CONSOLIDATED FINANCIAL STATEMENTS 2005

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EDISON

Edison Group
Consolidated Balance Sheet at December 31, 2005

(in millions of euros)	See note	12/31/05	12/31/04
ASSETS			
Property, plant and equipment	1	8,637	8,677
Investment property	2	49	62
Goodwill	3	3,505	3,507
Hydrocarbon concessions	4	339	361
Other intangible assets	5	38	25
Investments in associates	6	59	112
Available-for-sale investments	6	74	154
Other financial assets	7	65	76
Deferred-tax assets	8	104	96
Other assets	9	297	379
Total non-current assets		**13,167**	**13,449**
Inventories		315	302
Trade receivables		1,593	1,139
Due from customers for contract work		-	168
Current-tax assets		38	103
Other receivables		337	346
Current financial assets		76	87
Current financial assets		361	458
Total current assets	**10**	**2,720**	**2,603**
Assets held for sale		**-**	**-**
Total assets		**15,887**	**16,052**

Edison Group
Consolidated Balance Sheet at December 31, 2005 (continued)

(in millions of euros)	See note	12/31/05	12/31/04
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		4,273	4,259
Equity reserves		-	-
Other reserves		1,552	1,465
Reserve for currency translations		3	-
Retained earnings (Loss carryforward)		(58)	(371)
Profit (Loss) for the period		500	354
Total Group interest in shareholders' equity		**6,270**	**5,707**
Minority interest in shareholders' equity		**159**	**469**
Total shareholders' equity	**11**	**6,429**	**6,176**
Provision for employee severance indemnities			
and provision for pensions	12	74	88
Provision for deferred taxes	13	1,096	1,208
Provision for risks and charges	14	1,002	1,114
Bonds	15	2,838	2,825
Long-term borrowings and other financial liabilities	16	1,822	1,821
Other liabilities	17	242	42
Total non-current liabilities		**7,074**	**7,098**
Short-term borrowings		655	805
Trade payables		1,275	857
Due to customers for contract work		-	311
Current taxes payable		16	114
Other liabilities		438	691
Total non-current liabilities	**18**	**2,384**	**2,778**
Liabilities held for sale		**-**	**-**
Total liabilities and shareholders' equity		**15,887**	**16,052**

Edison Group
Consolidated Income Statement at December 31, 2005

(in millions of euros)	See note	2005	2004
Sales revenues	19	6,650	5,627
Other revenues and income	20	588	855
Total net revenues		**7,238**	**6,482**
Raw materials and services used (-)	21	(5,682)	(4,716)
Labor costs (-)	22	(250)	(291)
EBITDA	**23**	**1,306**	**1,475**
Depreciation, amortization and writedowns (-)	24	(657)	(660)
EBIT		**649**	**815**
Net financial income (expense)	25	(219)	(310)
Income from (Expense on) equity investments	26	23	(15)
Other income (expense), net	27	(17)	20
Profit before taxes		**436**	**510**
Income taxes	28	(16)	(88)
Profit (Loss) from continuing operations		**420**	**422**
Profit (Loss) from discontinued operations	29	86	-
Profit (Loss)		**506**	**422**
Di cui:			
Minority interest in profit (loss)		6	68
Group interest in profit (loss)		**500**	**354**
Earnings per share (in euros)	30		
basic		0.1165	0,0829
diluted		0.1060	0,0768

Cash Flow Statement for the Year Ended December 31, 2005

The table below presents a consolidated **cash flow** statement for 2005 and provides a comparison with the corresponding data for 2004. The information provided below is supplemented by the data presented in a separate statement, included in the Report on Operations, which shows the changes in net financial position. The latter statement is designed to offer a better understanding of the Group's cash generation and utilization dynamics.

	(in millions of euros)	2005	2004
	Group interest in profit (loss)	500	354
	Minority interest in profit (loss)	6	68
	Amortization and depreciation	579	552
	Interest in the result of companies valued by the equity method (-)	(3)	-
	Dividends received from companies valued by the equity method	-	1
	(Gains) Losses on the sale of non-current assets	(137)	(59)
	(Revaluations) Writedowns of intangibles and property, plant and equipment	78	108
	Change in the provision for employee severance indemnities	(2)	(4)
	Change in other operating assets and liabilities	(478)	191
A.	Cash flows from continuing operations	543	1,211
	Additions to intangibles and property, plant and equipment (-)	(644)	(779)
	Additions to non-current financial assets (-)	(239)	(204)
	Proceeds from the sale of intangibles and property, plant and equipment	21	16
	Proceeds from the sale of non-current financial assets	452	226
	Capital grants received during the year	2	5
	Change in the scope of consolidation	(92)	7
	Other current assets	(11)	(47)
B.	Cash used in investing activities	(511)	(776)
	Receipt of new medium-term and long-term loans	279	600
	Redemption of new medium-term and long-term loans and reclassification of short-term installments (-)	(265)	(484)
	Capital contributions provided by controlling companies or other shareholders	18	52
	Dividends paid to controlling companies or minority shareholders (-)	(11)	(82)
	Change in short-term debt	(150)	(730)
C.	Cash used in financing activities	(129)	(644)
D.	Net currency translation differences	-	-
E.	Net decrease in cash and cash equivalents (A+B+C+D)	(97)	(209)
F.	Cash and cash equivalents at beginning of period	458	667
G.	Cash and cash equivalents at end of period (F+G)	361	458
H.	Total cash and cash equivalents at end of period	361	458

Changes in Consolidated Shareholders' Equity at December 31, 2005

	Group interest in shareholders' equity					Minority interest	Total
(in millions of euros)	Share capital	Reserves and ret. earnings (loss carryforward)	Reserve for currency translations	Profit for the year	Total	in sharsehold. equity	shareholders' equity
Balance at December 31, 2003	**4,212**	**857**	**-**	**144**	**5,213**	**800**	**6,013**
Change due to the first-time adoption of the IAS/IFRS standards	-	63	-	-	63	(116)	(53)
Shareholders' equity upon transition to IAS/IFRS standards on January 1, 2004	**4,212**	**920**	**-**	**144**	**5,276**	**684**	**5,960**
Share capital increase due to the conversion of warrants	47	-	-	-	47	-	47
Share capital increase	-	-	-	-	-	5	5
Appropriation of the 2003 profit	-	144	-	(144)	-	-	-
Dividend distribution	-	-	-	-	-	(75)	(75)
Change in the scope of consolidation	-	-	-	-	-	(216)	(216)
Other changes	-	30	-	-	30	3	33
Profit for the period	-	-	-	354	354	68	422
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
Balance at January 1, 2005	**4,259**	**1,132**	**-**	**354**	**5,745**	**469**	**6,214**
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 in 2005 for the adoption of IAS 32 and 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	-	(1)	(3)	-	(4)	(1)	(5)
Profit for the year	-	-	-	500	500	6	506
Balance at December 31, 2005	**4,273**	**1,500**	**(3)**	**500**	**6,270**	**159**	**6,429**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at December 31, 2005

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 the International Financial Reporting Standards (IAS/IFRSs).

Following the enactment of European Regulation No. 1606 in July 2002, the Edison Group adopted as of January 1, 2005 the International Financial Reporting Standards (IAS/IFRSs) issued by the International Accounting Standards Board (IASB), as approved by the European Commission.

The abbreviation IAS/IFRSs is used to signify the International Financial Reporting Standards (IFRS), which represent a recent evolution of the International Accounting Standards revised (IAS), and all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

On July 28, 2005, the Group published in a separate document the schedules required by IFRS 1. This document was accompanied by an audit report issued by PricewaterhouseCoopers Spa.
The section of these notes entitled "Reconciliation Schedules Required by IFRS 1" contains exclusively the reconciliation schedules required by IFRS 1. The abovementioned audited document should be consulted for any issues that is not specifically covered in these notes.

The principles applied in preparing the abovementioned reconciliation schedules are the same as those applied to this Annual Report.

Specifically, with regard to the accounting principles applied:
- IFRS 6 "Exploration for and Evaluation of Mineral Resources" is being applied starting in 2005. Hydrocarbon exploration costs totaling 7 million euros that were incurred during the year in connection with successful development of gas fields in Algeria and Croatia were capitalized and added to property, plant and equipment.
- IAS 32 and IAS 39 are being applied as of January 1, 2005 and, consequently, any data at December 31, 2004 that are affected by these standards are not comparable.
- IFRS 4 "Insurance Contracts," IAS 26 "Accounting and Reporting by Retirement Benefit Plans" and IAS 41 "Agriculture" were not pertinent and were not applied.

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

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.
The presentation formats that the Company has chosen for its financial 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, respectively, are shown separately.

Income Statement
The Company has selected a step-by-step income statement, with the different components analyzed by type

Cash Flow Statement
The cash flow statement was prepared in accordance with the indirect method.

