher than the 64 euros negotiated per MWh for the first quarter of 2007.

Financial Results Generated by Derivative Transactions in 2006

The table below provides an analysis of the financial results generated by derivative transactions in 2006. The income statement line "Materials and services used" includes the impact of the effective portion of commodity related foreign exchange hedges, which amounted to about 1 million euros.

(in millions of euros)	Realized in 2006 (A)	Fair value recognized for contracts outstand. at 12.31.05 (B)	Portion of (B) contracts realized in 2006 (B)	Fair value recognized for contracts outstand. at 12.31.06 (C)	Change in fair value in 2006 (D=C-B)	Amounts recognized in earnings (A+D)
Other revenues and income						
Price risk hedges for energy products						
- definable as hedges pursuant to IAS 39 (CFH)	283	-	-	-	-	283
- not definable as hedges pursuant to IAS 39	63	14	14	5	(9)	54
Exchange risk hedges for commodities						
- definable as hedges pursuant to IAS 39 (CFH)	-	-	-	-	-	-
- not definable as hedges pursuant to IAS 39	1	2	2	-	(2)	(1)
Total (A)	**347**	**16**	**16**	**5**	**(11)**	**336**
Raw materials and services used						
Price risk hedges for energy products						
- definable as hedges pursuant to IAS 39 (CFH)	(198)	-	-	-	-	(198)
- not definable as hedges pursuant to IAS 39	(50)	(6)	(6)	(3)	3	(47)
Exchange risk hedges for commodities						
- definable as hedges pursuant to IAS 39 (CFH)	(1)	-	-	-	-	(1)
- not definable as hedges pursuant to IAS 39	(20)	(1)	(1)	-	1	(19)
Total (B)	**(269)**	**(7)**	**(7)**	**(3)**	**4**	**(265)**
TOTAL INCLUDED IN EBITDA (A+B)	**78**	**9**	**9**	**2**	**(7)**	**71**
Net financial income (expense)						
Price risk hedges for energy products						
- Gains on trading transactions	-	-	-	1	1	1
- Losses on trading transactions	(1)	(1)	(1)	(1)	-	(1)
Margin on commodity trading transactions (C)	**(1)**	**(1)**	**(1)**	**-**	**1**	**-**
Interest rates hedges, broken down as follows:						
Financial income						
- definable as hedges pursuant to IAS 39	11	-	-	7	7	18
- not definable as hedges pursuant to IAS 39	39	9	-	42	33	72
Total financial income (D)	**50**	**9**	**-**	**49**	**40**	**90**
Financial expense						
- definable as hedges pursuant to IAS 39	(14)	-	-	(8)	(8)	(22)
- not definable as hedges pursuant to IAS 39	(48)	(23)	-	(63)	(40)	(88)
Total financial expense (E)	**(62)**	**(23)**	**-**	**(71)**	**(48)**	**(110)**
Margin on interest rate hedging transactions (D+E)=(F)	**(12)**	**(14)**	**-**	**(22)**	**(8)**	**(20)**
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)	**(13)**	**(15)**	**(1)**	**(22)**	**(7)**	**(20)**

SEGMENT INFORMATION

The table below provides information broken down by type of business operation. The performance of the Group's businesses is reported in a dedicated chapter of the Report on Operations.
Please note that the data for the previous year used for comparison purposes have been restated for the adoption of IFRIC 4.

INCOME STATEMENT	Electric Power				Hydrocarbons		Corporate Activities		Adjustments		Core Businesses	
	2006	of which Edison Rete and Serene	2005	of which Edison Rete and Serene	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Sales Revenues	**6,945**	**198**	**4,972**	**221**	**4,171**	**3,303**	**43**	**42**	**(2,670)**	**(1,940)**	**8,489**	**6,377**
- intra-Group Revenue	10	1	5	-	2,624	1,902	36	33	(2,670)	(1,940)	-	-
EBITDA	**1,162**	**37**	**988**	**64**	**434**	**353**	**(70)**	**(76)**	**-**	**-**	**1,526**	**1,265**
as a % of revenues	16.7%	18.7%	19.9%	29.0%	10.4%	10.7%	n.m.	n.m.	-	-	18.0%	19.8%
Depreciation, amortization and writedowns	(668)	(21)	(538)	(22)	(106)	(92)	(9)	(15)	-	-	(783)	(645)
EBIT	**494**	**16**	**450**	**42**	**328**	**261**	**(79)**	**(91)**	**-**	**-**	**743**	**620**
as a % of revenues	7.1%	8.1%	9.1%	19.0%	7.9%	7.9%	n.m.	n.m.	-	-	8.8%	9.7%
Net financial income (expense)											(246)	(200)
Interest result of companies valued by equity method											16	23
Income taxes											(7)	(11)
Profit from continuing operations											**548**	**434**
Profit (loss) from discontinued operations											**-**	**-**
Minority interest in profit (loss) for the period											**8**	**5**
Group interest in profit (loss) for the period											**540**	**429**

BALANCE SHEET	Electric Power		Hydrocarbons		Corporate Activities		Adjustments		Core Businesses	
	12.31.06	12.31.05	**12.31.06**	12.31.05	**12.31.06**	12.31.05	**12.31.06**	12.31.05	**12.31.06**	12.31.05
Total assets	**12,521**	**12,616**	**2,434**	**2,451**	**2,988**	**3,679**	**(2,466)**	**(2,885)**	**15,477**	**15,861**
Total liabilities	**4,189**	**4,324**	**1,090**	**928**	**4,248**	**5,077**	**(918)**	**(883)**	**8,609**	**9,446**
Net borrowings									**4,220**	**4,831**
Other information										
Capital expendiures	347	511	133	73	1	2	-	-	481	586
Investments intangibles	8	21	-	-	10	3	-	-	18	24
Investments exploration	-	-	41	22	-	-	-	-	41	22
Total capital investments	**355**	**532**	**174**	**95**	**11**	**5**	**-**	**-**	**540**	**632**
Number of employees	**1,956**	**1,992**	**433**	**441**	**525**	**526**	**-**	**-**	**2,914**	**2,959**

SEGMENT INFORMATION (continued)

Water		Engineering	Adjustments		Total other operations		Discontinued operations		Edison Group	
2006	2005	2005	2006	2005	2006	2005	2006	2005	2006	2005
34	31	221	-	-	34	252	-	-	8,523	6,629
-	-				-	-			-	-
10	8	15	-	-	10	23	-	-	1,536	1,288
29.4%	25.8%	6.8%	n.m.	n.m.	29.4%	9.1%	-	-	18.0%	19.4%
(1)	(1)	(3)	-	-	(1)	(4)	-	-	(784)	(649)
9	7	12	-	-	9	19	-	-	752	639
26.5%	22.6%	5.4%	-	-	26.5%	7,5%	-	-	8.8%	9.6%
					-	(3)			(246)	(203)
					-	-			16	23
					(2)	(7)			(9)	(18)
					2	(10)			550	424
							112	86	112	86
					-	1	-	-	8	6
					2	(11)	112	86	654	504

Water		Engineering	Adjustments		Total other operations		Discontinued operations		Edison Group	
12.31.06	12.31.05	12.31.05	12.31.06	12.31.05	12.31.06	12.31.05	12.31.06	12.31.05	12.31.06	12.31.05
44	39	-	(95)	(8)	(51)	31	231	-	15,657	15,892
31	15	-	(10)	-	21	15	137	-	8,767	9,461
					(10)	(11)	46	-	4,256	4,820
8	11	1	-	-	8	12	-	-	489	598
-	-	-	-	-	-	-	-	-	18	24
-	-	-	-	-	-	-	-	-	41	22
8	11	1	-	-	8	12	-	-	548	644
3	4	-	-	-	3	4	6	-	2,923	2,963

NOTES TO THE BALANCE SHEET

Assets

Non-current Assets

1. Property, Plant and Equipment

Property, plant and equipment, which comprise the Group's production assets, totaled 8,057 million euros, for a net decrease of 525 million euros compared with December 31, 2005. This decrease is attributable in part to the reclassification of the assets of Serene Spa under "Discontinued operations" (151 million euros) and to the sale of Edison Rete Spa (195 million euros).

(in millions of euros)	Land and buildings	Plant and machinery	Manufact. and distrib. equipment	Other assets	Constr. in progress and advances	Total
Balance at 12.31.2005 (A)	**882**	**6,139**	**21**	**12**	**1,528**	**8,582**
Change at December 31, 2006:						
- additions	5	158	7	1	318	489
- disposals (-)	(2)	(213)	-	-	(1)	(216)
- depreciation (-)	(46)	(572)	(3)	(2)	-	(623)
- writedowns (-)	(1)	(89)	-	-	-	(90)
- reversals of writedowns	-	2	-	-	-	2
- reclassification to discontinued operations	(7)	(143)	(1)	-	-	(151)
- other changes	106	1,149	-	-	(1,191)	64
Total changes (B)	**55**	**292**	**3**	**(1)**	**(874)**	**(525)**
Balance at 12.31.2006 (A+B)	**937**	**6,431**	**24**	**11**	**654**	**8,057**
Breakdown:						
- historical cost	1,069	8,035	33	21	654	9,812
- revaluations	-	-	-	-	-	-
- writedowns (-)	(5)	(237)	(2)	-	-	(244)
- accumulated depreciation	(127)	(1,367)	(7)	(10)	-	(1,511)
Net carrying amount	**937**	**6,431**	**24**	**11**	**654**	**8,057**

The total value of the assets, virtually all of which are located in Italy, includes construction in progress and advances totaling 654 million euros. The significant decrease from the amount reported a year earlier reflects the full availability of the Torviscosa (UD) thermoelectric power plant, which followed the commissioning of a thermoelectric facility in Altomonte (CS) and a power plant in Piacenza (Edipower) during the first half of 2006.

Additions of 489 million euros are mainly the result of the following capital expenditures:

- The investments of the **electric power operations**, which totaled 347 million euros, were primarily used for the construction of new thermoelectric power plants in Simeri Crichi (CZ) (149 million euros) and to complete new facilities in Torviscosa (UD) (29 million euros) and Altomonte (CS) (6 million euros). In addition, Edipower invested 84 million euros (Edison's pro rata share) to repower the Turbigo (MI) power plant (62 million euros), and 10 million into the Chivasso and Mese facilities. In the area of wind power, the Group invested 18 million euros and brought on stream a new wind farm in Ripabottoni (CB).

- The **hydrocarbons operations** invested 133 million euros. The main projects pursued in Italy included development of fields in the Adriatic (43 million euros) and in Candela (12 million euros) and

construction of the Caverzere-Minerbio natural gas pipeline (37 million euros). Investments outside Italy were earmarked mainly for a concession in Algeria (9 million euros) and for the Rosetta concession in Egypt (8 million euros).

Disposals, which totaled 216 million euros, reflects mainly the sale of the Edison Rete Spa assets (195 million euros) and the disposal of certain equipment components at their carrying value. The sale of unusable equipment components at a loss of 6 million euros accounts for the balance.

Depreciation of property, plant and equipment (623 million euros) included 572 million euros for the electric power operations (341 million euros at December 31, 2005) and 46 million euros for the hydrocarbons operations (50 million euros at December 31, 2005). Corporate activities and the water operations account for the balance. The increase compared with 2005 reflects the commissioning of new power plants and the new method used to depreciate thermoelectric power plants and wind farms that sell power to the Manager of the National Transmission Grid (abbreviated as GRTN in Italian) at rates set in the CIP 6/92 Resolution, which resulted in a charge of 81 million euros in the income statement.

As explained later in these notes, as a result of an impairment test, the Group wrote down by 86 million euros the carrying amount of certain facilities held by the electric power operations. In addition, Edipower recognized writedowns totaling 4 million euros in connection with some of its plants and buildings.

Among **other changes**, the decrease in construction in progress is mainly due to the commissioning of the Torviscosa and Altomonte power plants and the completion of the repowering of the Piacenza facility. In addition, 22 million euros were added to plant and machinery upon the recognition of decommissioning costs for the period applicable to power plants put into service during the period.

During the second half of 2006, the Group completed an in-depth review of projected decommissioning costs for the production assets of the hydrocarbons operations, which were then increased by a total of 61 million euros.
The reason for this increase is the across-the-board rise in the cost of drilling equipment and the higher rates charged by industry operators as a result of the sizable amount by which oil prices have increased during the past 12 months.

Note also that:
- the net carrying amount of property, plant and equipment included **assets transferable at no cost** with an aggregate value of 641 million euros (704 million euros at December 31, 2005). Virtually all of the assets transferable at no cost are held by the Group's hydroelectric operations, which hold 70 concessions (including those of Edipower). The decrease reflects primarily the depreciation taken in 2006.

Assets acquired under finance leases (in millions of euros)	Historical cost	Accum. deprec. and writedowns	**Net value at 12.31.2006**	Net value at 12.31.2005
Land and buildings	11	(2)	9	10
Plant and machinery	830	(198)	632	694
Total	**841**	**(200)**	**641**	**704**

Property, plant and equipment includes assets acquired under finance leases totaling 127 million euros (171 million euros at December 31, 2005), which are recognized in accordance with the IAS 17 (revised) method.
The decrease compared with December 31, 2005 reflects the outright purchase of a facility held under a finance lease by Termica Cologno, which had a carrying value of 34 million euros
The balance outstanding on finance leases, which amounts to 30 million euros, is shown under "Long-term borrowings and other financial liabilities" (19 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 12.31.2006**	Net value at 12.31.2005
Land and buildings	8	(1)	7	2
Plant and machinery	142	(22)	120	162
Total	**150**	**(23)**	**127**	**171**

Lastly, Law No. 266 of December 23, 2005 (2006 Budget Law) provided an automatic ten-year extension of concessions for large-scale diversion of public water for hydroelectric power plants, as long as the concession holder can demonstrate the effectiveness of significant investments made in plant modernization to improve a facility's energy efficiency and environmental performance. Such evidence must be provided during the six months that precede the expiration of the concession and is subject to verification by local government entities. Since the test of objective certainty cannot yet be met at this point, the useful lives of the Group's electric power assets affected by these provisions were not changed.

2. Investment Property

The Group's investment property, which consists of land and buildings that are not used for production purposes, totaled 40 million euros, or 9 million euros less than at December 31, 2005. The depreciation for the period and the sale of a building, which generated a gain of about 4 million euros, account for this decrease.