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 consolidated financial statements comprise 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 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.

Principal Changes in the Scope of Consolidation Compared with December 31, 2004
The main change is that, in contrast with the scope of consolidation determined under the old accounting principles, all companies that can be classified as joint ventures in accordance with IAS 31 have been consolidated by the proportional method. More specifically, the proportional consolidation method was applied to Edipower (50%), Sel Edison (42%) and Serene (66.32%). Previously, Sel Edison was valued by the equity method and Serene was consolidated line by line. Lastly, special purpose entities (SPEs) must be consolidated line by line when risks and benefits can be attributed primarily to the Group, irrespective of the size of the equity investment held in the SPE. This approach resulted in the line-by-line consolidation of ETS, a securitization company in which the Group does not hold an interest, and of its segregated portfolio under Italian securitization law.

Additional changes to the scope of consolidation in the financial statements prepared in accordance with the IFRSs reflect the impact of a corporate simplificationprocess that continued in 2005, resulting in a reduction in the number of consolidated companies. This objective was achieved by means of dissolutions of companies in liquidation and mergers, the most significant of which included the following:
- Megs Srl was absorbed by Edison Spa;
- Parco Eolico Montemignaio Srl, Parco Eolico Vaglio Srl and Parco Eolico San Bartolomeo Srl were absorbed by Edison Energie Speciali Spa;
- Asep Gas Srl was absorbed by Edison per Voi Spa.

The other main changes in the scope of consolidation that occurred in 2005 are reviewed below.

Electric Power Operations

- The sale of 100% of Edison France Sarl, which controls 50% of Flandres Energie, to the Dalkia Investissement Group was completed on February 7, 2005. The resulting deconsolidation, which was booked as of January 1, 2005, reflected the sale of an investee company that operates a 40-MW power plant in Lille (France).
- Monsei Esco (formerly Montecatini Srl), which previously was valued at cost, and Hidro Power Energy Srl, a company established in November, are now consolidated line by line.

Hydrocarbons Operations

- The sale of 90% of Edison LNG to Qatar Petroleum (45%) and ExxonMobil (45%) was completed on May 2, 2005. Following the sale, Edison LNG changed its name to Terminale GNL Adriatico Srl. The remaining 10% is valued at cost.
- Styrija Plin D.O.O., previously consolidated line by line, was placed in liquidation. This company was deconsolidated as of July 1, 2005.
- Edison Gas España Sa, previously consolidated line by line, was placed in liquidation. This company was deconsolidated as of January 1, 2005.

Corporate Activities

- On November 30, 2005, Edison Spa purchased from EDF International Sa a 20% interest in Finel Spa as a result of EDF International Sa exercising its right to liquidate its investment in Finel Spa. Pursuant to existing agreements between the parties that remain in force, EDF International will sell its remaining 20% interest in Finel Spa to Edison Spa on December 1, 2006. As a result of these developments, the Group increased from 60% to 100% the percentage at which Finel Spa is consolidated, while recognizing a liability equal to the cost of purchasing the remaining 20%.
- Finimeg, previously consolidated line by line, was placed in liquidation. This company was deconsolidated as of January 1, 2005.

Engineering Operations

In October 2005, further to an agreement executed in July, the group headed by Tecnimont Spa (engineering operations) was sold to the Maire Group and deconsolidated.
Consequently, as required by IFRS 5, the divested group's revenues and expenses for the first half of 2005 were reflected line by line in the consolidated income statement. The result generated by these operations for the period between July 1, 2005 and September 30, 2005 and the net gain on their divestiture are recognized in the income statement under "Profit (loss) from discontinued operations."

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

(Pro rata interest in accordance with IAS guidelines)

(in millions of euros)	Edipower	Serene	Sel Edison	Ibiritermo	Parco Eolico Castelnuovo Srl	ED-Ina D.O.O.	Galsi Spa	IWH	Bluefare
	50.00%	66.32%	42.00%	50.00%	50.00%	50.00%	18.00%	50.00%	50.00%
INCOME STATEMENT									
Sales revenues	524	179	9	22	1	5	-	31	-
EBITDA	189	37	5	18	-	-	-	8	-
as a % of net revenues	36.1%	20.7%	52.4%	81.4%	n.a.	n.a.	-	24.2%	-
Depreciation, amortization and writedowns (-)	(124)	(12)	(3)	(8)	-	-	-	(1)	-
EBIT	65	25	2	10	-	-	-	6	-
Profit (Loss)	12	15	-	(4)	-	-	-	5	-
BALANCE SHEET									
Total assets	2,455	246	63	83	3	4	-	39	-
Shareholders' equity	1,036	111	37	(1)	1		1	23	-
Net borrowings (financial assets)	1,009	55	24	62	1	4	(1)	(11)	-

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 Activities
- Buildings	1.2% - 6.2%	2.5% - 17.3%	20%
- Plant and machinery	1.7% - 21.8%	3.1% - 32.7%	- -
- Manufacturing and distribution equipment	5.0% - 25.0%	17.5% - 35.0%	- -
- Other assets	5.0% - 25.0%	5.0% - 25.0%	- -
- Investment property	- -	- -	2.0% - 3.2%

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

Impairment of Assets

IAS 36 requires that an entity test its property, plant and equipment and intangible assets for impairment when there are indications that 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 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** are valued at fair value, and any resulting gains or losses are recognized in the income statement.
- **Available-for-sale assets** 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 maturity that the Company intends to hold to maturity (other than equity investments) are valued at their amortized cost, which is determined by using the original effective interest rate. In other words, future cash flows are discounted to the balance sheet date by using the effective interest rate.
- **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 net 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, including incidental expenses, or estimated realizable value, based on market conditions. Cost is determined primarily by the FIFO method.

Due from and Due to Customers for Contract Work

Due from customers for contract work represents the gross amount due from customers for completed and invoiced contract work, net of downpayments and advances. If the amount invoiced exceeds costs incurred plus recognized profits, the difference is booked as due to customers for contract work.

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 offsetting entry posted to an equity reserve.

Provision for Risks and Charges

Provision for risks and charges are established exclusively to fund current obligations that arise from past events. These obligations can be legal or contractual in nature or can be the result of representations or actions of the Company that create valid expectations in the relevant counterparties that the Company will be responsible for complying or will assume the responsibility of causing others to comply with an obligation (implied obligations).

Recognition of Revenues and Expenses

Revenues and income and costs and expenses are reflected in the financial statements net of returns, discounts, allowances, bonuses and any taxes directly related to the sale of products or the provision of services. Sales revenues are recognized when title to the goods passes to the buyer. As a rule, this occurs when the goods are delivered or shipped. Contract work in process is recorded on the basis of contractual fees accrued, in accordance with the percentage of completion method and taking into account the ratio of the costs incurred to the total costs entailed by each contract. Financial income and expense is recognized when accrued. Dividends are recognized when the shareholders are awarded the rights to collect them, which generally occurs in the year when the disbursing investee company holds a Shareholders' Meeting that approves a distribution of earnings or reserves.

Income Taxes

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

Deferred-tax assets and liabilities are computed on the temporary differences between the values attributed to assets and liabilities for statutory and tax purposes, using the tax rates that are expected to be in force when the temporary differences are reversed. Deferred-tax assets are recognized only when their future recovery is reasonably certain, otherwise, their value is written down. The valuation of deferred-tax assets must be carried out taking into account the Company's planning horizon, based on available approved Company plans. When gains and losses are recognized directly in equity, the corresponding deferred-tax assets or liabilities must also be reflected under shareholders' equity. The deferred-tax

liability on retained earnings of subsidiaries is recognized only if there is truly an intent to distribute those earnings and provided that the tax liability is not cancelled upon the filing of a consolidated tax return.

Use of Estimated Values

The preparation of the financial statements and the related notes requires the use of estimates and assumptions both in the measurement of certain assets and liabilities and in the valuation of contingent assets and liabilities. The actual results that arise upon the occurrence of the relevant events could differ from these estimates. Estimates are also used to 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, income taxes and impairment losses. Estimates and assumptions are revised on a regular basis, and the impact of any such revision is immediately recognized in the income statement.

Reconciliation Schedules Required by IFRS 1

Schedules showing reconciliations of the Group interest in shareholders' equity and the income statement are provided below in order to ensure maximum disclosure. Notes explaining these schedules can be found in the document entitled "Transition to the International Financial Reporting Standards (IAS/IFRSs)," which the Company published on July 28, 2005.

Reconciliation of Group Interest in Shareholders' Equity at January 1, 2004 and December 31, 2004 Showing the Impact of the Transition to the IAS/IFRSs

The table below provides a reconciliation of Group interest in shareholders' equity and shows the main transition adjustments made to the line items in the financial statements at December 31, 2003 and December 31, 2004.