(in millions of euros)	**12.31.2006**
Balance at 12.31.2005 (A)	**49**
Change in 2006:	
- disposals	(8)
- depreciation	(1)
Total changes (B)	**(9)**
Balance at 12.31.2006 (A+B)	**40**
Breakdown:	
- historical cost	60
- accumulated depreciation (-)	(3)
- writedowns (-)	(17)
Net carrying amount	**40**

3. Goodwill

Goodwill totaled 3,518 million euros. The increase of 13 million euros compared with December 31, 2005 reflects the acquisitions of Eneco Energia Spa (5 million euros) and EDF Energia Italia Srl (8 million euros).

The remaining balance is an intangible asset with an indefinite useful life. As such, it cannot be amortized in regular installments.

As explained in the paragraph below, goodwill was tested for impairment, as required by IAS 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 (CGU).

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)	**12.31.2006**	12.31.2005
- Electric power operations	2,836	2,823
- Hydrocarbons operations	682	682
Total	**3,518**	**3,505**

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 that these operations are expected to generate over the Company's plan until 2014 and a terminal value beyond the plan's horizon consistent with the nature of the investments and the segments 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 of between zero and 2%. In addition, 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 9.6% for the electric power operations and 11% 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.

In 2006, the cash generating unit (CGUs) to which the Group allocates property, plant and equipment and intangibles were modified to ensure that, as required by IAS 36, the allocation of operating responsibilities within the Group is more consistent with the data of the segment information and to avoid an excessive fragmentation of the CGUs. This new approach takes into account the existing market structure and reflects the following considerations:

- At the operational level, the portfolio of non-current assets is divided into macrogroups that are operated as individual units (Thermoelectric CIP 6/92, Thermoelectric Captive, Thermoelectric Merchant, Hydroelectric Merchant, Wind Power CIP 6/92, Wind Power Merchant, Gas Italy, Gas International, Gas Distributions and Gas Storage);
- this breakdown reflects the way top management views the Group's businesses and is consistent with the Group's management reporting system and segment information disclosures;
- the flows generated by market sales (Power Exchange and wholesalers) of electric power and natural gas reflect the total commodity volumes traded independently of the assets from which they originated.

Therefore, the new CGUs to which non-current assets are allocated are based on a three-points 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 cash generating units, based on operating and financial plans for each cash generating unit 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 flows used for each cash generating unit, which were consistent with those provided in the Company plan, were than discounted at rates that were the same as those applied when testing goodwill for impairment. Specifically, the median pretax rates used were 9.6% for electric power CGUs and 11% for hydrocarbons CGUs. The latter rate was increased further when the CGUs were located in a foreign country with a significant country risk or were exposed to a specific business risk.
The recoverable value of certain Thermoelectric Captive and CIP 6/92 CGUs, computed in the manner described above, was lower than the corresponding carrying amount, requiring writedowns totaling 86 million euros.

These writedowns were required by the detection of certain impairment indicators, the most significant of which were an increase in interest rates, the redefinition of certain industrial projects and a more restrictive interpretation of the terms of certain contract stipulations.

4. Hydrocarbons Concessions

Concessions for the production of hydrocarbons, which include 75 mineral leases in Italy and abroad (including 2 storage concessions), were valued at 323 million euros. The amortization for the period accounts for most of the decrease of 16 million euros from the amount reported at December 31, 2005. In 2006, when the reasons for its original recognition no longer applied, a writedown was reversed in part and 6 million euros were reinstated.

(in millions of euros)	12.31.2006
Balance at 12.31.2005 (A)	**339**
Changes in 2006:	
- amortization	(25)
- reversals of wriedown	6
- reclassifications	3
Total changes (B)	**(16)**
Balance at 12.31.2006 (A+B)	**323**
Breakdown:	
- historical cost	420
- accumulated amortization (-)	(93)
- writedowns (-)	(4)
Net carrying amount	**323**

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."

	Number	Remainig life from	to
Storage concessions	2	8	18
Hydroelectric concessions	70	2	25
Distribution concessions	63	1	13
Hydrocarbon concessions	73	(*) "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 2006, the Group was awarded 5 new gas distribution concessions in the Abruzzo Region and 3 hydrocarbon concessions expired.

5. Other Intangible Assets

The balance of 44 million euros includes 42 million euros for patents, licenses and similar rights and 2 million euros for CO_2 emissions trading certificates that were purchased in excess of the amount needed to meet the requirements of Group companies, whose value is net of 2 million euros writedown. Hydrocarbon research and exploration costs, which are charged in full to income in the year they are incurred, totaled 41 million euros in 2006.
A breakdown of the changes in this account is provided below:

(in millions of euros)	12.31.2006
Balance at 12.31.2005 (A)	**38**
Balance at 12.31.2006:	
- additions	59
- amortization	(51)
- writedowns	(2)
Total changes (B)	**6**
Balance at 12.31.2006 (A+B)	**44**
Breakdown:	
- historical cost	166
- accumulated amortization (-)	(118)
- writedowns (-)	(4)
Net carrying amount	**44**

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

The total includes 44 million euros an investments in unconsolidated subsidiaries and associates valued by the equity method and 122 million euros in available-for-sale investments. These investments, which are valued at fair value, include an investment in RCS Mediagroup (28 million euros) and investments in subsidiaries that were not consolidated due to ownership restrictions (94 million euros). The table below shows the main changes that occurred in 2006:

(in millions of euros)	Investments in associates	Available-for-sale investments	Total
Balance at 12.31.2005 (A)	**59**	**74**	**133**
Changes in 2006:			
- disposals (-)	(22)	-	(22)
- changes in share capital	-	66	66
- revaluations and valuations at equity	3	-	3
- writedowns and valuations at equity (-)	-	(10)	(10)
- derecognition of dividends (-)	(5)	-	(5)
- reclassifications and other changes	9	(8)	1
Total changes (B)	**(15)**	**48**	**33**
Balance at 12.31.2006	**44**	**122**	**166**
Breakdown:			
- historical cost	40	114	154
- revaluations (+)	8	17	25
- writedowns (-)	(4)	(9)	(13)
Net carrying amount	**44**	**122**	**166**

An analysis of the changes is as follows:

- **disposals** refer to the sale of Sat for 20 million and for 2 million to the sale of Nile Valley; the overall capital gain is 12 million of euros;
- **changes in share capital** of 66 million euros consist mainly of capital contributions provided to the associated company Terminale GNL Adriatico;
- **revaluations and valuations at equity** totaling 3 million euros refer mainly to the valuation by the equity method of the investment in Blumet (about 2 million euros);
- **writedowns** totaling 10 million euros refer mainly to IPSE 2000 (6 million euros, offset by the utilization of the reserve for risks established in anticipation of the disposal of this investment), the MB Venture Capital Fund (1 million euros) and RCS Mediagroup (2 million euros, with the offset posted to shareholders' equity, as required by IAS 39);
- 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 of 130 million euros include loans receivable due in more than one year long-term equity investments.

(in millions of euros)	Loans Receivable	Long Term Equity Investments	Total
Balance at 12.31.2005 (A)	**124**	**2**	**126**
Changes in 2006:			
- decrease (-)	(15)	-	(15)
- additions	19	-	19
Total changes (B)	**4**	**-**	**4**
Balance at 12.31.2006	**128**	**2**	**130**
Breakdown:			
- historical cost	128	2	130
- writedown (-)	-	-	-
Net carrying value	**128**	**2**	**130**

The main components of loans receivable are a 77-million-euro receivable under a finance lease for the Ibiritermo power plant recognized as required by IFRIC 4, a 38-million-euro loan made to IPSE 2000, which is offset by a provision for risks of the same amount due to uncertainty about its repayment, and 15 more financial loans receivables of which 4 million euros in bank deposits that secure project financing facilities.

8. Deferred-tax Assets

Deferred-tax assets of 102 million euros reflect a tax-loss carryforward (45 million euros), tax-deductible provisions for risks (29 million euros), differences in the valuation of property, plant and equipment (21 million euros) and Other differences stemming from the adoption of IAS 39 account for the balance.
With regard to the recognition of these assets, their valuation was made based on expectations of actual utilization over the limited time horizon of the industrial plans approved by the Company. Consequently, the theoretical deferred-tax assets computed on provisions for risks were partially written down.

9. Other Assets

Other assets totaled 85 million euros, or 212 million euros less than at December 31, 2005. The main reason for this decrease are the refund of 65 million of euros of prepaid taxes and the sale this past December of certain direct tax and vat credits receivable from the tax administration. These credits, which were sold by Edison Spa and its Finel Spa subsidiary, had an aggregate value of about 166 million euros.
The main components of this account are the remaining tax refunds receivable and applicable accrued interest through December 31, 2006 (54 million of euros, net of a 4 million provision), 22 million of euros due for other taxes (of which 11 million euros for indirect taxes) and the remaining amount refer to caution deposits.

10. Current Assets

(in millions of euros)	12.31.2006	12.31.2005	Change
Inventories	387	315	72
Trade receivables	1,943	1,593	350
Current tax-assets	15	38	(23)
Other receivables	276	337	(61)
Current financial assets	42	76	(34)
Cash and cash equivalents	298	361	(63)
Total current assets	**2,961**	**2,720**	**241**

A review of the individual components is provided below:

Inventories

A breakdown is as follows:

(in millions of euros)	Engineering consumable	Stored natural gas	Green certificates	Fuel oil	Other materials	Total at 12.31.2006	Total at 12.31.2005	Change
Electyric power operations	34	-	75	36	6	151	152	(1)
Hydrocarbons operations	-	208	-	24	1	233	161	72
Corporate activities	-	-	-	-	-	-	-	-
Total core businesses	**34**	**208**	**75**	**60**	**7**	**384**	**313**	**71**
Water	-	-	-	-	3	3	2	1
Total for the Group	**34**	**208**	**75**	**60**	**10**	**387**	**315**	**72**

The main reason for the increase of 72 million euros compared with December 31, 2005 is a larger inventory of stored natural gas and fuel oil and the inventory of green certificates.
Inventories also include the strategic gas reserves that have a use commitment.

Trade Receivables

Trade receivables totaled 1,943 million euros, or 350 million euros more than at December 31, 2005.
A breakdown by type of business is as follows:

(in millions of euros)	12.31.2006	12.31.2005	Change
Electyric power operations	1,649	1,133	516
Hydrocarbons operations	325	385	(60)
Corporate activities and eliminations	(41)	65	(106)
Total core businesses	**1,933**	**1,583**	**350**
Water	10	10	-
Total trade receivables	**1,943**	**1,593**	**350**

Trade receivables stem from contracts to supply energy and steam, contracts to supply natural gas, contracts to sell natural gas and Power Exchange transactions.
The above amounts are net of an allowance for doubtful accounts totaling 58 million euros.

Current-tax Assets

The balance of 15 million euros includes amounts owed by the tax authorities for overpayments of corporate income taxes (IRES) and local income taxes (IRAP).

Other Receivables

Other receivables totaled 276 million euros. They consist of different types of receivables, including amounts owed by partners and associates in hydrocarbon exploration projects (32 million euros), advances paid to suppliers (31 million euros), receivables from public institutions and local entities (27 million euros, including 22 million euros for hydroelectric fees), insurance settlements (13 million euros), credits arising from the valuation of commodity derivatives (39 million euros), receivables from the tax administration (22 million euros, including 10 million euros for excise tax overpayments) and amounts owed by the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (32 million euros).
The above amounts are net of an allowance for doubtful accounts of 24 million euros.

Current Financial Assets

A breakdown of current financial assets, which totaled 42 million euros, is as follows:

(in millions of euros)	12.31.2006	12.31.2005	Change
Equity investments held for trading	11	29	(18)
Loans receivable	27	3	24
Derivatives	4	44	(40)
Total current financial assets	**42**	**76**	**(34)**

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

Equity Investments Held for Trading

These are investments in publicly traded companies. They include the following: ACEGAS Spa (6 million euros), ACSM Spa (4 million euros) and American Superconductor Corporation (1 million euros). The valuation of these investments at fair value produced a gain of about 1 million euros. The investments in ACEA and AMGA were sold in 2006, generating proceeds of 21 million euros and a gain of 2 million euros.

Loans Receivable

The main component of this account is a receivable owed by Serene Spa (23 million euros), which has been classified under "Discontinued operations." The item includes a 2 million euros short term portion of the financial leasing for the thermoelectric plant of Ibiritermo, the remaining amount is due to associates companies.

Derivatives Recognized as Current Assets

The table below provides a breakdown of receivables recognized on the balance sheet to reflect the fair value measurement in accordance with IAS 39 of derivatives outstanding at December 31, 2006:

(in milioni di euro)	12.31.2006	12.31.2005
Foreign exchange transactions	8	3
Interest rate transactions	4	31
Commodity transactions	31	33
Fair value recognized in current assets	**43**	**67**
allocated as follows:		
- to "Other receivables"	39	23
- to "Current financial assets"	4	44

The portion of these receivables that represents cash flow hedges (34 million euros) is offset, net of deferred taxes, by a reserve included in shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents of 298 million euros consist of short-term bank deposits. The item includes the amount resulting from the transfer of tax credits, completed at the end of December.

11. Assets Held for Sale

The balance of 231 million euros represents the assets of Serene Spa, which include property, plant and equipment totaling 151 million euros, trade receivables amounting to 52 million euros and bank deposits of 18 million euros. Sundry assets account for the balance.

Liabilities and Shareholders' Equity

12. Shareholders' Equity

The Group's interest in shareholders' equity amounted to 6,743 million euros, or 471 million euros more than at December 31, 2005. This increase is the net result of profit earned in 2006, 654 million euros, and of the distribution of dividends, 183 million euros (corresponding to a 0.038 euro dividend per ordinary share and a 0.218 euro dividend per saving share, including the formerly due amounts). At 147 million euros, minority interest in shareholders' equity was 12 million euros lower than at December 31, 2005, due mainly to the distribution of dividends attributable to minority shareholders (13 million euros).

At December 31, 2006, the subscribed and paid-in share capital of Edison Spa totaled 4,273 million euros. It consisted of shares with a par value of 1 euro each, regular ranking for dividends, and was broken down as follows:

Share class	Number of shares	Millions of euros
Common shares	4,162,547,033	4,162
Savings shares	110,592,420	111
Total shares	**4,273,139,453**	**4,273**

The aggregate value of share capital and additional paid-in capital was little changed, compared with December 31, 2005, except for the exercise of 31,699 warrants. A total of 1,018,616,924 warrants was outstanding at December 31, 2006. Each warrant can be exercised until December 2007, to subscribe one new share at a price of 1 euro per share. No change affected the savings shares.

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

Reserve for Cash Flow Hedge Transactions

(in millions of euros)	Gross reserve	Deferred reserve	Net reserve
- Reserve at December 31, 2005	6	(3)	3
- Changes in 2006	(14)	6	(8)
- Reserve at December 31, 2006	**(8)**	**3**	**(5)**

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

(in millions of euros)	2006
Net profit of Edison Spa	**632**
Inter company dividends	(167)
Results of associated companies, subsidiaries and joint ventures	213
Different carrying value of divested assets	1
Different estimate of the result of divested assets	(15)
Recognition of put options	(16)
Other adjustments	6
Group Interest in Shareholders' Equity	**654**

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

(in millions of euros)	2006
Shareholders' Equity of Edison Spa	**5,609**
Elimination of the carrying value of equity investments consolidated in the financial statements of Edison Spa	(2,558)
Recognition of the shareholders' equities of the companies consolidated by Edison Spa	3.609
Valuation by the equity method of the equity investments held by Edison Spa	6
Other adjustments	77
Group Interest in Shareholders' Equity	**6,743**

Non-current Liabilities

13. Provision for Employee Severance Indemnities and Provisions for Pensions

This reserve, which amounted to 72 million euros, reflects the accrued severance indemnities and other benefits owed to employees at December 31, 2006, computed in accordance with the actuarial criteria of IAS 19. The operating and financial parameters used for valuation purposes are listed below:

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

The computation process also resulted in the recognition of financial expense totaling 3 million euros. The table below shows the changes that occurred in 2006:

(in millions of euros)	Provision for sever. indemn.	Provision for pensions	Total
Balance at 12.31.2005 (A)	**65**	**9**	**74**
Changes in 2006:			
- Additions	5	-	5
- Financial expense (+)	3	-	3
- Discounting gains (losses) (+/-)	(1)	-	(1)
- Utilizations (-)	(5)	-	(5)
- Change in scope of consolidation (+/-)	(4)	-	(4)
Total changes (B)	**(2)**	**-**	**(2)**
Total at 12.31.2006 (A+B)	**63**	**9**	**72**

At December 31, 2006, counting the employees of discontinued operations, the Group and the companies that are consolidated line by line or by the proportional method had 2,923 employees, about the same as at the end of 2005. The average payroll included 2,960 employees.

The table below provides a breakdown by type of business of the Group's payroll and shows the changes that occurred in 2006.

(number of employees)	12.31.2006	12.31.2005	Change
Electric Power operations	1,956	1,992	(36)
Hydrocarbons operations	433	441	(8)
Corporate activities	525	526	(1)
Total core businesses	**2,914**	**2,959**	**(45)**
Water	3	4	(1)
Assets held for sale	6	-	6
Total for the Group	**2,923**	**2,963**	**(40)**

(number of employees)	01.01.06	Added to payroll	Removed from payroll	Other Reclassificat.	12.31.06	Average payroll
Executives	171	4	(24)	9	160	166
Office staff and middle managers	2,053	134	(146)	21	2,062	2,058
Production staff	739	53	(61)	(30)	701	736
Total for the Group	**2,963**	**191**	**(231)**	**-**	**2,923**	**2,960**

14. Provision for Deferred Taxes

The balance of 752 million euros reflects mainly the deferred tax liability from the use during the transition process of fair value as deemed cost to value property, plant and equipment.
The following table shows a breakdown of this reserve by type of underlying temporary difference, keeping in mind that certain Group companies that met the requirements of IAS 12 offset their deferred-tax liability against prepaid taxes.

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

(in millions of euros)	12.31.2006	31.12.2005	Change
Deferred-tax liabilities:			
- Differences in the valuation of property, plant and equipment	791	1,141	(350)
- Adoption of the standard on finance leases (IAS 17)	43	47	(4)
- Adoption of the standard on financial instruments (IAS 39) with impact on:			
- income statement	2	8	(6)
- shareholders' equity	2	14	(12)
- Other deferred taxes	12	8	4
Total deferred-tax liabilities (A)	**850**	**1,218**	**(368)**
Deferred-tax assets usable for offset purposes:			
- Taxed provisions for risks	83	54	29
- Tax loss carryforward	-	59	(59)
- Adoption of the standard on financial instruments (IAS 39)	10	4	6
- Differences in the valuation of property, plant and equipment	5	-	5
- Other prepaid taxes	-	4	(4)
Total deferred-tax assets (B)	**98**	**121**	**(23)**
Total provision for deferred taxes (A-B)	**752**	**1,097**	**(345)**

15. Provisions for Risks and Charges

The reserves for risks and charges, which are established to cover contingent liabilities, totaled 881 million euros, a decrease of 121 million euros compared with the end of 2005. This decrease reflects the settlement of certain legal disputes, which required the payment of compensation.
The table below shows the changes that occurred in 2006:

(in millions of euros)	12.31.2005	Additions	Utiliz.	Other	12.31.2006
- Disputed tax items	35	1	(24)	11	23
- Risks for disputes, litigation and contracts	172	16	(18)	-	170
- Charges for contractual guarantees on the sale of equity investments	208	-	(57)	-	151
- Provisions for decommissioning and remediation of industrial sites	173	10	(5)	83	261
- Environmental risks	180	-	(111)	-	69
- Risks on the sale of equity investments	15	17	-	(16)	16
- Provision for emission rights	5	-	-	(5)	-
- Other risks and charges	214	43	(32)	(34)	191
Total for the Group	**1,002**	**87**	**(247)**	**39**	**881**

The main changes that occurred in 2006 are reviewed below:

- The main components of **additions** of 87 million euros include a provision recognized to cover a fine of about 20 million euros levied by the AEEG for alleged use of allocated storage capacity for uses different from those for which it had received it, a provision of 48 million euros added to cover liabilities for pending disputes, 10 million euros for the uncertainty of some assets' value and 9 million euros for interest expense incurred with the decommissioning and remediation of industrial sites.
- The main components of **utilizations**, which totaled 247 million euros, were the reduction of 111 million euros of the provision established to cover contractual obligations related to the Porto Marghera facility, 57 million euros related to the cancellation of guarantees provided in previous years in connection with the sale of equity investments, 24 million euros refer to the definition of certain positively resolved legal disputes and 55 million euros refer to utilizations of provisions for risks upon the settlement of pending disputes.
- The increase of 83 million euros in **other changes** refers to the provisions for site decomissioning, which are posted directly to the corresponding asset account of which 61 million euros refer to hydrocarbons operation assets and 22 million euros refer to plants that started their activity during the year. These figures have been added to the book value of the plant they are referred to. The decrease of 34 million euros reflects mainly the reclassification of certain asset items carried out to provide a more effective presentation.

More detailed information about the entries that resulted in the current composition of the provisions for risks and charges is provided in the section of this Report entitled "Update of the Main Legal and Tax Disputes at December 31, 2006."

16. Bonds

The difference compared with the end of 2005 reflects the reclassification under current liabilities of the Edison Spa bond issues that will be due in 2007.
The balance of 1,207 million euros includes 6 million euros in accrued interest at December 31, 2006. A breakdown is as follows:

(in millions of euros)	Market where traded	Currency	Par value outstand.	Coupon	Rate	Maturity	Ammortized cost	Fair value
Euro Medium Term Notes:								
Edison Spa	Luxembourg Security Exchange	EUR	700	Annual in arrears	5.125%	12.10.10	700	721
Edison Spa	Luxembourg Security Exchange	EUR	500	Quarterly in arrears	3.503%	7.19.11	507	511
Total for the Group			**1,200**				**1,207**	**1,232**

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

17. Long-term Borrowings and Other Financial Liabilities

At December 31, 2006, this account totaled 502 million euros (1,822 million euros at the end of 2005). The decrease of 1,320 million euros is mainly the result of the reclassification under current liabilities of bank borrowings owed by Edipower Spa. A breakdown is as follows:

(in millions of euros)	12.31.2006	12.31.2005	Change
Due to banks	440	1,757	(1,317)
Due to leasing companies	19	30	(11)
Due to subsidiaries in liquidation	28	25	3
Due to other lenders	15	10	5
Total for the Group	**502**	**1,822**	**(1,320)**

18. Other Liabilities

Other liabilities of 2 million euros include the liability that arises from call options for the purchase of 30% of Eneco Energia Spa. The decrease from the end of the previous year is due mainly to the reclassification under current liabilities of the obligation at December 31, 2005 incurred in connection with the put-and-call options for the purchase of a 10% interest in Edipower.

Breakdown of Indebtedness by Maturity

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

(in millions of euros)	12.31.08	12.31.09	12.31.10	12.31.11	After 5 years	Total
Bonds	-	-	700	507	-	1,207
Borrowings and other financial liailities:						
- bank debt	104	160	25	27	124	440
- due to other lenders	10	9	2	1	40	62
Other liabilities	2	-	-	-	-	2
Total	**116**	**169**	**727**	**535**	**164**	**1,711**

19. Current Liabilities

(in millions of euros)	12.31.2006	12.31.2005	Change
Bonds	1,457	-	1,457
Short-term borrowings	1,461	657	804
Trade payables	1,576	1,275	301
Current taxes payable	26	16	10
Other liabilities	694	438	256
Total current liabilities	**5,214**	**2,386**	**2,828**

The main current liability accounts are reviewed below:

- **Bonds** totaled 1,457 million euros, of which 32 million euros are for interest due at December 31, 2006. A breakdown is as follows:

(in millions of euros)	Market where traded	Currency	Par value outstand.	Coupon	Rate	Maturity	Ammortized cost	Fair value
Euro Medium Term Notes:								
Edison Spa	Luxembourg Security Exchange	EUR	600	Annual in arrears	7.375%	7.20.07	619	631
Italenergia	Retail	EUR	830	Semiannual in arrears	3.443%	8.26.07	838	844
Totale Gruppo			**1,430**				**1,457**	**1,475**

- **Short-term borrowings** of 1,461 million euros include 1,303 million euros due to banks, including Edipower's debt, previously classified as long term liability, 27 million euros of which was generated by measuring at fair value interest rate derivatives, 137 million euros for the recognition of the 20% Finel put, which was exercised by EDF International in December, and 11 million euros owed to leasing companies.

- **Trade payables**

(in millions of euros)	12.31.2006	12.31.2005	Change
Electric power operations	1,157	789	368
Hydrocarbons operations	466	450	16
Corporate activities	(50)	33	(83)
Total core businesses	**1,573**	**1,272**	**301**
Water	3	3	-
Total trade payables	**1,576**	**1,275**	**301**

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 26 million euros represent the liability for income taxes payable on the balance sheet date, less estimated payments made. These amounts are owed mainly 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 694 million euros include the following: the liabilities arising from the put-and-call options related to the purchase of a 10% interest in Edipower (249 million euros), the amount owed to the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (114 million euros), amounts owed to joint holders of permits and concessions for the production of hydrocarbons (72 million euros), payables owed for miscellaneous consulting and other services (55 million euros), liabilities stemming from the measurement of derivatives at fair value (45 million euros), amounts payable to employees and to pension and social security institutions (40 million euros) and amounts owed to the tax administration for taxes withheld, excise taxes and other taxes (72 million euros).

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

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

(in millions of euros)	12.31.2006	12.31.2005
Foreign exchange transactions	10	2
Interest rate transactions	27	64
Commodity transactions	35	9
Fair value recognized under current liabilities	**72**	**75**
Posted to:		
- other liabilities	45	9
- short-term borrowings	27	66

The portion of these liabilities that represents cash flow hedges (42 million euros) is offset, net of the corresponding deferred-tax assets, by an amount included in shareholders' equity.

20. Liabilities Held for Sale

The balance of 137 million euros represents the liabilities of Serene Spa, which include 41 million euros in bank borrowings.

Net Borrowings

(Pursuant to CONSOB communication n° DEM/6064293 dated July 28, 2006)

At December 31, 2006, net borrowings totaled 4,256 million euros, down from 4,820 million euros at December 31, 2005. Most of this improvement is attributable to the cash flow from operation, which more than offset the capital investments (548 million euros) , the payment of dividends (196 million euros, of which 183 million euros disbursed by Edison Spa) and financial expenses (246 million euros). The improvement is also due to the sale of Edison Rete Spa (311 million euros) and the proceeds generated by the assignment of tax credits, (166 million euros).

The table below provides an overview of net borrowings. The amounts shown include the indebtedness of Serene Spa, which is shown under assets and liabilities of divested operations. Please note that, in view of the refinancing of Edipower's bank debt at the beginning of 2007, the outstanding balance of the previous financing facility was reclassified under current liabilities. The item includes 200 million of euro that represent part of the utilization of a 1,500 million credit line expiring in 2013.

(in millions of euros)	12.31.2006	12.31.2005 restated as per IFRIC 4	Change
Long-term debt			
Bonds - non-current portion	1,207	2,838	(1,631)
Non-current bank loans	440	1,757	(1,317)
Amounts due to other lenders - non current portion	62	65	(3)
Other non-current financial assets (*)	(77)	(60)	(17)
Total long-term debt	**1,632**	**4,600**	**(2,968)**
Short-term debt			
Bonds - current portion	1,457	-	1,457
Current loans payable	1,461	657	804
Current financial assets	(42)	(76)	34
Cash and cash equivalents (**)	(298)	(361)	63
Loans payable of divested operations	64	-	64
Loans receivable of divested operations	(18)	-	(18)
Total short-term debt	**2,624**	**220**	**2,404**
Net borrowings	**4,256**	**4,820**	**(564)**

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

(**) Cash and cash equivalents

(in millions of euros)	12.31.2006	12.31.2005 restated as per IFRIC 4	Change
Bank and postal accounts	(298)	(271)	(27)
Negotiable securities	-	(90)	90
Cash and cash equivalents	**(298)**	**(361)**	**63**

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

Default Risk and Loan Agreement Covenants

With regard to the Group's indebtedness, it is important to note that a deterioration of Edison's credit rating or the loss of rating would not trigger automatically a repayment obligation. This applies both to bonds and bank debt. As for the obligations to maintain certain financial indicators above or below maximum or minimum levels (financial covenants), they do not apply to any of the Group's bond issues or to the portion of the bank debt attributable to Edison. However, some of Edison's subsidiaries are still bound by certain contractual obligations concerning compliance with certain financial ratios that were undertaken in connection with project financing bank credit lines. This type of indebtedness amounts to about 148 million euros. Lastly, specifically insofar as Edipower's financing is concerned, a lowering of Edison's credit rating below the minimum investment grade level would not trigger an early repayment obligation for Edipower. Edison would simply be required to achieve compliance with certain financial covenants. If Edison should be in violation of the financial covenants, following a monitoring period, it would be required to pay the amount it guaranteed in accordance with the Completion Equity Contribution Agreement and the Repowering Equity Contribution Agreement.
However, on January 29, 2007, Edipower and a group of banks executed a new financing agreement that replaces an older facility that was cancelled ahead of schedule. Under the new contract, Edison is no longer obligated to comply with financial covenants or to meet rating or other requirements. As a result, all of the guarantees to provide contributions to Edipower (under the Completion Equity Contribution Agreement and the Repowering Equity Contribution Agreement) have been cancelled. Some negative pledges are discussed in the paragraph "Contingent commitment and risks".