Reconciliation of Group's Interest in Shareholders' Equity at January 1, 2004

(in millions of euros)	Group interest in shareholders' equity
Group interest in shareholders' equity in the financial statements at December 31, 2003	**5,213**
1. Proportional consolidation of Edipower	21
2. Impact of change in the scope of consolidation (excluding Edipower)	50
3. Use of fair value to measure non-current assets for transition purposes	52
4. Derecognition of intangible assets	(26)
5. Sundry adjustments and eliminations	(34)
Group interest in shareholders' equity at January 1, 2004, in accordance with the IAS/IFRSs	**5,276**

Reconciliation of Group's Interest in Shareholders' Equity at December 31, 2004

(in millions of euros)	Group interest in shareholders' equity
Group interest in shareholders' equity in the financial statements at December 31, 2004	**5,412**
1. Proportional consolidation of Edipower	(2)
2. Impact of change in the scope of consolidation (excluding Edipower)	37
3. Use of fair value to measure non-current assets for transition purposes	50
4. Derecognition of the amortization of goodwill	213
5. Derecognition of intangible assets	(13)
6. Sundry adjustments and eliminations	10
Group interest in shareholders' equity at December 31, 2004, in accordance with the IAS/IFRSs before the application of IAS 32/39	**5,707**
1. Use of amortized cost valuation of financial liabilities and bonds	26
2. Income (loss) from derivatives not defined as hedging pursuant IAS 39	3
3. Revaluation (write down) of cash flow hedge derivatives	(13)
4. Revaluation (write down) of equity investments held for sale	22
Group interest in shareholders' equity in accordance with IAS/IFRS principles at January 1, 2005 after the application of IAS 32/39	**5,745**

Impact of the Transition on the Income Statement at December 31, 2004

(in millions of euros)	In accordance with the old accounting principles	IAS/IFRS restatements	Data at 12/31/04 in accordance with IAS/IFRS
Sales revenues	5,696	(69)	5,627
Other revenues and income, net	801	54	855
Total net revenues	**6,497**	**(15)**	**6,482**
Raw materials and services used (-)	(4,995)	279	(4,716)
Labor costs (-)	(248)	(43)	(291)
EBITDA	**1,254**	**221**	**1,475**
Depreciation, amortization and writedowns (-)	(639)	(21)	(660)
EBIT	**615**	**200**	**815**
Net financial income (expense)	(248)	(62)	(310)
Income from (Expense on) equity investments	1	(16)	(15)
Other income (expense), net	16	4	20
Profit before taxes	**384**	**126**	**510**
Income taxes	(151)	63	(88)
Profit (Loss) from continuing operations	**233**	**189**	**422**
Profit (Loss) from discontinuing operations	-	-	-
Profit (Loss)	**233**	**189**	**422**
Of which:			
Minority interest in (profit) loss	78	(10)	68
Group interest in profit (loss)	**155**	**199**	**354**

The changes that occurred in the most significant components of the income statement for the year ended December 31, 2004 are attributable primarily to the consolidation of Edipower and reflect the impact of the use of fair value as deemed cost to value property, plant and equipment (which produced an increase in depreciation and had an impact on Income taxes due to the reversal of deferred taxes recognized in connection with fair value measurement) and the inability to amortize goodwill.

RISK, MANAGEMENT, TYPES OF FINANCIAL RISKS AND HEDGING STRATEGIES

The operations of the Edison Group are exposed to several types of risk, including fluctuations in interest rates, foreign exchange rates and prices, and cash flow risks. The Group minimizes these risks through the use of derivative contracts that are executed within the framework of its risk management activities. As a rule, derivatives and similar instruments are not used for trading purposes.
All such transactions are carried out in accordance with special organizational guidelines that govern risk management activities. In particular, the Group has adopted procedures designed to monitor all transactions that involve derivative instruments. More specifically, all risk management transactions are centrally managed. An exception is made for certain transactions of limited size that are executed by Edipower, which has independent risk management procedures, mainly in the financial area.

Interest Rate Risk

The strategy pursued by the Group is to have substantially balanced positions in its fixed- and variable-interest exposure, with the goal of minimizing the impact of market rate fluctuations.
At December 31, 2005, the Group's exposure to the risk of changes in interest rates was roughly equivalent to 40% of its total exposure, despite the fact that some of the existing hedges entail the use of variable interest rates.
The most significant medium and long term positions have been hedged, with special emphasis on transactions involving bond issues and project financing. In the case of Edipower, the main purpose of hedging transactions is to minimize the risk component. Accordingly, the Group implemented a structure of financial derivatives based on an interest-rate corridor with rates ranging between about 3% and 4.20%.

Currency Risk

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

Price Risk

The Group is exposed to price risk, including the related currency risk, for all of the energy commodities with which it is involved, including electric power, natural gas, coal, oil and refined products. This risk exists because both purchases and sales are affected by changes in the prices of energy commodities, either directly or through pricing formulas and indexing mechanisms.
In its management of price risk, the Group uses the financial markets for hedging purposes only to a limited degree, relying instead on exploiting the vertical and horizontal integrations of its different business operations.
The first step toward achieving this goal is to plan how to physically balance the volumes of the Group's actual market sales of energy commodities among the various delivery deadlines by using proprietary production assets and the existing portfolio of medium/long term contracts and spot contracts.
In addition, the Group pursues a policy designed to achieve homogeneity of physical sources and uses, so that the formulas and indexing mechanisms that affect revenues from the sale of energy commodities reflect, as closely as possible, the formulas and indexing mechanisms that have an impact on the costs the Group incurs to purchase energy commodities in the market and acquire supplies for its production assets.
To manage the residual risk, the Group can use the structured hedges that are available in the financial markets, in accordance with a cash flow hedging strategy. Hedging transactions can be used to lock in the margin on an individual transaction or a limited number of like transactions (operational hedging), or to protect a maximum level of exposure to price risk, computed in a centralized manner for the Group's entire net portfolio, for a legal entity that is part of the Group or a group of physical and contractual assets that, taken as a whole, are significant for the Group (strategic hedging). Transactions in

financial derivative hedges are executed in a manner consistent with the Group's risk management policy and procedures and with the support of a special internal deal capture system.

Credit Risk

A credit risk is the risk that one party to a contract that calls for a deferred cash settlement will fail to discharge a payment obligation and cause the other party to incur a financial loss.
This risk can arise from several factors that are technical/commercial or administrative/legal in nature (disputes over the type/quantity of goods supplied, the interpretation of contractual clauses, supporting invoices, etc.) or as a result of strictly financial issues that, in essence, reflect the credit standing of the counterparty.
Edison's exposure to credit risk is due mainly to its 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).
Lastly, when it comes to choosing counterparties for transactions to manage temporary excess liquidity, the Group deals only with top-flight, reliable entities that enjoy a high standing in the international markets.

Liquidity Risk

The Group follows a conservative policy in its management of liquidity risk, using a strategy designed to ensure that unexpected cash disbursements will not create a problem. The minimum goal is to make certain that, at all times, the Company has access to sufficient committed financing facilities to repay indebtedness that will come due over the following 12 months.
Consequently, the Group's funding needs are provided by long-term financing, consisting mainly of bond issues (about 58% of total indebtedness).

Default Risk and Loan Agreement Covenants

With regard to the Group's consolidated indebtedness, it is important to note that a deterioration of Edison's credit rating or the loss of rating would not trigger automatically a repayment obligation.
This applies both to bonds and bank debt. As for the obligations to maintain certain financial indicators above or below maximum or minimum levels (financial covenants), they do not apply to any of the Group's bond issues but do apply to about 300 million euros in bank debt owed by Edison and its subsidiaries. The financial statement ratios that are taken into account have to do with the relationship between EBITDA and net borrowings and financial expense.
Lastly, specifically insofar as Edipower's financing is concerned, a lowering of Edison's credit rating below the minimum investment grade level would not trigger an early repayment obligation for Edipower. Edison would simply be required to achieve compliance with the abovementioned financial covenants, following a monitoring period. If Edison should be in violation of the financial covenants. Following a monitoring period, it would be required to pay the amount it guaranteed in accordance with the Completion Equity Contribution Agreement and the Repowering Equity Contribution Agreement. Edipower's financial covenants have to do with the relationship between EBITDA and financial expense, net borrowings and EBITDA, and the maintenance of a minimum level of EBITDA.
In December 2005, Edipower asked a pool of banks to waive compliance with certain contractual restrictions that did not involve the financial covenants, but has not yet received a positive response.