NOTES TO THE INCOME STATEMENT

The profit earned by the Edison Group in 2006 totaled 654 million euros. Restated in accordance with IFRIC 4, the profit reported in 2005 amounted to 504 million euros. This improvement was made possible by a significant increase in the operating result (+248 million euros) and by the positive impact of non recurring items, including 202 million euros from the realignment of the reporting value of certain assets to their tax value and a net gain of about 114 million euros on the sale of Edison Rete. The results have been partially offset by increased amortization and evaluation (135 million euros), an increase of the financial charges (43 million euros) and of the Group's tax rate, as the effect of the losses carryforward has exhausted.
On the other side of the ledger, the adoption of a new method to depreciate facilities that operate under CIP 6/92 contracts produced additional charges of 81 million euros.

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

	1st quarter 2006	2st quarter 2006	3st quarter 2006	4st quarter 2006
Sales revenues	2,441	1,825	1,965	2,292
EBITDA	334	440	445	317
as a % of revenues	13.7%	24.1%	22.6%	13.8%

The quarterly results have been calculated on the basis of economic and financial reports approved by the Board of Directors and they are not subject to auditing.

21. Sales Revenues

Sales revenues totaled 8,523 million euros, for an overall gain of 1,894 million euros (+28.6%) compared with 2005. The Group's core businesses increased sales revenues by 2,112 million euros (+33.1%).

The table below provides a breakdown of sales revenues:

(in millions of euros)	2006	2005	Change	% change
Revenues from the sales of:				
- Electric power	6,025	4,471	1,554	34.8%
- Natural gas	1,478	1,422	56	3.9%
- Steam	170	145	25	17.2%
- Oil	77	64	13	20.3%
- Green certificates	73	29	44	n.m.
- Water and other utilities	37	34	3	8.8%
- Other revenues	32	27	5	18.5%
Total sales revenues	**7,892**	**6,192**	**1,700**	**27.5%**
Revenues from electric network	18	36	(18)	(50.0%)
Revenues from services	15	16	(1)	n.m.
Storage	15	2	13	n.m.
Transmission revenues	583	170	413	n.m.
Revenues from contract work in progress	-	213	(213)	n.m.
Total for the Group	**8,523**	**6,629**	**1,894**	**28.6%**

Sales revenues were generated mainly in Italy. Revenues from contract work in progress shown for 2005 refer almost exclusively to the Tecnimont Group, which was sold during the second half of 2005. A breakdown of revenues by type of business is provided below.

Sales Revenues by Type of Business

(in millions of euros)	2006	2005	Change	% change
Electric Power operations	6,945	4,972	1,973	39.7%
Hydrocarbons operations	4,171	3.303	868	26.3%
Corporate activities	43	42	1	2.4%
Eliminations	(2,670)	(1,940)	(730)	n.m.
Core businesses	**8,489**	**6,377**	**2,112**	**33.1%**
Water	34	31	3	9.7%
Other operations	**34**	**31**	**3**	**9.7%**
Engineering	-	221	(221)	n.m.
Divested operations	**-**	**221**	**(221)**	**n.m.**
Total for the Group	**8,523**	**6,629**	**1,894**	**28.6%**

- The electric power operations (+39.7% compared with the first half of 2005) boosted unit sales (+24.1%) both in the deregulated market and under CIP 6/92 contracts and benefited from an increase in the average price charged, made possible by a rise in the fuel component.
- The hydrocarbons operations reported a 26.3% gain in sales revenues, due mainly to an increase in average revenues per unit that reflected a positive development in the benchmark oil markets.

22. Other Revenues and Income

Other revenues and income totaled 777 million euros. A breakdown is as follows:

(in millions of euros)	2006	2005	Change	% change
Commodity derivatives	336	226	110	48.7%
Recovery of costs from Edipower's Tollers	141	123	18	14.6%
Recoverty of costs from partners in hydrocarbon exploration projects	32	21	11	52.4%
Utilizations of provisions for risks	19	22	(3)	(13.6%)
Swaps and exchanges of oil and natural gas	40	29	11	n.m.
Out of period income	134	75	59	n.m.
Sundry items	75	92	(17)	n.m.
Total for the Group	**777**	**588**	**189**	**32.1%**

The result of the commodity derivatives include the effects of operations classified as hedging pursuant to IAS 39, 283 million euros cashed, and also the effects to hedge the margins. A disclosure of the effects of commodity derivative is available in the specific paragraph.
Out-of-period income includes a reduction of penalties paid for using the strategic gas reserve during the first quarter of 2005, the impact on the amount paid in the second half of 2005 of a renegotiated price for the natural gas purchased under certain long-term contracts and the recovery of green-certificate charges made possible by AEEG Resolution No. 113/06.

23. Raw Materials and Services Used

The cost of raw materials and services used, which rose in tandem with sales revenues, totaled 7,554 million euros, or 33.0% more than in 2005. A breakdown is as follows:

(in millions of euros)	2006	2005	Change	% change
Purchases of:				
- Natural gas	3,471	2,747	724	26.4%
- Electric power	1,061	443	618	139.5%
- Dispatching and balancing services	146	191	(45)	(23.6%)
- Blast furnace, recycled and coke furnace gas	392	276	116	42.0%
- Oil and other fuels	331	316	15	4.7%
- Demineralized industrial water	33	28	5	17.9%
- Green certificates	49	58	(9)	(15.5%)
- Emission trading charges	42	-	42	n.m.
- Other materials and utilities	147	147	-	n.m.
Total purchases	**5,672**	**4,206**	**1,466**	**34.9%**
- Facilities design, construction and maintenance	234	305	(71)	(23.3%)
- Transmission of electric power	720	385	335	87.0%
- Transmission and treatment of natural gas	262	254	8	3.1%
- Professional services	84	82	2	2.4%
- Insurance services	31	31	-	n.m.
- Commodity derivatives	264	170	94	55.3%
- Additions to provisions for risks	42	39	3	7.7%
- Writedowns of trade receivables	24	20	4	20.0%
- Change in inventory of work in progress, semifinished goods and finished goods	(74)	(21)	(53)	n.m.
- Sundry charges	295	208	87	41.8%
Total for the Group	**7,554**	**5,679**	**1,875**	**33.0%**

Breakdown by Type of Business

(in millions of euros)	2006	2005	Change	% change
Electric power operations	6,238	4,309	1,929	44.8%
Hydrocarbons operations	3,894	3,019	875	29.0%
Corporate activities	90	89	1	1.1%
Eliminations	(2,687)	(1,944)	(743)	38.2%
Core businesses	**7.535**	**5,473**	**2,062**	**37.7%**
Water	19	18	1	5.6%
Other operations	**19**	**18**	**1**	**n.m.**
Engineering	-	188	(188)	n.m.
Divested operations	**-**	**188**	**(188)**	**n.m.**
Total for the Group	**7,554**	**5,679**	**1,875**	**33.0%**

This expense item, which totaled 5,672 million euros (+34.9% compared with 2005), consists mainly of purchases of natural gas, electric power and other raw materials used in production processes. It also includes the cost of blast furnace, recycled and coke oven gases used as fuel for the production of electric power. Other significant cost items include 982 million euros in electric power and natural gas transmission costs (720 million euros and 262 million euros, respectively), which increased by 53.7% compared with 2005, reflecting a rise in unit sales and the costs incurred to import LNG.

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

24. Labor Costs

At 210 million euros, labor costs were 40 million euros less than in 2005. The change in the scope of consolidation caused by sale of the Tecnimont Group in the fourth quarter of 2005 and of Edison Rete in 2006 accounts for this decrease.

25. EBITDA

At December 31, 2006, EBITDA amounted to 1,536 million euros, or 19.3% more than in 2005.
A breakdown by type of business is as follows:

(in millions of euros)	2006	as a % of sales revenues	2005	as a % of sales revenues	EBITDA % change
Electric power operations	1,162	16.7%	988	19.9%	17.6%
Hydrocarbons operations	434	10.4%	353	10.7%	22.9%
Corporate activities	(70)	n.m.	(76)	n.m.	(7.9%)
Core businesses	**1,526**	**18.0%**	**1,265**	**19.8%**	**20.6%**
Water	10	29.4%	8	25.8%	25.0%
Other operations	**10**	**29.4%**	**8**	**25.8%**	**25.0%**
Engineering	-	-	15	6.8%	n.m.
Divested operations	**-**	**-**	**15**	**6.8%**	**n.m.**
Total for the Group	**1,536**	**18.0%**	**1,288**	**19.4%**	**19.3%**

The EBITDA reported by the Group's core businesses was up sharply both with the electric power operations and the hydrocarbons operations.

The improvement in EBITDA achieved by the **electric power operations** was made possible by higher unit sales in the deregulated market (+49.2%); an increase in installed generating capacity that reflects the full availability of the Candela, Altomonte and Piacenza power plants; the optimization of the mix of sales channels and the award to CIP 6/92 facilities by the AEEG of refunds for the costs incurred to purchase green certificates pursuant Resolution 113/06. These positive factors more than offset the loss of incentives for some CIP 6/92 facilities (32 million euros) and the impact of CO_2 emissions charges.

The EBITDA increase reported by the **hydrocarbons operations** reflects the positive impact of favorable developments in the market for petroleum products and the renegotiation of the price paid for natural gas under certain long-term contracts. These favorable developments more than offset the impact of a provision recognized to cover a fine of about 20 million euros levied by the AEEG for alleged use of allocated storage capacity for uses different from those for which it had received it and of another provision set aside in response to the publication of Resolutions No. 298/05 and No. 134/06 by which AEEG amended the rates that can be charged for natural gas in accordance with Resolution No. 248/05 (the Edison Group is challenging these resolutions before an Administrative Court).

26. Depreciation, Amortization and Writedowns

A breakdown of depreciation, amortization and writedowns, which totaled 784 million euros, is provided below:

(in millions of euros)	2006	2005	Change	% change
Depreciation of property, plant and equipment	623	506	117	23.1%
Depreciation of investment property	1	1	-	n.m.
Amortization of hydrocarbon concessions	25	31	(6)	(19.4%)
Amortization of other intangible assets	51	33	18	54.5%
Writedowns of property, plant and equipment	90	85	5	n.m.
Writedowns of investment property	-	5	(5)	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)	(12)	6	(50.0%)
Total for the Group	**784**	**649**	**135**	**20.8%**

Breakdown by Type of Business

(in millions of euros)	2006	2005	Change	% change
Electric power operations	668	538	130	24.2%
Hydrocarbons operations	106	92	14	15.2%
Corporate activities	9	15	(6)	(40.0%)
Core businesses	**783**	**645**	**138**	**21.4%**
Water	1	1	-	n.m.
Engineering	-	3	(3)	n.m.
Other operations	**1**	**4**	**(3)**	**n.m.**
Total for the Group	**784**	**649**	**135**	**20.8%**

The increase in depreciation reported by the **electric power operations** compared with 2005 reflects the combined impact of a change in the method used to compute depreciation for CIP 6/92 power plants (81 million euros) and of the full availability of power plants in Piacenza, Torviscosa, in the third quarter of 2006, Altomonte, in the first quarter of 2006, and Candela, in the second half of 2005.

Amortization of other intangible assets refers almost exclusively to the expensing out of **hydrocarbon exploration** costs (41 million euros).
During the third quarter of 2006, the duration of the concession for the Battiggio hydroelectric power plant was extended by six years. This extension had only a marginal impact on total depreciation.

As mentioned earlier in this Report, **writedowns** of property, plant and equipment (90 million euros) are mainly due to the results of an impairment test that showed that the value of certain facilities owned by the electric power operations had decreased by 86 million euros. In addition, the carrying value of some of Edipower's facilities and buildings had to be adjusted downward by 4 million euros. As for the hydrocarbons operations, writedowns of 8 million euros that had been booked in the past to adjust the value of certain facilities and concessions were reversed. The emissions trading certificates included in intangible assets were written down by 2 million euros.

27. Net Financial Income (Expense)

Net financial expense came to 246 million euros, or 43 million euros more than in 2005. This increase reflects higher interest rates and the negative impact of a derivative on the sale of tax credits that amounted to 19 million euros.

A breakdown of net financial expense is as follows:

(in millions of euros)	2006	2005	Change
Financial income			
Financial income from commodity derivatives	1	9	(8)
Financial income from financial derivatives	90	93	(3)
Interest earned on finance leases	15	16	(1)
Interest earned on bank and postal accounts	6	9	(3)
Interest earned on amounts due from the tax administration	3	6	(3)
Other financial income	20	9	11
Total financial income	**135**	**142**	**(7)**
Financial expense			
Interest paid on bond issues	(147)	(123)	(24)
Financial expense from commodity derivatives	(1)	(16)	15
Financial expense from financial derivatives	(110)	(95)	(15)
Interest paid to banks	(88)	(71)	(17)
Bank fees	(20)	(15)	(5)
Interest paid on decommissioning projects	(9)	(7)	(2)
Interest paid on finance leases	(1)	(2)	1
Interest paid in connection with employee severance benefits	(3)	(3)	-
Interest paid to other lenders	(3)	(2)	(1)
Other financial expense	(20)	(5)	(15)
Total financial expense	**(402)**	**(339)**	**(63)**
Foreign exchange translation gains (losses)			
Foreign exchange translation gains	26	36	(10)
Foreign exchange translation losses	(5)	(42)	37
Net foreign exchange translation gain (loss)	**21**	**(6)**	**27**
Net financial income (expense) for the Group	**(246)**	**(203)**	**(43)**

As explained in the chapter entitled "Impact of the Adoption of IFRIC 4," **interest earned on finance leases** (15 million euros) reflects the adoption of this interpretation.

Interest paid on decommissioning projects (9 million euros) are offset by the provisions for decommissioning risks of the hydrocarbons operations. The charge of 3 million euros in interest paid in connection with **severance benefits** reflects the adoption of IAS 19.

Other financial expense (20 million euros) includes 16 million euros for the Edipower and Finel put-and-call transactions. **Other financial income** (20 million euros) includes 6 million euros in interest earned on trade receivables and 5 million euros from the exercise of the ETS put option.

Lastly, further to a transaction involving the assignment of tax credits, financial expense from financial derivatives includes a charge of 19 million euros related to the net valuation of the corresponding derivative at December 31, 2006.

Information about other transactions involving financial and commodity derivatives is provided in a special section of this Report.

28. Income from (Expense on) Equity Investments

A breakdown of the credit balance of 16 million euros is as follows:

Income:

- 14 million euros in gains on the sale of Nile Valley (3 million euros), Sat (9 million euros) and the investments in AMGA and ACEA (2 million euros);
- 4 million euros from the valuation of some associated companies, including 1 million euros generated by trading securities;
- 2 million euros in dividends received from publicly traded companies.

Expense:

- A charge of 4 million euros booked to recognize the writedowns of interests held in some associated companies.

29. Other Income (Expense), Net

Other income of 37 million euros is the net result of certain nonrecurring items that are not related directly to the Group's industrial operations. The main items included in this account are:

Income:

- The total of 116 million euros includes 84 million euros from the recognition in earnings of existing provisions, made possible by the cancellation of guarantees provided upon the sale of equity investments and the settlement of certain disputes, and 32 million euros in out-of-period income, which includes an 11-million-euro refund received from the French tax authorities for taxes paid in previous years.

Expense:

- The total of 79 million euros includes a charge of 32 million euros for the penalty imposed by the European Commission on the old Montedison (now Edison) for alleged anticompetitive practices by its former subsidiary Ausimont Spa between 1995 and 2005, 28 million euros added to the provisions for risks and 17 million euros in other out-of-period charges and 2 million euros for taxes due in previous periods.

30. Income Taxes

The income statement shows income taxes of 9 million euros (tax liability of 18 million euros at December 31, 2005), reflecting the extraordinary positive impact of the realignment of the amounts at which certain components of property, plant and equipment are carried for tax purposes to the corresponding reporting amounts (202 million euros), which is explained later in this Report.
A breakdown of the income tax balance is as follows:

(in millions of euros)	2006	2005	Change
Current taxes	317	140	177
Net deferred-tax liabilities (assets)	(308)	(122)	(186)
Total for the Group	**9**	**18**	**(9)**

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

in the financial statements at December 31, 2004 and maintained as of December 31, 2005) and the values assigned for tax purposes to the same assets. The assets involved were chosen at the Company's discretion considering the requirement that the substitute tax was payable on the entire difference attributable to each one of the individual assets thus selected.
The new values thus selected become fully applicable from a tax standpoint and can be used to compute depreciation amounts that are fully deductible for IRES and IRAP purposes starting in the third year after the year when the substitute tax is paid (January 1, 2008, in most cases)
Having adopted these new values for tax purposes, the Company no longer owes future taxes originally recognized in view of the abovementioned valuation differences. Consequently, it no longer needs to recognize any deferred-tax liabilities for taxes owed in the future on valuation differences.
In June 2006, in order to avail itself of the abovementioned value realignment option, Edison Spa paid a substitute tax of about 96 million euros and was then able to utilize provisions for deferred taxes totaling 298 million euros, for a net benefit of 202 million euros.

In addition to a substitute-tax payments amounting to more than 96 million euros, **current taxes** include 173 million euros for IRES 51 million euros for IRAP and 10 million euros for foreign taxes. The benefit of using a national consolidated return, which starting in 2006 is being filed by Transalpina di Energia, the Group's controlling company, amounts to 13 million euros.

Net deferred-tax assets totaled 308 million euros. This amount is the net result of the following:
- Recognition of deferred-tax liabilities totaling 88 million euros attributable mainly to valuation differences of property, plant and equipment. The tax liability generated by applying IAS 39 to the financial instruments held by Group companies and the impact of the adoption of IAS 17 to record finance leases accounts for the balance.
- Utilizations of deferred-tax liabilities totaling 440 million euros, including 298 million euros related to the partial realignment by Edison Spa of the carrying amounts and tax values of property, plant and equipment. The impact for the period of depreciation and writedowns of property, plant and equipment generated by the adoption of fair value measurement upon transition, which is not deductible for tax purposes, accounts for the balance.
- Bookings of deferred-tax assets of 77 million euros attributable to taxed provisions for risks.
- Utilization of 121 million euros in deferred-tax assets, including 58 million euros in tax loss carryforwards and 18 million euros from the reversal of the amortization of goodwill by the Edipower subsidiary that cannot be recognized for IAS purposes.

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

(in millions of euros)	12.31.05	Additions	Utilizations	IAS 39 to Sharehold. equity	Scope of consol./ Reclass.	12.31.06
Provision for deferred taxes:						
Valuation difference of property, plant and equipment	1,141	69	(415)	-	(4)	791
Adoption of IAS 17 to value finance leases	47	7	-	-	(11)	43
Adoption of IAS 39 to value financial instruments:						
- impact on the income statement	8	2	(19)	-	11	2
- impact on shareholders' equity	14	-	-	(4)	(8)	2
Other deferred-tax liabilities	8	10	(6)	-	-	12
	1,218	**88**	**(440)**	**(4)**	**(12)**	**850**
Offsets	(121)	-	-	-	23	(98)
Provision for deferred taxes net of offsets	**1,097**	**88**	**(440)**	**(4)**	**11**	**752**
Deferred-tax assets:						
Tax loss carryforward	105	-	(58)	-	(2)	45
Taxed reserves for risksi	71	62	(23)	-	3	113
Adoption of IAS 39 to value financial instruments:						
- impact on the income statement	1	9	(7)	-	6	9
- impact on shareholders' equity	7	-	-	-	(3)	4
Valuation difference of property, plant and equipment		4	(30)		52	26
Other deferred-tax assets	41	2	(3)	-	(37)	3
	225	**77**	**(121)**	**-**	**19**	**200**
Offsets	(121)	-	-	-	23	(98)
Deferred-tax assets net of offsets	**104**	**77**	**(121)**	**-**	**42**	**102**

31. Profit (Loss) from Discontinued Operations

The amount of 112 million euros reflects primarily the result reported by Edison Rete Spa after taxes and directly related divestiture expenses. This item also includes 6 million euros in earnings reported by Edison Rete Spa for the period from July 1, 2006 to October 31, 2006 and the charges incurred for the upcoming sale of Serene Spa.

32. Profit (Loss) per Share

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

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

(in millions of euros)	2006	2005 restated in accordance with IFRIC 4
Group interest in profit (loss)	654	504
Net income attributable to convertible and nonconvertible saving shares [1]	(3)	(3)
Group interest in net income attributable to the common shares (A)	651	501
Weighted average number of shares outstanding (common and savings) determined for the purpose of computing earnings per share:		
- basic (B)	4,273,118,191	4,266,333,515
- diluted (C) [2]	4,711,479,810	4,688,483,256
Profit (Loss)per share (in euros)		
- basic (A/B)	0.1522	0.1173
- diluted (A/C) [2]	0.1380	0.1068

(1) 3% of par value for the higher dividend paid to the savings shares compared with the common shares. Savings shares are treated as common shares, since the portion of net income attributable to the savings shares has been deducted from Group interest in net income

(2) When the Group reports a loss, the potential shares are deemed to have no dilutive effect.

OTHER INFORMATION

Information About the Discontinued Operations (IFRS 5)

Edison Rete Spa

On November 24, 2006, Edison Rete Spa completed the divestiture that was announced in the Semi-annual Report selling all of the shares of Edison Rete Spa to RTL Spa, a wholly owned subsidiary of Terna Spa.

The price paid by RTL Spa to Edison Spa for the shares (294 million euros) reflects the enterprise value assigned to Edison Rete, which amounted to 311 million euros.

In the consolidated financial statements, the sale generated a gain of about 114 million euros, after incidental selling expenses and taxes, and helped reduce consolidated net borrowings by about 311 million euros.
Moreover in 2007 Edison Spa is expected to sell some assets for about 10 million euros.

The result reported by Edison Rete Spa for the period from the discontinuing date (July 1, 2006) to the deconsolidation date (October 31, 2006) amounted to about 6 million euros, while the result for the first half of 2006, which was consolidated line by line, amounted to about 4 million euros.

Balance sheet and income statement data of Edison Rete Spa as of October 31, 2006 are provided below:

(in millions of euros)

BALANCE SHEET OF EDISON RETE SPA	10.31.2006	12.31.2005
Non-current assets	201	200
Current assets	9	18
Total assets	**210**	**218**
Shareholders' equity	**174**	**171**
Non-current liabilities	10	6
Current liabilities	26	41
Total liabilities and shareholders' equity	**210**	**218**

(in millions of euros)

INCOME STATEMENT OF EDISON RETE SPA	01.01.06-10.31.06	01.01.05-12.31.05
Sales revenues	37	42
EBITDA	22	26
Depreciation and amortization	(5)	(10)
EBIT	17	16
Net financial expense	(1)	(2)
Profit before taxes	16	14
Income taxes	(6)	(6)
Net profit	**10**	**8**

Serene Spa

On December 14, 2006, Edison Spa signed an agreement selling to BG Italia Spa 66.32% of the shares of Serene Spa at a price of about 98 million euros. BG Italia already owned the remaining 33.68% of Serene Spa. The price includes a component, which may not exceed 13 million euros, the payment of which is predicated on the AEEG making certain changes to the CIP 6/92 regulations that concern Kyoto emissions rights.

This transaction, which closed on 14th February 2007, will reduce in 2007 the net consolidated borrowings by about 130 million euros. This amount includes dividends totaling about 10 million euros that were collected at closing. Concurrently with the sale, 13 million euros were placed in an escrow account and will be released when the abovementioned changes in CIP 6/92 regulations are enacted.

Currently, Serene operates five thermoelectric power plants that were commissioned in 1997 and have an aggregate installed capacity of 400 Megawatts. These five power plants operate under CIP 6/92 contracts that are scheduled to expire in 2012, but the incentives provided to these facilities ended in 2005.

Insofar as the presentation in the financial statements is concerned, even though they did not constitute a disposal group, as defined in IFRS 5, the assets and liabilities of Serene Spa at December 31, 2006, were classified in the balance sheet as “Assets held for sale” and “Liabilities held for sale,” while costs and revenues for 2006 were recognized line by line in the consolidated income statement.

Blance sheet and income statement data about Serene Spa are summarized below:

(in millions of euros)

BALANCE SHEET OF SERENE SPA	12.31.2006	12.31.2005
Non-current assets	228	251
Current assets	120	120
Total assets	**348**	**371**
Shareholders’ equity	**153**	**168**
Non-current liabilities	52	53
Current liabilities	143	150
Total liabilities and shareholders’ equity	**348**	**371**

(in millions of euros)

INCOME STATEMENT OF SERENE SPA	2006	2005
Sales revenues	267	270
EBITDA	38	57
Depreciation and amortization	(25)	(18)
EBIT	13	39
Net financial expense	(2)	(2)
Profit before taxes	11	37
Income taxes	(5)	(14)
Net profit	**6**	**23**

Contingent Commitments and Risks

(in millions of euros)	12.31.2006	12.31.2005	Change
Guarantees provided	2,300	2,655	(355)
Collateral provided	2,054	2,441	(387)
Other commitments and risks	634	656	(22)
Total for the Group	**4,988**	**5,752**	**(764)**

Guarantees Provided

Guarantees provided totaled 2,300 million euros. This figure is equal to the undiscounted amount of potential commitments on the balance sheet date. It includes the following:

- 755 million euros in guarantees provided by Edison Spa to the Milan tax office on behalf of subsidiaries for offsetting VAT credits and those provided to subsidiaries in connection with the intra-Group assignment of tax credits.
- 368 million euros for guarantees provided to customers of Tecnimont Spa, a former 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), providing the required sureties and promising to hold Edison harmless if these guarantees are enforced.
- 44 million euros for a commitment to hold the seller (EDF International Sa) harmless and replace it as soon as possible in the guarantees it provided on behalf of EDF Energia Italia, later absorbed by Edison Energia.
- 35 million euros for commitments inherited by EDF Energia Italia, later absorbed by Edison Energia.
- 25 million euros for a commitment to contribute capital and/or provide the subordinated financing needed by the Edipower Spa affiliate for its repowering program (Repowering Equity Contribution Agreement).
- 18 million euros in sureties provided by Edison Spa to banks to secure financing facilities and credit lines provided to Group companies.

In addition, as part of the refinancing of Edipower Spa, Edison Spa has agreed to provide this joint venture with sufficient additional capital and/or subordinated financing to guarantee the successful implementation of Edipower's repowering program in terms of capital expenditure overruns, delays in implementation and power, efficiency and performance of the power plants upon completion of the repowering program (coverage of cost overruns, defects liability costs and underperformances) that Edipower Spa may incur in connection with its repowering program (100 million euros) - (Completion Equity Contribution Agreement). Edipower has never incurred in these situations.
Moreover, pursuant to the Tolling and Power Purchasing Agreements, Edison is responsible for the commercial obligations undertaken by its Edison Trading Spa subsidiary toward Edipower Spa, but only in the event of serious default or insolvency by Edison Trading (300 million euros). On January 29, 2007 Edipower has signed new financing contract with a pool of banks; under this new contract, that substitutes the previous one, on February 2, 2007 Edipower has reimbursed in advance the full amount. Under the new contract the guarantees related to the payment of funds in favour of the associated company have been cancelled (Completion Equity Contribution Agreement and Repowering Equity Contribution Agreement).

Collateral Provided

Collateral provided, which came to 2,054 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 (799 million euros) pledged to a pool of banks to secure financing facilities.
Collateral provided also includes additional collateral for liabilities listed on the balance sheet (1,255 million euros), which generally consist of mortgages and encumbrances granted on thermoelectric facilities to secure financing. A total of 573 million euros refers to repaid mortgages that are in the process of being cancelled.