Analysis of Forward Transactions and Derivatives

Instrument Outstanding at December 31, 2005

A) Interest Rates and Foreign Exchange Rates

The data shown in the quantitative analysis table provided below are derivatives that were outstanding on the date of the financial statements, 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, is shown in a separate column. The last column shows the fair value of the contracts that was recognized on the income statement. With regard to the data presented in the last two columns of the schedules provided below, it is important to note that the difference between balance sheet carrying amounts and income statement fair values represents the fair value of cash flow hedges, which is posted directly to reserves.

(in millions of euros)	Notional amount (*)		Notional amount (*)	Notional amount	Balance sheet value (**)	Fair value shown on the income statement(***)
	due within 1 year		due between 1 and 5 years	due after 5 years		
	receivable	payable				
Interest rate risk management						
- cash flow hedge in accordance with IAS 39			1.475	16	(14)	(3)
- contracts that do not qualify as hedges in accordance with IAS 39			6.107	105	(19)	(19)
Total interest-rate derivatives			**7.582**	**121**	**(33)**	**(22)**
Foreign exchange rate risk management						
- contracts that qualify as hedges in accordance with IAS 39						
• On commercial transactions	-	-			-	-
• On financial transactions	12	-			-	-
- contracts that do not qualify as hedges in accordance with IAS 39						
• On commercial transactions	295	53			1	1
• On financial transactions	-	-			-	-
Total foreign exchange rate derivatives	**307**	**53**			**1**	**1**

(*) Sum of the notional amounts of the basic contracts deriving from the eventual brekup of the complex contracts.
(**) + for debit balance - for credit balance.
(***) Includes both the fair value recognized upon transition and the fair value for the period.

B) Commodities

The table below analyzes commodity derivatives outstanding at the date of the financial statements that the electric power and hydrocarbons operations executed to manage risks associated with fluctuations in market prices of certain commodities.

(in millions of euros)	Unit of measure of notional amount	Notional amount due within one year	Balance sheet value (*)	Fair value shown on the income statement (**)
Price risk management for energy products				
A. Cash flow hedges pursuant to IAS 39, broken down as follows:			**17**	**-**
- Electric power	TWh	3	17	-
- Other commodities	-	-	-	-
B. Contracts that qualify as fair value hedges pursuant to IAS 39			**-**	**-**
C. Contracts that do not qualify as fair value hedges pursuant to IAS 39, broken down as follows:			**7**	**7**
C.1 Margin hedges			(1)	(1)
- Electric power	TWh			
- LNG and oil	Barrels	214,349	(1)	(1)
- Coal	Billions of tons	15,390	-	-
C.2 Trading contracts			(1)	(1)
- Electric power	TWh	2	9	9
- LNG and oil	Barrels	-	(1)	(1)
TOTAL			**24**	**7**

(*) + for debit balance - for credit balance.
(**) Includes both the fair value recognized upon transition and the fair value for the period.

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) and the euro/US dollar exchange rate.
When disclosing hedging transactions in the financial statements, care is used to ensure compliance with the requirements of IAS 39 for hedge accounting purposes. For all hedging transactions that comply with internal risk policies and procedures and qualify as cash flow hedges, realized results and expected value, computed on a fair-value basis, are included in EBITDA. Differentials on trading transactions are recognized as financial income or expense. 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.

Operating Results Generated by Derivative Transactions in 2005

The table below provides an analysis of the operating results generated by derivative transactions in 2005.

(in millions of euros)	Realized	Change in fair value for the period	Amounts recognized in earnings
Other revenues and income			
A. Price risk hedges for energy products			
- definable as hedges pursuant to IAS 39 (CFH)	160	-	160
- not definable as hedges pursuant to IAS 39	61	5	66
Total (A)	**221**	**5**	**226**
Raw materials and services used			
Price risk hedges for energy products			
- definable as hedges pursuant to IAS 39 (CFH)	(138)	-	(138)
- not definable as hedges pursuant to IAS 39 (margin hedges)	(26)	(6)	(32)
Total (B)	**(164)**	**(6)**	**(170)**
TOTAL INCLUDED IN EBITDA (A+B)	**57**	**(1)**	**56**
Net financial income (expense)			
Price risk hedges for energy products			
- Gains on trading transactions (A)	-	9	9
- Losses on trading transactions (B)	(15)	(1)	(16)
Margin on commodity trading transactions (A+B)	**(15)**	**8**	**(7)**
Interest rates hedges, broken down as follows:			
A. Financial income			
- definable as hedges pursuant to IAS 39	14	5	19
- not definable as hedges pursuant to IAS 39	50	24	74
Total financial income (A)	**64**	**29**	**93**
B. Financial expense			
- definable as hedges pursuant to IAS 39	(21)	(9)	(30)
- not definable as hedges pursuant to IAS 39	(49)	(16)	(65)
Total financial expense (B)	**(70)**	**(25)**	**(95)**
Margin on interest rates hedging transactions (A+B)	**(6)**	**4**	**(2)**
Foreign exchange rates hedges, broken down as follows:			
A. Foreign exchange gains			
- definable as hedges pursuant to IAS 39	-	-	-
- not definable as hedges pursuant to IAS 39	19	3	22
Total foreign exchange gains (A)	**19**	**3**	**22**
B. Foreign exchange losses			
- definable as hedges pursuant to IAS 39	-	-	-
- not definable as hedges pursuant to IAS 39	(11)	(1)	(12)
Total foreign exchange losses (B)	**(11)**	**(1)**	**(12)**
Margin on foreign exchange hedging transactions (A+B)	**8**	**2**	**10**
TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE)	**(13)**	**14**	**1**

SEGMENT INFORMATION

The table below provides information broken down by type of business operation.

INCOME STATEMENT	Electric Power		Hydrocarbons		Corporate Activities		Adjustments		Core Businesses	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Sales revenues	**4,993**	**4,304**	**3,303**	**2,231**	**42**	**62**	**(1,940)**	**(1,253)**	**6,398**	**5,344**
- intra-Group revenues	5	1	1,902	1,226	33	26	(1,940)	(1,253)	-	-
EBITDA	**1,006**	**1,205**	**353**	**335**	**(76)**	**(89)**			**1,283**	**1,451**
as a % of revenues	20.1%	28.0%	10.7%	15.0%	na	na			20.1%	27.2%
Depreciation, amortization and writedowns	(546)	(501)	(92)	(134)	(15)	(19)			(653)	(654)
EBIT	**460**	**704**	**261**	**201**	**(91)**	**(108)**			**630**	**797**
as a % of revenues	9.2%	16.4%	7.9%	9.0%	na	na		na	9.8%	14.9%
Net financial income (expense)									(216)	(312)
Interest in result of companies valued by the equity method									3	-
Income taxes									(10)	(73)
Profit for the period									**430**	**409**
Profit (Loss) from discontinued operations										
Minority interest in profit (loss) for the period									**5**	**70**
Group interest in profit (loss) for the period									**425**	**339**

BALANCE SHEET	Electric Power		Hydrocarbons		Corporate Activities		Adjustments		Core Businesses	
	12.31.05	12.31.04	12.31.05	12.31.04	12.31.05	12.31.04	12.31.05	12.31.04	12.31.05	12.31.04
Total assets	**12,611**	**12,159**	**2,451**	**2,288**	**3,679**	**3,537**	**(2,885)**	**(2,508)**	**15,856**	**15,476**
Net borrowings									**4,889**	**5,118**
Other infomation										
Capital expenditures	511	535	73	60	2	1			586	596
Investments in intangibles	21	2			3	4			24	6
Investments in exploration			22	25					22	25
Total capital investments	**532**	**537**	**95**	**85**	**5**	**5**			**632**	**627**
Number of employees	1,992	1,996	441	416	526	539			2,959	2,951

Water		Engineering		Adjustments		Total other operations		Discontinued Operations	Edison Group	
2005	2004	2005	2004			2005	2004	from 07.01.05 to 12.31.05	2005	2004
31	**27**	**221**	**256**			**252**	**283**		**6,650**	**5,627**
-	-	-	-	-	-	-	-	-	-	-
8	**4**	**15**	**20**			**23**	**24**		**1,306**	**1,475**
25.8%	14.8%	6.8%	7.8%	na	na	9.1%	8.5%	na	19.6%	26.2%
(1)	(2)	(3)	(4)			(4)	(6)		(657)	(660)
7	**2**	**12**	**16**			**19**	**18**		**649**	**815**
22.6%	7.4%	5.4%	6.3%			7.5%	6.4%		9.8%	14.5%
						(3)	2		(219)	(310)
						-	-		3	-
						(7)	(15)		(17)	(88)
				(19)		**9**	**13**		**420**	**422**
								86	**86**	
						1	**(2)**		**6**	**68**
				(19)		**8**	**15**	**86**	**500**	**354**