Other Commitments and Risks

Other commitments and risks of 634 million euros reflect commitments undertaken to complete construction of the Simeri Crichi power plant, as well as other ongoing projects, commitments undertaken by Edison Stoccaggio for gas storage facilities and pipelines (115 million euros) and commitments of Edipower toward suppliers for purchase and construction contracts (Edison's pro rata share was 298 million euros). The figure include the conventional value of the transport capacity of Electric Power across borders for a total of 630 MW awarded by Edison Trading starting from 2007, and for which it will pay 16 million euros from January to December 2007.

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

1) The Group's **hydrocarbons** operations have entered into contracts for the importation of natural gas. As is usually the case, contracts of this magnitude and of these durations contain take-or-pay clauses that obligate the buyer to pay for any shortage between the stipulated maximum quantities and the quantity actually used (unless the shortage is due to causes not provided for in the contract), with the option for the buyer to make up, at certain conditions, the paid but unused volume over the life of the contract. The import contracts with Russia, Libya and Norway, which are already operational, provide total supplies of 7.4 billion cubic meters of natural gas a year. The take or pay payment price is set taking into consideration the supply price, that is indexed at the current market conditions. These contracts last 10 to 25 years and, once fully operational, will allow a 18 billion cubic meter of gas supply per 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 of an LNG terminal in the Northern Adriatic, which is currently being built and is expected to go on stream in 2008. When this agreement is fully operational, Qatar will supply a total of 6.6 billion cubic meters of natural gas a year.

   - The second contract, which 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 Galsi pipeline that will link Algeria with Sardinia and Tuscany. The implementation of this agreement is subject to the construction of the pipeline, which is currently in the project development phase.

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

3) **Corporate:** lastly, 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, 2006

The main legal and tax disputes pending as of the date of this Report are reviewed below. Legal disputes have been divided between those for which it was possible to develop a reliable estimate of the underlying obligation and recognize a corresponding provision for risks in the balance sheet and those for which a reliable estimate could not be developed. With regard to the latter (contingent liabilities), only a disclosure is provided in the Notes to the financial statements.
Pending disputes were subdivided further between actions involving Edison Spa and actions involving other Group companies.

A) Edison Spa

European Commission - Antitrust Proceedings Against Ausimont

In the appeal against the temporarily enforceable decision by the European Commission in the proceedings regarding violations of Article 81 of the EC Treaty and Article 53 of the SEE Agreement concerning a cartel in the market for hydrogen peroxide and its derivatives, sodium perborate and sodium percarbonate, by which Edison was fined 58.1 million euros, 25.6 million euros of which are payable jointly with Solvay Solexis, Edison paid on a provisional basis the sum of 45.45 million euros, which is equal to the entire fine levied against it and one-half the amount owed jointly by Edison and Solvay Solexis. Meanwhile, Edison has appealed this decision before the European Union Court of First Instance asking that it be set aside or, alternatively, that the fine be reduced.

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, the Italian Supreme Court upheld a decision handed down by the Court of Appeals of Venice on December 15, 2004. In this decision, which partially reversed a lower court's decision, the Court of Appeals 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, along with 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. Following a decision by the Supreme Court, Edison reached a settlement with some of the injured parties and is negotiating with other parties who won the right to receive compensation for damages.

Brindisi Petrochemical Facility - Criminal Proceedings for Injuries Sustained Through Exposure to Monovinyl Chloride and Polyvinyl Chloride and for Damages to the Environment

The proceedings against former Montedison Directors and executives for alleged injuries caused by exposure to monovinyl chloride and polyvinyl chloride and damages to the environment continued before the Court of Brindisi with a hearing to discuss the briefs opposing the motion filed by the Office of the Public Prosecutor of Brindisi asking that the case be dropped.

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

A study by a technical consultant that the Public Prosecutor at the Court of Syracuse, in Sicily, requested as part of an investigation targeting certain former Directors and executives of Montedison (now Edison) for allegedly dumping effluents containing mercury into the sea from the Priolo plant is continuing. The mercury allegedly poisoned the water and the marine fauna and flora, causing miscarriages and extremely serious injuries to residents of the province of Syracuse.

Verbania Industrial Facilities - Criminal Proceedings for Injuries Caused by Exposure to Asbestos Dust

There was no significant new development in the action filed against certain former Directors and executives of Montefibre in connection with events at the Verbania plant. A hearing for the final discussion of defense briefs, which should conclude the proceedings, is expected to take place early in 2007.

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. Therefore, based on past experience and on the knowledge acquired over time in connection with similar events, the Company thought it appropriate to set aside, in addition to provisions established specifically for certain pending disputes, a further provision of an amount estimated on the basis of the average between the value of the claims for damages for similar events that the Company received and paid in recent years and the claims that the Company has received thus far as a result of judicial and extrajudicial actions.

Sale of Ausimont: Solvay Arbitration

The arbitration proceedings filed 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) are still in the discovery phase. A hearing during which the case will be argued before a Board of Arbitrators should take place early in 2007.

Savings Shareholders/UBS: Lawsuit for Damages Caused by the Merger of Edison into Italenergia

In the proceedings in 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, there have been no significant developments subsequent to the filing of a report by the technical consultant appointed by the Investigating Judge, who, 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.

Val Martello Flood

On June 28, 2006, in performance of the agreement executed on August 6, 2004, which settled all pending legal disputes with the Province of Bolzano and the individuals who suffered damages in the Val Martello flood, Edison paid about 650,000 euros to the Province of Bolzano. This payment completed the performance of the abovementioned settlement agreement.

B) Other Group Companies

Farmoplant - 1988 Accident at the Massa Facility

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 now in the investigative phase before the Court of Genoa.

Montedison Finance Europe - Bankruptcy of Domp BV

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, is continuing.

Montedison Srl (formerly Immobiliare Assago) - Nepa Arbitration

The final arbitration award that ended the dispute pending between Montedison Srl (formerly Immobiliare Assago) and Nepa in connection with the sale of a building in Milan was filed on April 26, 2006. Under this award, which has been enforced, Montedison Srl was ordered to pay Nepa the amount of 1.53 million euros as compensation for loss of profit. As required by a partial arbitration award filed in May 2004, Immobiliare Assago had already paid Nepa 1.25 million euros for damages suffered.

The current status of the principal **legal disputes** that have arisen from past events 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, 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 provisions of Ministerial Decree No. 471/99, issued to implement the regulations set forth in Article 17 of Legislative Decree No. 22/97, 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

On August 7, 2006, ACEA Spa served Edison with a summons asking it to appear before the Court of Rome in connection with a lawsuit it filed against several parties, including, among others, AEM Spa, EDF Sa and Edipower Spa. ACEA alleges that the acquisition of joint control of Edison by EDF Spa and AEM Spa constitutes a violation of the 30% ceiling in the ownership of Edipower Spa by a government-owned company, as set forth in the Prime Minister Decree dated November 8, 2000. Such ownership would constitute an instance of unfair competition, pursuant to Article 2598, Section 3, of the Italian Civil Code, and is injurious to ACEA, which is asking that AEM Spa and EDF Spa be ordered to pay damages and take the actions necessary to void the consequences of their actions (such as the proportional divestiture of equity interests in excess of the abovementioned ceiling and the prohibition to receive energy produced by Edipower Spa in excess of the quantity allowable accordingly). The first hearing, originally set for March 15, 2007, was postponed to May 24, 2007 due to a renewal of the summons. In its complaint, ACEA Spa indicated that it is planning to ask for the issuance of protective measures. Edison is currently evaluating the appropriate defensive strategy.

Liability Suit under Article 2393 of the Italian Civil Code (former Calcemento)

A decision is pending in the corporate liability suit against the former Chairman of Calcemento, Lorenzo Panzavolta, for violation of the duties of proper and diligent management, which caused a foreseeable injury to the company, approved by the shareholders of Calcemento Spa (now Edison Spa) at the Meeting of May 1997. The suit refers specifically to the acquisition of the Pizzo Sella (Poggio Mondello) real estate development and the companies Heracles and Halkis.

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 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.

B) Other Group Companies

Pizzo Sella Real Estate Development and Seizure of Assets in Sicily

There are 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 against Finimeg and Poggio Mondello is continuing. The seizure also covers other real estate assets owned by Poggio Mondello.

In the matter of 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 Poggio Mondello and the Municipality of Palermo to recover damages in-

curred as a result of the seizure of their properties, the Court of Palermo recently handed down a decision ruling that that Poggio Mondello could not be held contractually liable and reopened the discovery phase of the proceedings to determine the existence of any extra-contractual damages. The actions filed before the Court of Appeals against the decision handed down by the Court of Palermo, according to which 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 are continuing. All other disputes concerning sales of homes in the abovementioned development are still pending before the lower court.
The Court of Appeals of Palermo has not filed yet its decision 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.

Disputes Concerning the Supply of Electric Power
In a matter related to business transactions involving the sale and supply of electric power by Edison Energia, the lawsuit filed by a former customer alleging that repeated interruptions in the supply of electric power caused extensive damage to the customer's production system ended with the court rejecting all of the claims put forth by the plaintiff.

Challenges to Resolutions Adopted by the Shareholders' Meetings of Sarmato Energia and Consorzio di Sarmato
An out-of-court settlement that entailed no costs for the company marked the conclusion of the following legal actions: (i) the lawsuit filed by a shareholder challenging a resolution in which the Regular Shareholder's Meeting of Sarmato Energia agreed to amend the lease amount payable under a lease signed with Consorzio di Sarmato for the Sarmato power plant; and (ii) two related proceedings filed by the same shareholder, who is challenging the resolutions of the Shareholders' Meetings of Sarmato Energia and Consorzio di Sarmato that approved the respective financial statements at December 31, 2001.

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.

Tedesco and Ferro Arbitration
The arbitration proceedings launched on August 30, 2005 by Messrs. Tedesco and Ferro against Montedison Srl in connection with a preliminary sales contract valued at 2 million euros for an area located in Mazara del Vallo ended with the Company incurring only limited charges.

The developments that affected the status of the main **tax disputes** in 2006 are reviewed below:

Old Edison Spa - Income Taxes for the 1994 to 1999 Fiscal Years
In 2000, following a general audit of Edison Spa for the period from 1994 to 1999, the Italian Revenue Police issued notices of assessment for the fiscal years from 1994 to 1998, which the Company is disputing before the appropriate Tax Commissions.
The assessments for 1994, 1995 and 1996 were canceled in full by the Provincial Tax Commission. However, in order to avoid litigation costs, these assessments were settled for reduced amounts in ac-

cordance with Article 16 of Law No. 289/2002, as extended, at a cost of about 3 million euros. The Tax Office rejected these reduced settlements for the 1995 and 1996 fiscal years and the Company has contested the validity of the rejection.
The assessment for 1998 has also been settled in the course of the proceedings and, at the end of 2005, the Provincial Tax Commission upheld the main aspects of the appeal filed against the assessment for 1997.

Edison Spa Tax Audit for the 2002 Fiscal Year

Between November 2004 and February 2005, the Regional Revenue Office of Lombardy began a general tax audit of Edison Spa for the 2002 fiscal year.
At the end of December, as the Company did not agree with and was not willing to pay the amount assessed by the Revenue Office, it was notified with IRPEG, IRAP and VAT assessments that, while not entailing significantly higher taxes or penalties, reflected the objections raised by the Regional Revenue Office, reducing by about 17 million euros the unused tax loss carryforward.
The Company believes that a significant portion of the costs that the Revenue Office disallowed should be tax deductible and will file an appeal in due course asking that these assessments be reversed.

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

In December, the Milan District Office 1 of the Customs Administration served on EDF Energia Italia Srl, a company acquired in 2006 and later merged into Edison Energia Spa, a notice of assessment limited to customs VAT and interest due for 2001, 2002 and 2003 totaling 7.5 million euros. This notice of assessment was issued after a series of audits carried out by the Trieste Revenues Police, which found that EnBW Italia Spa (later absorbed by EDF Energia Italia Srl) had purchased energy outside the European Union and consumed it in Italy without complying with customs requirements and paying the applicable VAT.
The Company will dispute the notice of assessment before the appropriate Tax Commissions, since it believes that the allegations put forth by the Customs Administration are unjustified and devoid of merit.
In any case, any charges that may be incurred as a result of the abovementioned audits are covered by special guarantees provided by the seller (EDF International Sa) in connection with the sale of its interest in EDF Energia Italia for the purpose of holding the Company totally harmless in such cases.

Transactions Among Group Companies and with Related Parties

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

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

All of the transactions listed above are governed by contracts with conditions that are consistent with market terms, with the exception of those related to the VAT Pool, which are executed pursuant to law. In the area of commercial transactions, the Group's Parent Company, Edison Spa, sells natural gas and electric power to Edison Trading Spa and Edison Energia Spa, respectively, under special contracts that, taking into account the specific functions of the two buyer companies within the Group, provide the seller with adequate coverage of its fixed and variable costs. In addition, the rate earned on transactions involving intra-Group current accounts is the Deposit Rate of the European Central Bank, while the rate paid is the Marginal Refinance Rate of the European Central Bank.
In addition, Edison Spa issued sureties and other guarantees to credit institutions to secure loans and lines of credit provided to subsidiaries and affiliated companies, chief among them the facilities provided to Edipower, which are discussed in detail in the note to the financial statements that reviews contingent commitments and risks.

Consolidated VAT Return - Edison Spa files a consolidated VAT return (so-called VAT Pool) that includes those companies of the Edison Group that meet the requirements of Article 73, Section 3, of Presidential Decree No. 633/72, as amended, and of the Ministerial Decree dated December 13, 1979. Under the consolidated return system, Group companies transfer to Edison Spa, either monthly or quarterly, VAT payable and receivable positions in order to allow Edison Spa to offset these positions and pay only the resulting debit balance, if any. The Group VAT return for December 2006 shows that the Group owed the tax administration about 23 million euros.