Water		Engineering		Adjustments		Total other operations		Discontinued Operations	Edison Group	
12.31.05	12.31.04	12.31.05	12.31.04			12.31.05	12.31.04	12.31.05	12.31.05	12.31.04
39	**49**		**527**		**(8)**	**31**	**576**		**15,887**	**16,052**
(11)	**(19)**		**(193)**			**(11)**	**(212)**		**4,878**	**4,906**
11	10	1	2			12	12		598	608
	1		1				2		24	8
									22	25
11	**11**	**1**	**3**			**12**	**14**		**644**	**641**
4	7		1,578			4	1,585		2,963	4,536

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 8,637 million euros, or 40 million euros less than at December 31, 2004. A breakdown is provided below:

(in millions of euros)	Land and buildings	Plant and machinery	Manufact. and distrib. equipment	Other assets	Constr. in progress and advances	Total
Balance at 12/31/04 (A)	**928**	**6,298**	**16**	**20**	**1,415**	**8,677**
Changes in 2005:						
- Additions	9	210	6	2	371	598
- Disposals (-)	(5)	(6)	-	-	-	(11)
- Depreciation (-)	(41)	(468)	(2)	(4)	-	(515)
- Writedowns (-)	(2)	(83)	-	-	-	(85)
- Change in scope of consolidation	(2)	(10)	-	(4)	(21)	(37)
- Currency translation differences	-	-	-	(1)	-	(1)
- Other changes	(2)	250	1	(1)	(237)	11
Total changes (B)	**(43)**	**(107)**	**5**	**(8)**	**113**	**(40)**
Balance at 12/31/05 (A+B)	**885**	**6,191**	**21**	**12**	**1,528**	**8,637**
Breakdown:						
- Historical cost	971	7,249	25	20	1,528	9,793
- Revaluations	-	-	-	-	-	0
- Writedowns (-)	(5)	(149)	(2)	-	-	(156)
- Accumulated depreciation (-)	(81)	(909)	(2)	(8)	-	(1,000)
Net carrying amount	**885**	**6,191**	**21**	**12**	**1,528**	**8,637**

The total value of the assets, virtually all of which are located in Italy, includes construction in progress and advances totaling 1,528 million euros for thermoelectric power plants that are in the final stages of construction, such as those that are being built in Torviscosa (UD), Altomonte (CS) and Simeri Crichi (CZ). The Candela (FG) power plant was commissioned in August 2005.

Additions, which totaled 598 million euros, are mainly the result of the following capital expenditures:

- The investments of the electric power operations, which totaled 511 million euros, were primarily used for the construction of new thermoelectric power plants in Torviscosa (UD) (128 million euros), Simeri Crichi (CZ) (109 million euros), Altomonte (CS) (53 million euros) and Candela (266 million euros), which has recently started operations. In addition, Edipower invested 93 million euros (Edison's pro rata share) for the repowering of the Piacenza and Turbigo (MI) power plants.
- The hydrocarbons operations invested 73 million euros. Investments in Italy included 13 million euros to expand the Collalto gas storage facility, 9 million euros to complete the Naiade platform in the Adriatic and 7 million euros to develop the Candela gas field. Investments outside Italy focused on the Rosetta concession in Egypt (9 million euros) and concessions held in Algeria (6 million euros) and Croatia (6 million euros). Costs totaling 7 million euros that were incurred in connection with successful hydrocarbon exploration programs were capitalized and added to property, plant and equipment as "Plant and machinery."

Depreciation of property, plant and equipment included 459 million euros for the electric power operations (428 million euros in 2004), 50 million euros for the hydrocarbons operations (53 million euros in 2004) and 6 million euros for other operations.
As explained later in these notes, the results of an impairment test required the carrying value of certain facilities held by the electric power operations to be written down by 81 million euros. In addition, other facilities, equipment and land were written down by 4 million euros.
The negative **change in the scope of consolidation**, which amounted to 37 million euros, reflects the deconsolidation of Edison LNG (21 million euros) and the disposals of Flandres Energie Sa (10 million euros) and the Tecnimont Group (6 million euros).

The net carrying amount of property, plant and equipment included assets pertaining to 56 concessions held by the natural gas distribution operations and assets transferable at no cost with an aggregate value of 704 million euros (736 million euros at December 31, 2004). All of the assets transferable at no cost are held by the Group's hydroelectric operations, which hold 70 concessions. The decrease reflects primarily the depreciation taken in 2005.

Assets transferable at no cost (in millions of euros)	Historical cost	Accum. deprec. and writedowns	Net value at 12/31/05	Net value at 12/31/04
Buildings and other assets	11	(1)	10	11
Plant and machinery	826	(132)	694	725
Total	**837**	**(133)**	**704**	**736**

Property, plant and equipment includes assets acquired under finance leases totaling 171 million euros (228 million euros at December 31, 2004), which are recognized in accordance with the IAS 17 (revised) method. A facility held under a finance lease by Termica Boffalora was purchased outright in 2005. The balance outstanding on finance leases, which is shown under "Long-term borrowings and other financial liabilities," amounts to 42 million euros.

Assets acquired under finance leases (in millions of euros)	Historical cost	Accum. deprec. and writedowns	Net value at 12/31/05	Net value at 12/31/04
Land and buildings	10	(1)	9	14
Plant and machinery	180	(18)	162	214
Total	**190**	**(19)**	**171**	**228**

The value of these assets does not include capitalized financial expense.

Law No. 266 of December 23, 2005 (2006 Budget Bill) contained a provision that provided an automatic ten-year extension of concessions for large-scale diversion of public water for hydroelectric power plants, provided 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 49 million euros, or 13 million euros less than a year ago. The main reason for this decrease was the sale of two buildings, which did not generated significant gains.
A breakdown of this item is provided below:

(in millions of euros)	12/31/05
Balance at 12/31/04 (A)	**62**
Changes in 2005:	
- Disposals	(7)
- Depreciation	(1)
- Reclassification	(5)
Total changes (B)	**(13)**
Balance at 12/31/05 (A+B)	**49**
Breakdown:	
- Historical cost	68
- Accumulated depreciation	(2)
- Writedowns	(17)
Net carrying amount	**49**

Reclassifications refer to amounts that were posted to the provisions for risks in 2004 to adjust the carrying value of certain buildings and which were reclassified as a deduction to this account for the sake of greater clarity.

3. Goodwill

Goodwill totaled 3,505 million euros, or 2 million euros less than at December 31, 2004. The divestiture of the engineering operations is the reason for this decrease. 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 unit or units).

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)	12/31/05	12/31/04
- Electric power operations	2,823	2,823
- Hydrocarbons operations	682	682
- Other operations	-	2
Total	**3,505**	**3,507**

Consistent with past practice, the test was carried out by an independent appraiser, using financial flows that were determined on the basis of the 2006-2013 financial plan approved by the Board of Direc-

tors. 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 2006-2013 plan and a terminal value beyond the plan's horizon. 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 contracts and incentives.

Consistent with the cash flows described above, the discount rates applied were estimated by determining the average weighted cost of capital. Specifically, the pretax rates used were 9% for the electric power operations and 10% for the hydrocarbons operations.

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 pretax rates used were 9% for electric power assets and 10% for hydrocarbons assets.

The recoverable values determined by applying the statistical process described above were greater than the corresponding carrying amounts, which are the same as the net invested capitals of the various cash generating units.

Edison tested in the same manner the components of property, plant and equipment and intangibles held by the core businesses of the Edison Group (except for regulated activities) that could be identified as cash generating units.
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 unit, based on detailed 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 consistent with those applied when testing goodwill for impairment. Specifically, the pretax rates used were 9% for electric power assets and 10% for hydrocarbons assets. The latter rate was increased further when the assets were located in a foreign country with a significant country risk.

The recoverable value of certain thermoelectric power plants, computed in the manner described above, was lower than the corresponding carrying amount, requiring writedowns totaling 81 million euros.

These writedowns were required by the detection of certain impairment indicators, the most significant of which was the introduction of a new cost applied to the Emissions Trading System, which regulates the trading of greenhouse gas emissions quotas within the European Union, without a corresponding increase in the rates charged for electric power. The resulting writedowns were applied to plant and machinery accounts.
In the case of two power plants, the writedown was related the risk entailed by contracts to supply steam to sugar mills that were affected by recent EU decisions. For two other power plants, the writedowns became necessary when these facilities lost their cogenerating status and the resulting exemption from the payment of green certificates due to a failure by customers to take delivery of all of the steam covered by the existing contracts.

4. Hydrocarbons Concessions

Concessions for the production of hydrocarbons, which include 78 mineral leases in Italy and abroad (including 2 storage concessions), were valued at 339 million euros. The amortization for the period (31 million euros) accounts for most of the decrease of 22 million euros from the amount reported at December 31, 2004. In 2005, a writedown of 12 million euros was reversed, when the reasons for its original recognition no longer applied.
The value of these assets does not include capitalized financial expense.