Consolidated Corporate Income Tax (IRES) Return - In 2006, Edison Spa agreed to a proposal made by Transalpina di Energia, its controlling company, to be included in a consolidated income tax return filed by Transalpina, as allowed by Article 117 and following of Presidential Decree No. 917/86 (Uniform Income Tax Code, abbreviated as TUIR in Italian), for three years from 2006 to 2008. Consequently, in accordance with the provisions of Article 13 of the Ministerial Decree dated June 9, 2004, the preexisting option to file a consolidated return headed directly by Edison for three years from 2005 to 2007 was dropped.
All of the Edison subsidiaries that qualified for inclusion in the new consolidated return filed by Transalpina have agreed to join the filing.
Once the Boards of Directors of all of the companies involved gave their approval and before officially informing the tax administration of the chosen filing status, which occurred on June 19, 2006, Transalpina di Energia Srl and each consolidated company signed a bilateral agreement governing their mutual relationship for the purposes of the abovementioned filing status. Under the terms of these agreements, which are identical for all consolidated companies, all consolidated companies will be held harmless from any negative effect of the change in scope of the IRES tax filing compared with their status in 2005.

Other Transactions with Related Parties Within the Edison Group

In of 2006, Edison Spa and its subsidiaries engaged in a number of commercial and financial transactions with some of its current shareholders and/or companies controlled by them. An overview of these transactions, which were carried out in the normal course of business based on contractual terms mutually agreed upon by the parties, is provided below.

(in millions of euros)	AEM Group	EDF Group	ENIA Group	SEL Group	Banca Popolare di Milano	Mediobanca
Balance sheet transaction						
Value of trade receivables	47	13	101	-	-	-
Value of trade payables	31	19	10	-	-	-
Value of loans receivable	-	-	-	-	-	-
Value of loans payable	-	-	-	-	14	78
Income statement transactions						
Sales of goods and services	159	305	391	1	-	-
Purchases of goods and services	60	156	48	11	-	-
Financial income	-	-	-	-	-	-
Financial expense	-	-	-	-	-	2

In October 2006, EDF International Sa sold 100% of EDF Energia Italia to Edison Spa for about 8 million euros. EDF Energia Italia is a company that operates in the deregulated electric power market and has a large portfolio of industrial and residential customers. In December, it was merged into Edison Energia Spa. Accordingly, the table above shows related-party transactions executed with EDF Energia Italia until September 30, 2006, which consist of revenues amounting to 259 million euros (238 million euros from the sale of electric power and 20 million euros for transmission fees) and expenses totaling 37 million euros for purchases of electric power.

Commercial Transactions

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

- A contract for the supply of electric power in France, which resulted in the purchase of electric power worth about 55 million euros; the purchase of about 36 million euros worth of electric power in Italy; and the sale of electric power valued at 272 million euros. In addition, revenues from transmission services amounted to 12 million euros.
- Operation and maintenance contracts with Fenice Spa (EDF Group) for the Rivalta, Cassino, Sulmona, Termoli, Melfi and Pomigliano D'Arco thermoelectric power plants valued at 26 million euros.
- The EDF Group provides technical, engineering and management services at power plants in Taranto and Piombino, and at the Milan headquarters.

In 2006, Edison Spa supplied AEM Spa with steam valued at about 7 million euros from its Sesto San Giovanni power plant. In addition, Consorzio di Sarmato booked revenues of about 12 million euros from the sale of electric power generated by the Sarmato power plant to the Enia consortium affiliate.
Acting within the framework of the Tolling Agreement with Edipower Spa, Edison Trading Spa agreed to work on behalf of other Tollers in supplying fuel to certain production facilities. As a result, it generated revenues of 56 million euros from the sale of fuel oil to Aem Trading Srl.
In addition, Edipower booked revenues of 96 million euros (Edison's pro rate share) from the sale of electric power to Aem Trading and costs totaling 50 million euros, mainly for purchases of fuel oil. Also in the electric power area, Edison Trading made purchases of electric power amounting to 11 million euros from Sel Edison Spa (SEL Group) and 29 million euros form Enìa Spa. Edison Energia incurred transmission costs payable to Enìa Spa totaling 4 million euros.
Lastly, electric power transmission costs amounting to 4 million euros were paid to AEM Elettricità.

Hydrocarbons Operations - During the first half of 2006, the hydrocarbons operations purchased natural gas from ENBW Trading GmbH (EDF Group) at a cost of 16 million euros.

Transactions with Blumet, an associated company that is part of the Enìa Group, generated revenues from natural gas sales totaling 379 million euros and receivables amounting to 98 million euros. In addition, natural gas was also purchased from Blumet Spa at a cost of 15 million euros.

Corporate Activities - Edison Spa received revenues totaling 9 million euros from Fenice Spa (EDF Group) for recovery of maintenance-service costs. In 2006, Edison Spa sold to Fenice Spa the business operations called "Environmental Research Center" for a price of less than 1 million euros.

Financial Transactions

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

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

Other Transactions

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

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

Significant Nonrecurring Events and Transactions

In the area of significant nonrecurring transactions, i.e., transactions or events that do not recur frequently in the normal course of business and have a material impact on the Company's operating performance, financial position and financial performance, in addition to the transactions discussed in the section of this Report entitled "Information About the Discontinued Operations (IFRS 5),

- the Group has changed the depreciation rates applied to CIP 6/92 facilities, with a negative impact on the income statement, since this change increased depreciation by 81 million euros.
- In December 2006 Edison Spa and Finel Spa transferred some tax credits for a total value of 166 million euros.

Positions and Entries Arising from Atypical and/or Unusual Transactions

Notice is hereby given that Edison Spa, availing itself of the option provided in the Single Article, Section 469, of Law No. 266 of December 23, 2005 (2006 Budget Law), elected to realign the values assigned for reporting and tax purposes to some of its depreciable assets and pay a 12% substitute tax in lieu of the corresponding liability for corporate income taxes (IRES) and local taxes (IRAP), with a net positive impact of 202 million euros. A comment on this issue is provided in the note on income taxes.

Treasury Shares

At December 31, 2006, 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, 2006

Edison and Depa: a major step forward in the IGI project to build an Italy - Greece natural gas pipeline

On January 31, 2007, Mr. Bersani, Italy's Minister of Economic Development, and Mr. Sioufa, Greece's Minister of Development, signed a Protocol of Intents whereby their respective governments, granted Edison and Depa the right to use 8 billion cubic meters a year for 25 years in transmission capacity provided by the IGI natural gas pipeline that will link Italy and Greece.
The project was awarded top priority status within Europe and was named "Project of European Interest" by the EU. The IGI pipeline will enable Italy and the rest of the European Union to import 8 billion cubic meters of natural gas a year from the Caspian Sea basin and the Middle East, which between them have more than 20% of the world's reserves (30,000 billion cubic meters of natural gas).
The IGI pipeline, by providing a new source of supply for the Italian and European energy systems, will help make these systems more reliable and will increase competition in the EU's natural gas market.

Edison: the corporate capital grows by 519 million euros

During January 2007, n° 519,554,810 "Warrants Edison Spa Common Shares 2007" were exercised at a subscription price of 1 Euro each. Therefore, Edison cashed in 519,554,810 Euros.
"Warrants Edison Spa Common Shares 2007" still in circulation are n° 499,062,114.

Edison: awarded five new hydrocarbon exploration licenses in Norway

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

Edison: closed the sale of its investments in Serene to BG Italia

On February 14, 2007 Edison Spa closed the sale to BG Italia Spa of Edison's 66.3% interest in Serene Spa, after the operation was cleared by relevant Antitrust Authority. BG Italia Spa already owned the other 33.7%. BG Italia paid Edison 98 million euros for the Serene shares, a price substantially in line with book value. The price also included up to 13 million euros, whose payment was subject to CIP 6/92 contracts' evolution for Kyoto emission rights.

Milan, February 19, 2007

The Board of Directors
by Giuliano Zuccoli
Chairman

SCOPE
OF CONSOLIDATION

SCOPE OF CONSOLIDATION AT DECEMBER 31, 2006

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) 12.31.06	12.31.05

A) Investments in Companies Included in the Scope of Consolidation

A.1) Companies Consolidated Line by Line

Name	Head office	Currency	Share capital	12.31.06	12.31.05
Parent Company					
Edison Spa	Milano	EUR	4,273,139,453		
Core Business - Electric Power Operations					
Electric Power Business Unit					
Consorzio di Sarmato Soc. Cons. P.A.	Milan (IT)	EUR	200,000	52.500	52.500
Ecofuture Srl (Single Shareholder)	Milan (IT)	EUR	10,200	100.000	100.000
Gever Spa	Milan (IT)	EUR	10,500,000	51.000	51.000
Hydro Power Energy Srl - Hpe Srl (Single Shareholder)	Bolzano (IT)	EUR	50,000	100.000	100.000
Jesi Energia Spa	Milan (IT)	EUR	5,350,000	70.000	70.000
Sarmato Energia Spa	Milan (IT)	EUR	14,420,000	61.000	61.000
Sondel Dakar Bv	Rotterdam (NL)	EUR	18,200	100.000	100.000
Termica Boffalora Srl	Milan (IT)	EUR	14,220,000	70.000	70.000
Termica Celano Srl	Milan (IT)	EUR	259,000	70.000	70.000
Termica Cologno Srl	Milan (IT)	EUR	9,296,220	65.000	65.000
Termica Milazzo Srl	Milan (IT)	EUR	23,241,000	60.000	60.000
Renewable Sources					
Edison Energie Speciali Spa (Single Shareholder)	Milan (IT)	EUR	4,200,000	100.000	100.000
Monsei Esco Srl (Single Shareholder)	Milan (IT)	EUR	100,000	100.000	100.000
Core Business - Hydrocarbons Operations					
Hydrocarbons Business Unit					
Edison D.G. Spa (Single Shareholder)	Selvazzano Dentro (PD) (IT)	EUR	460,000	100.000	100.000
Edison International Spa	Milan (IT)	EUR	17,850,000	100.000	100,000
Edison Stoccaggio Spa (Single Shareholder)	Milan (IT)	EUR	81,497,301	100.000	100.000
Euroil Exploration Ltd	London (GB)	GBP	9,250,000	100.000	100.000
Core Business - Energy Management					
Energy Management Business Unit					
Edison Trading Spa (Single Shareholder)	Milan (IT)	EUR	30,000,000	100.000	100.000
Volta Spa	Milan (IT)	EUR	130,000	51.000	51.000

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

List of Equity Investments (continued)

(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) 12.31.06	12.31.05
Core Business - Marketing and Distribution					
Marketing and Distribution Business Unit					
Edison Energia Spa (Single Shareholder)	Milan (IT)	EUR	22,000,000	100.000	100.000
Eneco Energia Spa	Bolzano (IT)	EUR	300,000	100.000	-
Core Business - Corporate Activities					
Italian and Foreign Holding Companies					
Atema Limited	Dublin 2 (IE)	EUR	1,500,000	100.000	100.000
Edison Hellas Sa	Athens (GR)	EUR	263,700	100.000	100.000
Finanziaria di Partecipazioni Elettriche Finel Spa	Milan (IT)	EUR	194,000,000	100.000	100.000
Montedison Finance Europe NV	Amsterdam (NL)	EUR	4,537,803	100.000	100.000
Selm Holding International Sa	Luxembourg (LU)	EUR	24,000,000	100.000	100.000
Real Estate Companies					
Montedison Srl (Single Shareholder)	Milan (IT)	EUR	2,583,000	100.000	100.000
Nuova Alba Srl (Single Shareholder)	Milan (IT)	EUR	2,016,457	100.000	100.000
Dormant Companies and Other Companies					
Edison Treasury Services Srl (Single Shareholder)	Conegliano (TV) (IT)	EUR	10,000	100.000	100.000

A.2) Companies Consolidated by the Proportional Method

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12.31.06	12.31.05
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	-	- h	SUB
70.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	-	SUB
100.000	Edison Spa	-	-	SUB
80.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	-	SUB
99.950	Edison Spa	-	-	SUB
0.050	Montedison Srl (Single Shareholder)			
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	-	SUB
50.000	Edison Spa	-	-	JV
50.000	Edison Spa	-	-	JV
42.000	Edison Spa	-	-	JV
100.000	Sel Edison Spa	-	- (i)	JV
50.000	Edison Energie Speciali Spa (Single Shareholder)	-	-	JV
40.000	Edison Spa	-	-	JV
50.000	Edison International Spa	-	-	JV

List of Equity Investments (continued)

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

Name	Head office	Currency	Share capital	Consolidated Group interest % (a)	
				12.31.06	12.31.05
Core Business - Marketing and Distribution					
Marketing and Distribution Business Unit					
Ascot Srl	Bressanone (BZ) (IT)	EUR	10,330	50.000	-
Other Operations					
Water					
Internat. Water Serv. (Guayaquil) Interagua C. Ltda	Guayaquil (EC)	USD	20,890,000	45.000	26.550
International Water (Uk) Limited	London (GB)	GBP	1,001	50.000	50.000
International Water Holdings Bv	Amsterdam (NL)	EUR	40,000	50.000	50.000
International Water Services (Guayaquil) Bv	Amsterdam (NL)	EUR	20,000	50.000	29.500
International Water Services Ltd	Zug (CH)	CHF	100,000	50.000	50.000
Available-for-sale Investments					
Electric Power Business Unit					
Serene Spa	Milan (IT)	EUR	25,800,000	66.320	66.320

Interest held in share capital % (b)	By	Voting securities held % (c)	Exercisable voting rights % (d)	Type of investment relationship (e)
50.000	Eneco Energia Spa	-	-	JV
90.000	International Water Services (Guayaquil) Bv	-	-	JV
0.100	International Water Services Limited	0.000	0.000	JV
99.900	Iwl Corporate Limited (in liquidation)	100.000	100.000	
50.000	Edison Spa	-	-	JV
59.000	International Water Holdings Bv	-	-	JV
100.000	International Water Holdings Bv	-	-	JV
66.320	Edison Spa	-	- g	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) 12.31.05
B) Investments in Companies Valued by the Equity Method				
Core Business - Electric Power Operations				
Electric Power Business Unit				
Consorzio Barchetta	Jesi (AN) (IT)	EUR	2,000	
Consorzio Montoro	Narni (IT)	EUR	4,000	
Consorzio Vicenne	Celano (IT)	EUR	1,000	
GTI Dakar Ltd	George Town Gran Caiman (GBC)	EUR	14,686,479	
Kraftwerke Hinterrhein Ag	Thusis (CH)	CHF	100,000,000	
Roma Energia Srl	Rome (IT)	EUR	50,000	
Renewable Sources				
Sistemi di Energia Spa	Milan (IT)	EUR	10,475,000	
Core Business - Hydrocarbons Operations				
Hydrocarbons Business Unit				
Soc. Svil. Rea. Gest. Gasdot. Alg-Itav. Sardeg. Galsi Spa (ex Soc. Stud. Prom. Gasdot. Alg-Ita V. Sardeg. Galsi Spa)	Milan (IT)	EUR	838,000	
Core Business - Marketing and Distribution				
Marketing and Distribution Business Unit				
Blumet Spa	Reggio Emilia (IT)	EUR	7,600,000	
Eta 3 Spa	Arezzo (IT)	EUR	2,000,000	
Gasco Spa	Bressanone (BZ) (IT)	EUR	350,000	
Prometeo Spa	Osimo (AN) (IT)	EUR	1,938,743	
S.A.T. Finanziaria Spa	Sassuolo (MO) (IT)	EUR	1,000,000	
Utilità Spa	Milan (IT)	EUR	2,307,692	
Core Business - Corporate Activities				
Real Estate Companies				
Iniziativa Universitaria 1991 Spa	Varese (IT)	EUR	16,120,000	
Soc. per la Gest. del Palazzo Centro Congressi Srl	Assago (MI) (IT)	EUR	10,200	
Total Equity Investments Valued with the Equity Method				