(in millions of euros)	Hydrocarbon concessions
Balance at 12/31/04 (A)	**361**
Changes in 2005:	
- Amortization	(31)
- Reversals of writedown	12
- Reclassifications	(3)
Total changes (B)	**(22)**
Balance at 12/31/05	**339**
Breakdown:	
- Historical cost	417
- Accumulated amortization (-)	(68)
- Writedowns (-)	(10)
Net carrying amount	**339**

Information about the Group's concessions

The table below shows the information of the Group's concessions, whose values are included among "Fixed assets" and "Hydrocarbons concessions".

		Residual life	
	Number	from	to
Storage	2	9	19
Hydroelectric	70	3	26
Distribution	56	2	14
Hydrocarbons	76	(*) "unit of production"	

(*) Amortization and residual life are based on the extracted amounts related to available reserves.

5. Other Intangible Assets

The balance of 38 million euros refers to licenses and similar rights (31 million euros) and work in progress (7 million euros). The table below provides a breakdown of this account:

(in millions of euros)	Other intangible assets
Balance at 12/31/04 (A)	**25**
Changes in 2005:	
- Additions	46
- Amortization	(33)
Total changes (B)	**13**
Balance at 12/31/05	**38**
Breakdown:	
- Historical cost	107
- Accumulated amortization (-)	(67)
- Writedowns (-)	(2)
Net carrying amount	**38**

Additions include 20 million euros invested to acquire exclusive rights for 10 years to provide steam to flower greenhouses and 22 million euros in hydrocarbon research and exploration costs. Research and exploration costs are charged in full to income in the year they are incurred, unless they meet the requirement for capitalization of IFRS 6.
No intangible assets were acquired under leases.

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

The total includes 59 million euros in investments in associates valued by the equity method and 74 million euros in available-for-sale investments. These investments, which are valued at fair value, consist of investments in publicly traded companies (30 million euros) and investments in subsidiaries that were not consolidated due to ownership restrictions (44 million euros).
The table below shows the main changes that occurred in 2005:

(in millions of euros)	Investments in associates	Available-for-sale investments
Balance at 12/31/04 (A)	**112**	**154**
Changes in 2005:		
- Disposals (-)	(36)	(158)
- Additions	1	1
- Changes in share capital	2	25
- Revaluations	-	35
- Writedowns (-)	(3)	(2)
- Change in the scope of consolidation	-	2
- Reclassifications	(17)	17
Total changes (B)	**(53)**	**(80)**
Balance at 12/31/05	**59**	**74**
Breakdown:		
- Historical cost	58	41
- Revaluations	5	35
- Writedowns (-)	(4)	(2)
Net carrying amount	**59**	**74**

An analysis of the changes is as follows:

- **Disposals**, which totaled 194 million euros, refer mainly to the following transactions: sale of a 5.1% interest in AEM Spa for 155 million euros, which generated a gain of 23 million euros (16 million euros of which was already included in shareholders' equity at January 1, 2005); disposal of a 0.93% interest in Gemina for 3 million euros, which generated a gain of about 3 million euros (the fair value of this investment was already reflected in shareholders' equity at January 1, 2005); and divestiture of a 39% interest in Sidi Krir for 33 million euros.
- **Changes in share capital** of 27 million euros include advances on capital contributions provided to IPSE 2000 (7 million euros), Terminale GNL Adriatico Srl (16 million euros) and Nuova Cisa Spa (1 million euros).
- **Revaluations**, which amounted to 35 million euros, refer mainly to available-for-sale investments, which, as required by IAS 39, are valued at fair value, with any resulting gains or losses posted to equity reserves, net of the impact of deferred taxes. In the case of this account, revaluation included increases of 19 million euros for RCS Mediagroup and 16 million euros for AEM Spa, which was later sold.
- **Writedowns** totaling 5 million euros reflect primarily adjustments made to the carrying amounts of investments to reflect the value of the pro-rata interest in the underlying shareholders' equity. They also include a 1-million-euro writedown of the investment in Gemina, which was valued at fair value as required by IAS 39 prior to its sale.
- The **change in the scope of consolidation** (2 million euros) reflects the deconsolidation of Finimeg Spa.

Following the sale of the Tecnimont Group on October 20, 2005, Edison Spa subscribed a capital increase carried out on the same date by Maire Tecnimont Spa, contributing 50 million euros in exchange for a 19.5% interest in Maire Tecnimont Spa. The purchase of this investment was combined with a put-and-call option, which Edison Spa exercised immediately on a now-for-then basis. The resulting receivable was assigned for discounting with recourse to a bank. Consequently, the corresponding equity investment was not recognized as an asset.

7. Other Financial Assets

Other financial assets of 65 million euros include loans receivable due in more than one year and long-term equity investments.

(in millions of euros)	Loans receivable	Long-term equity investments	Other financial assets
Balance at 12/31/04 (A)	**74**	**2**	**76**
Changes in 2005			
- Additions	3	-	3
- Writedowns (-)	(8)	-	(8)
- Change in scope of consolidation	(17)	-	(17)
- Other changes	11	-	11
Total changes (B)	**(11)**	**-**	**(11)**
Balance at 12/31/05	**63**	**2**	**65**
Breakdown:			
- Historical cost	71	2	73
- Writedown (-)	(8)	-	(8)
Net carrying value	**63**	**2**	**65**

The main component of loans receivable is a receivable of 46 million euros owed by IPSE 2000. This receivable, which is related to a pro rata interest in UMTS licenses, was written down by 8 million euros in 2005. This account also includes 9 million euros in bank deposits established with lender banks in connection with project financing facilities to secure commitments to repay on time short-term and long-term loan installments.
The change in scope of consolidation refers to the engineering operations (sale of the Tecnimont Group).

8. Deferred-tax Assets

Deferred-tax assets of 104 million euros reflect a tax-loss carryforward (46 million euros), differences in the valuation of property, plant and equipment (28 million euros) and tax-deductible provisions for risks (17 million euros). Other differences, including those stemming from the adoption of IAS 39, account for the balance. The contribution of Edipower amounted to 89 million euros. The adoption of IAS 39 resulted in the recognition of prepaid taxes totaling 7 million euros, the offset of which was posted to shareholders' equity.
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. Items that can have a deferred-tax impact even if they are not recognized on the balance sheet are also included in the computation of deferred-tax assets and liabilities.

9. Other Assets

Other assets totaled 297 million euros. They consisted mainly of tax refunds receivable, which amounted to 293 million euros including accrued interest through December 31, 2005, and 2 million euros in advance tax payments on future distributions of employee severance benefits paid pursuant to law.

10. Current Assets

(in millions of euros)	12/31/05	12/31/04	Change
Inventories	315	302	13
Trade receivables	1,593	1,139	454
Due from customers for contract work	-	168	(168)
Current-tax assets	38	103	(65)
Other receivables	337	346	(9)
Current financial assets	76	87	(11)
Cash and cash equivalents	361	458	(97)
Total current assets	**2,720**	**2,603**	**117**

A review of the individual components is provided below:

Inventories

Inventories totaled 315 million euros, or 13 million euros more than at the beginning of the year. A breakdown among the Group's various activities is provided below:

(in millions of euros)	Technical consumables	Stored natural gas	Green certificates	Fuel oil	Other materials	Total 12/31/05
Electric power operations	26	-	60	55	11	152
Hydrocarbons operations	5	155	-	-	1	161
Corporate activities	-	-	-	-	-	-
Total core businesses	**31**	**155**	**60**	**55**	**12**	**313**
Water	-	-	-	-	2	2
Total for the Group	**31**	**155**	**60**	**55**	**14**	**315**

Trade Receivables

Trade receivables totaled 1,593 million euros. A breakdown of this amount is as follows: electric power operations 1,133 million euros, hydrocarbon operations 385 million euros, Edison Treasury Services 64 million euros, water operations 10 million euros and corporate activities for the balance. Provisions for write down amount to 45 million euros.

Due from Customers for Contract Work

This account had a zero balance due to the sale of the engineering operations.

Current-tax Assets

The balance of 38 million euros includes amounts owed by the tax authorities for overpayments of corporate income taxes (IRES) totaling 8 million euros and local income taxes (IRAP) amounting to 34 million euros. The IRAP receivable stems from estimated IRAP payments made in 2005, net of the accrued tax liability recognized in 2005.

Other Receivables

The main components of other receivables, which amounted to 337 million euros, are receivables from the tax administration for VAT overpayments (59 million euros), amounts owed by partners and associates in hydrocarbon exploration projects and royalty advances (82 million euros), advances paid to suppliers (31 million euros), receivables from public institutions and local entities (29 million euros), insurance premiums and settlements (27 million euros) and credits arising from the valuation of commodity derivative contracts executed to equalize the price of energy (23 million euros).