Interest held in share capital % (b)	By	Voting security held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
50.000	Jesi Energia Spa	-	-		ASS
25.000	Edison Spa	-	-		ASS
50.000	Termica Celano Srl	-	-		ASS
30.000	Sondel Dakar Bv	-	-	3,7	ASS
20.000	Edison Spa	-	-	15,5	ASS
35.000	Edison Spa	-	-	0,4	ASS
40.570	Edison Spa	-	-	4,0	ASS
18.000	Edison Spa			1,3	ASS
28.320	Edison Spa	-	-	3,7	ASS
33.010	Edison Spa	-	-	1,3	ASS
40.000	Edison Spa	-	-	0,1	ASS
21.000	Edison Spa	-	-	0,5	ASS
40.000	Edison Spa	-	-	0,8	ASS
35.000	Edison Spa	-	-	0,8	ASS
32.260	Montedison Srl (Single Shareholder)	-	- m	3,9	ASS
44.820	Montedison Srl (Single Shareholder)	-	-		ASS
				36,0	

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) 12.31.05
C) Investments in Companies in Liquidation or Subject to Long-Term Restrictions				
Core Business - Hydrocarbons Operations				
Hydrocarbons Business Unit				
Auto Gas Company S.A.E. (In 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	
Consorzio Friulano per il Tagliamento	Udine (IT)	EUR	10,330	
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	
Calcestruzzi Palermo Srl (In liq.) (In Receiv.) (Single Shareh.)	Palermo (IT)	EUR	108,360	
Cempes Scrl (In liq.)	Villa Adriana - Tivoli (RM) (IT)	EUR	15,492	
CI.FAR. Scarl (In bankruptcy)	Udine (IT)	LIT	20,000,000	
Compo Chemical Company (In liquid.)	Wilmington - Delaware (US)	USD	1,000	
Compo Shoe Machinery Corp. of Canada (In liquid.)	Montreal - Quebec (CA)	CAD	500	
Coniel Spa (In liquid.)	Rome (IT)	EUR	1,020	
Consorzio Carnia Scrl (In liquid.)	Rome (IT)	EUR	45,900	
Convolci Scnc (In liquid.)	Sesto San Giovanni (MI) (IT)	EUR	5,165	
Ferruzzi Trading France Sa (In liquid.)	Paris (FR)	EUR	7,622,451	
Finimeg Spa (Single Shareholder) (In liquid.)	Milan (IT)	EUR	2,425,200	
Finsavi Srl in Receivership	Palermo (IT)	EUR	18,698	
Frigotecnica Srl (Single Shareholder) (in Receiv.) (In liquid.)	Palermo (IT)	EUR	76,500	
Groupement Gambogi-Cisa (In liquid.)	Dakar (SN)	XAF	1,000,000	
Inica Sarl (In liquid.)	Lisbon (PT)	PTE	1,000,000	
Nuova C.I.S.A. Spa (In liquid.) (Single Shareholder)	Milan (IT)	EUR	1,549,350	
Nuova I.S.I. Impianti Selez. Inerti Srl (In bankruptcy)	Vazia (RI) (IT)	LIT	150,000,000	
Poggio Mondello Srl (Single Shareholder) (In Receivership)	Palermo (IT)	EUR	364,000	
Sistema Permanente di Servizi Spa (In bankruptcy)	Rome (IT)	EUR	154,950	
Soc. Gen. per Progr. Cons. e Part. Spa (Under Extraord.Admin.)	Rome (IT)	LIT	300,000,000	
Sorrentina Scarl (In liquid.)	Rome (IT)	EUR	46,480	
Stel Spa (In liquid.)	Milan (IT)	EUR	520,000	75.000
Trieste Tre Srl (In liquid.)	Ravenna (IT)	EUR	10,400	
Other Operations				
Water				
International Water Services Limited (In liquid.)	George Town Grand Cayman (GBC)	USD	45,100	50.000
Iwl (Asia Pacific) Pte Ltd (In liquid.)	Singapore (SG)	SGD	2	50.000
Iwl Adelaide Pty Ltd (In liquid.)	Sidney - NSW (AU)	AUD	1,020,460	50.000
Iwl Corporate Limited (In liquid.)	London (GB)	GBP	1	50.000
Iwl Services Holdings (Uk) Limited (In liquid.)	London (GB)	GBP	2	50.000
Total Equity Investments in Liquidation or Under Permanent Restrictions				

Interest held in share capital % (b)	By	Voting security held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
30.000	Edison International Spa	-	-	0.2	ASS
33.330	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		ASS
16.300	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		OC
20.000	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		ASS
55.000	Edison Spa	-	-		SUB
100.000	Edison Spa	-	l 0,000		SUB
33.330	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		ASS
60.000	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		SUB
100.000	Nuova Alba Srl (Single Shareholder)	-	-		SUB
100.000	Nuova Alba Srl (Single Shareholder)	-	-		SUB
35.250	Edison Spa	-	-		ASS
17.000	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		OC
27.370	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		ASS
100.000	Edison Spa	-	-	5.9	SUB
100.000	Edison Spa	-	- h	2.0	SUB
50.000	Edison Spa	-	l 0,000		ASS
100.000	Edison Spa	-	l 0,000		SUB
50.000	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		ASS
20.000	Edison Spa	-	-		ASS
100.000	Edison Spa	-	-	0.4	SUB
33.330	Montedison Srl (Single Shareholder)	-	-		ASS
100.000	Finimeg Spa (Single Shareholder) (In liq.)	-	l 0,000		SUB
12.600	Edison Spa	-	-		OC
59.330	Edison Spa	-	-		SUB
25.000	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		ASS
75.000	Edison Spa	-	-		SUB
50.000	Nuova C.I.S.A. Spa (In liq.) (Single Shareholder)	-	-		ASS
100.000	International Water Holdings Bv	-	-		JV
100.000	International Water Holdings Bv	-	-		JV
100.000	International Water Holdings Bv	-	-		JV
100.000	Iwl Services Holdins (UK) Limited (In liq.)	-	-		JV
100.000	International Water Holdings Bv	-	-		JV
				8.5	

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) 12.31.05
D) Investments in Other Companies Valued at Fair Value				
D.1) Trading Investments				
Core Business - Corporate Activities				
Publicly Traded Securities				
Acsm Spa	Como (IT)	EUR	46,870,625	
Acegas-Aps Spa	Trieste (IT)	EUR	282,983,213	
Amsc-American Superconductor	N/A (US)	USD	19,128,000	
D.2) Available-for-sale Investments				
Core Business - Hydrocarbons Operations				
Hydrocarbons Business Unit				
Terminale GNL Adriatico Srl	Milan (IT)	EUR	200,000,000	
Core Business - Marketing and Distribution				
Marketing and Distribution Business Unit				
Global Power Spa	Verona (IT)	EUR	500,000	
Core Business - Corporate Activities				
Publicly Traded Securities				
RCS Mediagroup Spa	Milan (IT)	EUR	762,019,050	
Investments in Companies that are not Publicly Traded				
Emittenti Titoli Spa	Milan (IT)	EUR	4,264,000	
European Energy Exchange-Eex	Leipzig (DE)	EUR	40,050,000	
Istituto Europeo di Oncologia Srl	Milan (IT)	EUR	79,071,770	
MB Venture Capital Fund I Partecipating Comp. e Nv	Amsterdam (NL)	EUR	50,000	
Syremont Spa	Messina (IT)	EUR	750,000	
Other investments that are not publicly traded				
Total Equity Investments Available for Sale				
Total				

Interest held in share capital % (b)	By	Voting security held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
3.170	Edison Spa	-	-	3.7	OC
1.300	Edison Spa	-	-	6.1	OC
0.840	Edison Spa	-	-	1.1	OC
10.000	Edison Spa	-	-	84.4	OC
12.250	Eneco Energia Spa	-	-	0.2	OC
0.970	Edison Spa	1.010	1.010	28.2	OC
3.890	Edison Spa	-	-	0.2	OC
0.750	Edison Spa	-	-	0.7	OC
4.370	Edison Spa	-	-	3.5	OC
7.000	Montedison Finance Europe Nv	-	-	3.4	OC
40.000	Edison Spa	-	-		OC
				1.2	
				132.7	
				177.2	

Companies Added to the Scope of Consolidation During the Year Ended 12.31.06

Name	Head office	Currency	Share Capital at 12.31.06	Consolidated Group Interest
Companies Acquired				
Ascot Srl	Bressanone (BZ) (IT)	EUR	10,330	50
EdF Energia Italia Srl	Roma (IT)	EUR	10,000	100
Eneco Energia Spa	Bolzano (IT)	EUR	300,000	70
Companies for which the Investment Relationship Changed				
Estgas Spa (Single Shareholder)	Selvazzano Dentro (PD) (IT)	EUR	165,000	100

Companies Removed from the Scope of Consolidation During the Year Ended 12.31.06

Name	Head office	Currency	Share Capital at 12.31.05	Consolidated Group interest in 2006	Consolidated Group interest at 12.31.05
Companies Sold					
Edison Rete Spa (Single Shareholder)	Milan (IT)	EUR	106,778,200	100	100
International Water (Tunari) Sarl	Luxembourg (LU)	EUR	559,157	50	50
Companies Merged					
EdF Energia Italia Srl (Single Shareholder)	Roma (IT)	EUR	10,000	100	-
Edison per Voi Spa (Single Shareholder)	Selvazzano Dentro (PD) (IT)	EUR	3,592,000	100	100
Estgas Spa (Single Shareholder)	Selvazzano Dentro (PD) (IT)	EUR	165,000	100	-
International Water (Tunari) Bv	Amsterdam (NL)	EUR	20,000	50	50
Parco Eolico Faeto Srl (Single Shareholder)	Milan (IT)	EUR	11,300	100	100
Parco Eolico Foiano Srl (Single Shareholder)	Milan (IT)	EUR	683,000	100	100
Parco Eolico San Giorgio Srl (Single Shareholder)	Milan (IT)	EUR	8,911,200	100	100
Companies Placed in Liquidation					
International Water Services Limited	George Town Grand Cayman (GBC)	USD	45,100	50	49.89
Iwl (Asia Pacific) Pte Ltd	Singapore (SG)	SGD	2	50	50
Iwl Adelaide Pty Ltd (in liquid.)	Sidney - NSW (AU)	AUD	1,020,460	50	50
Iwl Corporate Limited	London (GB)	GBP	1	50	50
Iwl Services Holdings (UK) Limited	London (GB)	GBP	2	50	50
Stel Spa	Milan (IT)	EUR	1,000,000	75	75
Companies for Which the Investment Relationship Changed					
Soc. Svil. Rea. Gest. Gasdot. Alg-Itav. Sardeg. Galsi Spa (form. Soc. Stud. Prom. Gasdot. Alg-Ita V. Sardeg. Galsi Spa)	Milan (IT)	EUR	838,000	18	18

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, it is shown only if it is equal to or greater than one million euros.

(g) Subsidiary pursuant to Article 2359 of the Italian Civil Code.

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

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

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

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

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

AUD Australian dollar

BRL Brazilian real

CAD Canadian dollar

CHF Swiss franc

EGP Egyptian pound

EUR Euro

GBP British pound

HRK Croatian Kuna

LIT Italian lira

PTE Portuguese escudo

SGD Singapore dollar

USD U.S. dollar

XAF Central African franc

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 2006, comprising the consolidated balance sheet, income statement, cash flow statement, changes in shareholders' equity 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.

The consolidated financial statements show the amounts of the prior year as comparatives. As illustrated in the notes to the consolidated financial statements, in order to consider the application of IFRIC 4 "Determining whether an arrangement contains a lease", the directors modified the prior year's consolidated financial statements, which we examined and on which we issued our auditors' report on 15 March 2006. We have examined the method used to re-determine the corresponding amounts of the prior year and the disclosures given in the notes to the consolidated financial statements for the purposes of expressing our opinion on the consolidated financial statements as of 31 December 2006.

3 In our opinion, the consolidated financial statements of EDISON SpA as of 31 December 2006 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the

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

4 Without qualifying our opinion, we emphasise that, as illustrated in the notes to the consolidated financial statements, in the case of power plants with contracts to sell energy under the tariff regime CIP 6/92, the remaining useful lives being equal, starting from 1 January 2006 the holding company and some group companies, in lieu of using straight-line depreciation referred to the useful lives of the various components, have applied systematic declining-balance depreciation so as to reflect the differences between the economic terms of the CIP 6/92 regulations and the terms of trading prevailing in the market; the reasons for this and the impact of the revised estimate on the income statement in the consolidated financial statements are amply illustrated in the aforementioned notes.

Milan, 8 March 2007

PricewaterhouseCoopers SpA

Marco Sala
(Partner)

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

(2)

This document is also available on the
Company website: www.edison.it

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In Pagina, Saronno

Photographs by
Archivio Edison
Camera Chiara
Eye Studio
Marka
Polifemo fotografia
Jenny Zarins

Printed by
Grafiche Mariano, Mariano Comense

Milan, March 2007

This publication has been printed on ecological paper with a low environmental impact.

Edison Spa
31 Foro Buonaparte
20121 Milan, Italy

Capital stock: 4,792,704,263.00 euros, fully paid in
Milan Company Register and Tax I.D. No 06722600019
VAT No. 08263330014
REA Milan No. 1698754

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