Current Financial Assets

A breakdown of current financial assets, which totaled 76 million euros, is as follows:

(in millions of euros)	12/31/05	12/31/04	Change
Equity investments held for trading	29	29	-
Loans receivable	3	11	(8)
Bank deposits in project financing transactions	-	26	(26)
Derivatives	44	21	23
Total current financial assets	**76**	**87**	**(11)**

All of the items listed above have an impact on the Group's net financial position. A review of these financial assets is provided below:

Equity Investments Held for Trading

These investments in publicly traded companies are classified as held for trading, as required by the IFRSs. They include the following: AMGA Spa (16 million euros), ACEA Spa (3 million euros), ACEGAS Spa (5 million euros) and ACSM Spa (3 million euros). The valuation of these investments at fair value did not produce significant gains or losses.

Derivatives Recognized as Current Assets

The table below provides a breakdown of receivable recognized on the balance sheet to reflect the fair value measurement in accordance with IAS 39 of derivatives outstanding at December 31, 2005:

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

Receivables of 44 million euros that were recognized as current financial assets include 34 million euros for the fair value of interest rate and foreign exchange transactions and 10 million euros for the fair value of commodity transactions.
The portion of these receivables that represents cash flow hedges is offset by a reserve included in shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents of 361 million euros include short-term bank and postal account deposits totaling 271 million euros and 90 million euros in readily marketable securities held by Edison Treasury Services.

Securitization Transactions Pursuant to Law No. 130/99

The turnover of assigned receivables assigned to Edison Treasury Services Srl in 2005 amounted to 1,801 million euros.
Because Edison Treasury Services Srl is consolidated line by line, as required by the IFRSs, all transactions with this company have been eliminated.

Liabilities and Shareholders' Equity

11. Shareholders' Equity

The Group's interest in shareholders' equity amounted to 6,270 million euros, or 563 million euros more than at December 31, 2004.

The table below provides a breakdown of this item and shows the changes that occurred in 2005:

(in millions of euros)	Share capital	Addition. paid-in capital	Reserve for treasury stock	Reserve for public grants and investments planned pursuant to law	Reserve for currency translat	Consolid. reserve	Retained earnings (Loss carry-forward)	Group interest in net profit (loss)	Group interest in share-holders' equity
Balance at December 31, 2003	**4,212**	**80**	**2**	**20**	**-**	**1,413**	**(595)**	**144**	**5,276**
Appropriation of the 2003 result	-	(80)	-	-	-	-	224	(144)	-
Capital increase due to the conversion of warrants	47	-	-	-	-	-	-	-	47
Other changes	-	-	-	-	-	30	-	-	30
Group interest in the 2004 result	-	-	-	-	-	-	-	354	354
Balance at December 31, 2004	**4,259**	**-**	**2**	**20**	**-**	**1,443**	**(371)**	**354**	**5,707**
Adoption of IAS 39, broken down as follows:									
- impact at January 1, 2005	-	-	-	-	-	38	-	-	38
- impact 1.1 - 12.31.05	-	-	-	-	-	11	-	-	11
Appropriation of the 2004 result	-	-	-	-	-	41	313	(354)	-
Capital increase due to the conversion of warrants	7	-	-	-	-	-	-	-	7
Capital increase due to the award of stock options	7	4	-	-	-	-	-	-	11
Difference on the translation of financial statements in foreign currencies and sundry changes	-	-	(2)	-	3	(5)	-	-	(4)
Group interest in the 2005 result	-	-	-	-	-	-	-	500	500
Balance at December 31, 2005	**4,273**	**4**	**-**	**20**	**3**	**1,528**	**(58)**	**500**	**6,270**

The amounts shown for Share capital, Additional paid-in capital, Reserve for public grants and for investments planned pursuant to Law No. 488/92 and Retained earnings reflect the balances that these accounts have on the annual financial statements of Edison Spa, the Group's Parent Company.

At December 31, 2005, the subscribed and paid-in capital stock of Edison Spa totaled 4,273 million euros. It consisted of shares with a par value of 1 euro, regular ranking for dividends, and was broken down as follows:

Share class	Number of shares	Millions of euros
Common shares	4,162,515,334	4,162
Nonconvertible savings shares	110,592,420	111
Total shares	**4,273,107,754**	**4,273**

The aggregate value of share capital and additional paid-in capital increased by bout 17 million euros, reflecting the issuance of shares in connection with the exercise of 6,961,601 warrants and the exercise of options awarded under the Company's stock option plan, which resulted in the issuance of 7,258,187 additional common shares. A total of 1,018,648,623 warrants were outstanding at December 31, 2005. 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.

The exercise of options awarded under the Company's stock option plan, which is described in detail in the "Corporate Governance" section of the Report on Operations, resulted in the release of the corresponding portion of the reserve established in accordance with IFRS 2 to reflect the fair value of the stock option plan.
The fair value of stock options awarded under the 2003 and 2004 stock option plans that were still outstanding at December 31, 2005 amounts to 43,000 euros. This amount is always allocated over the vesting periods of the plans. The portion attributable to 2005 (7,000 euros) was included in Labor costs.

The Group adopted the IAS 39 standard as of January 1, 2005. A breakdown of the resulting 49-million-euro change in shareholders' equity is as follows:
- 19 million euros generated by marking to market available-for-sale investments (22 million euros booked as of January 1, 2005, net of a decrease of 3 million euros in 2005);
- 30 million euros from the valuation of derivatives and the use of the amortized cost method to value the financial liability represented by borrowings and bonds issues.

The table below provides a breakdown of the reserve for cash flow hedges:

Reserve for cash flow hedge transactions

(in millions of euros)	Gross reserve	Taxes	Net reserve
- Reserve at December 31, 2004	(20)	7	(13)
- Changes in 2005	26	(10)	16
- Reserve at December 31, 2005	**6**	**(3)**	**3**

Minority Interest in Shareholders' Equity

Minority interest in shareholders' equity amounted to 159 million euros, compared with 469 million euros in 2004. The changes that occurred in 2005 are detailed below:

(in millions of euros)	Minor. int. in share capital and reserves	Minority interest in profit (loss)	Minor. int. in shareholders' equity
Balance at December 31, 2003	**600**	**84**	**684**
- Appropriation of result for the year	8	(84)	(76)
- Change in scope of consolidation	(215)	-	(215)
- Other changes	8	-	8
- Result for the 2004 fiscal year	-	68	68
Balance at December 31, 2004	**401**	**68**	**469**
- Appropriation of result for the year	58	(68)	(10)
- Change in scope of consolidation	(304)	-	(304)
- Other changes	(2)	-	(2)
- Result for the 2005 fiscal year	-	6	6
Balance at December 31, 2005	**153**	**6**	**159**

The change in the scope of consolidation is related to Finel (301 million euros). Specifically, it reflects the impact of the purchase of a 20% interest in Finel from EDF International and the recognition of the out option on the remaining 20%.

Non-current Liabilities

12. Provision for Employee Severance Indemnities and Provision for Pensions

This reserve, which amounted to 74 million euros, reflects the accrued severance indemnities and other benefits owed to employees, computed in accordance with the actuarial guidelines provided in 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	min. 1.90%, max. 2.00%
- Estimated annual increase of the provision for severance indemnities	min. 2.00%, max. 2.95%
- Estimated annual increase of the wages used to compute the provision	min. 2.00%, max. 3.50%

The computation process also resulted in the recognition of financial expense totaling 3 million euros. A breakdown of this account shows that the provision for employee severance indemnities totaled 65 million euros, an amount roughly in line with the figure computed in accordance with Italian accounting principles. The provision for pensions totaled 9 million euros. The sale of the engineering operations caused the provision for employee severance indemnities to decrease by 14 million euros, compared with December 31, 2004.

(in millions of euros)	Provision for sever. indemn.	Provision for pensions	Total
Balance at 12/31/04 (A)	**79**	**9**	**88**
Changes in 2005:			
- Additions	5	-	5
- Financial expense (+)	3		3
- Discounting gains (losses) (+/-)	(1)		(1)
- Utilizations (-)	(6)	-	(6)
- Decrease in scope of consolidation (-)	(14)		(14)
- Other changes	(1)	-	(1)
Total changes (B)	**(14)**	**-**	**(14)**
Total for the Group at December 31, 2005 (A+B)	**65**	**9**	**74**

At December 31, 2005, the Group and the companies that are consolidated line by line or by the proportional method had 2,963 employees, or 1,573 less than at the end of 2004. The sale of the engineering operations accounts for most of the decrease.

A breakdown of the Group's payroll by type of business is as follows:

(number of employees)	**2005**	2004
Electric Power operations	1,992	1,996
Hydrocarbons operations	441	416
Corporate activities	526	539
Total core businesses	**2,959**	**2,951**
Water	4	7
Engineering	-	1,578
Total for the Group	**2,963**	**4,536**

A breakdown of the Group's payroll by employee category is as follows:

(number of employees)	Number on 1/1/05	Joined company	Left company	Other/ Reclassif.	Number on 12/31/05	Average number
Executives	343	8	(187)	7	171	299
Middle managers and office staff	3,401	48	(1,441)	45	2,053	3,081
Production staff	792	-	(1)	(52)	739	757
Total for the Group	**4,536**	**56**	**(1,629)**	**-**	**2,963**	**4,137**

13. Provision for Deferred Taxes

The balance of 1,096 million euros, or 112 million euros less than at December 31, 2004, reflects mainly the deferred tax liability from the use during the transition process of fair value as deemed cost to value property, plant and equipment.

The following table shows a breakdown of this reserve by type of underlying temporary difference, keeping in mind that certain Group companies that met the requirements of IAS 12 offset their deferred-tax liability against prepaid taxes:

(in millions of euros)	12.31.2005
Deferred-tax liabilities:	
- Differences in the valuation of property, plant and equipment	1,141
- Adoption of the standard on finance leases (IAS 17)	47
- Adoption of the standard on financial instruments (IAS 39)	22
- Other deferred taxes	7
Total deferred-tax liabilities (A)	**1,217**
Deferred-tax assets:	
- Tax loss carryforward	59
- Taxed provisions for risks	54
- Adoption of the standard on financial instruments (IAS 39)	4
- Other prepaid taxes	4
Total deferred-tax assets (B)	**121**
Total provision for deferred taxes (A-B)	**1,096**

Deferred taxes deducted directly from shareholders' equity amounted to 14 million euros attributable to the adoption of the amortized cost method to value financial liabilities and bonds issued and derivatives.

14. Provisions for Risks and Charges

At December 31, 2005, the reserves for risks and charges, which are established to cover contingent liabilities, totaled 1,002 million euros, a decrease of 112 million euros compared with 2004. This decrease was made possible by the settlement of certain legal disputes, which required the payment of compensation to the opposing parties.

The main changes that occurred in 2005 are reviewed below:

- The main components of **additions,** of 150 million euro include 71 million euros added to cover liabilities for pending disputes and statutory interest on existing provisions; 29 million euros to cover future costs for the decommissioning and remediation of industrial sites; 26 million euros for contingent obligations from guarantees provided upon the sale of equity investments; 7 million euros for the capitalization of interest on the provision for the decommissioning and remediation of industrial sites; 3 million euros set aside to cover the risk of writedowns of equity investments; and 14 million euros for other risks that arose during the year, including those related to emissions trading issues.
- The main component of **utilizations,** which totaled 216 million euros, was the cancellation of a 100-million-euro provision set aside to cover contractual obligations undertaken by Edison pursuant to a

contract to sell Cereol following an agreement that settled any and all present and future claims by the opposing party. Other utilizations included 39 million euros for guarantees provided in connection with the sale of certain companies, 34 million euros for dispute settlements, 12 million euros for soil remediation at industrial sites, 11 million euros for settlements of tax disputes, 11 million euros related to the sale of a 90% interest in Edison LNG in 2005 and 9 million euros related to the sale of other equity investments.

- The change in scope of consolidation (42 million euros) reflects the sale of the Tecnimont Group.

The table below shows a breakdown of this item and the changes that occurred in 2005:

(in millions of euros)	12/31/04	Additions	Utiliz.	Other	Change in scope of consolid.	12/31/05
- Disputed tax items	45	1	(11)	-	-	35
- Charges for contractual guarantees on the sale of equity investments	321	26	(139)	-	-	208
- Risks for disputes, litigation and contracts	188	20	(24)	(12)	-	172
- Provisions for decommissioning and remediation of industrial sites	162	7	(4)	8	-	173
- Environmental risks	180	-	-	-	-	180
- Risks on the sale of equity investments	21	3	(9)	-	-	15
- Other risks and charges	197	93	(29)	-	(42)	219
Total for the Group	**1,114**	**150**	**(216)**	**(4)**	**(42)**	**1,002**

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, 2005.

15. Bonds

The balance of 2,838 million euros includes 13 million euros in amortized cost (IAS 39). A breakdown is as follows:

(in millions of euros)	Market	Currency	Par value outstanding	Coupon	Rate	Maturity	Ammortized cost	Fair value
Euro Medium Term Notes:								
Edison Spa	Luxembourg Securities Exchange	euro	600	Annual in arrears	7,375%	7/20/07	618	658
Italenergia	Retail	euro	830	Semiannual in arrears	2,908%	8/26/07	822	845
Edison Spa	Luxembourg Securities Exchange	euro	700	Annual in arrears	5,125%	12/10/10	700	754
Edison Spa	Luxembourg Securities Exchange	euro	500	Quarterly in arrears	2,787%	7/19/11	502	511
Edison Treasury Services Srl	Luxembourg Securities Exchange	euro	195	Quarterly in arrears	2,515%	7/20/09	196	197
Total for the Group			**2,825**				**2,838**	**2,965**

More specifically:

- **Edison 2000-2007 bonds, par value 600 million euros**, issued in July 2000 with a coupon rate of 7.375%. This rate is the result of the original rate of 6.375% plus incremental interest added by a step up/step down mechanism tied to the credit rating assigned to the bonds.
- **ITALENERGIA 2002-2007 bonds, par value 830 million euros**, placed with retail investors. These bonds accrue interest at a variable rate indexed to the six-month Euribor plus 75 basis points. The interest rate is linked to a step up/step down mechanism tied to the credit rate assigned, and during the year, thanks to the rating upgrade, the 25 basis points added to the interest rate have been eliminated.

- **Edison 2003-2010 bonds, par value 700 million euros**. These bonds, which have no provisions for a step up/step down mechanism, accrue interest at a fixed rate of 5.125%.
- **Edison 2004-2011 bonds, par value 500 million euros**, issued in July 2004 with a variable coupon rate set quarterly at 60 basis points above the three-month Euribor. These bonds have no provisions for interest rate indexing tied to changes in credit rating.
- **ETS 2003-2009 bonds, par value 195 million euros,** issued on August 1, 2003 as a single class of asset-backed securities with limited recourse on the receivables purchased by ETS, a securitization company. These bonds bear a variable coupon rate, currently set at 2.515%. Interest is paid quarterly.

16. Long-term Borrowings and Other Financial Liabilities

This account totaled 1,822 million euros (1,821 million euros at December 31, 2004), including 1,072 million euros owed by Edipower Spa. Its main components are 1,757 million euros in bank borrowings, 30 million euros owed to leasing companies, 10 million euros payable to other lenders and 25 million euros payable to subsidiaries in liquidation. At December 31, 2005, available and unused lines of credit totaled about 1,500 million euros.

17. Other Liabilities

Other liabilities of 242 million euros include the liability that arises from the put-and-call option for the purchase of a 10% interest in Edipower (235 million euros) and interest-bearing deposits provided by customers in connection with contracts for the supply of natural gas.

Breakdown of Indebtedness by Maturity

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

(in millions of euros)	12/31/07	12/31/08	12/31/09	12/31/10	After 5 years	Total
Bonds	1,441	-	197	701	499	2,838
Borrowings and other financial liab.:						
- Bank debt	162	1,213	72	52	258	1,757
- Due to other lenders	9	12	11	2	31	65
Other liabilities	242	-	-	-	-	242
Total	**1,854**	**1,225**	**280**	**755**	**788**	**4,902**

18. Current Liabilities

	12/31/05	12/31/04	Change
Short-term borrowings	655	805	(150)
Trade payables	1,275	857	418
Due to customers for contract work	-	311	(311)
Current taxes payable	16	114	(98)
Other liabilities	438	691	(253)
Total current liabilities	**2,384**	**2,778**	**(394)**

The main current liability accounts are reviewed below:

- **Short-term borrowings** include 618 million euros due to banks for principal and accrued interest and 37 million euros due to other lenders, 12 million euros of which are owed to leasing companies. The bank debt includes 66 million euros generated by measuring at fair value interest rate and foreign exchange derivatives.
- **Due to other lenders** of 1,275 million euros are mainly obligations of the Group's core businesses, including 789 million euros owed by the electric power operations and 450 million euros payable by the hydrocarbons operations.
- **Due to customers for contract work,** had a zero balance at December 31, 2005 due to the sale of the engineering operations.

- **Current taxes payable** represent the liability for income taxes payable, less estimated payments made.
- The main components of **other liabilities** of 438 million euros include the following: the liability related to the purchase of a 20% interest in Finel Spa (152 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 (52 million euros), excise and other taxes payable (39 million euros), amounts payable to government and local entities (27 million euros), commodity related liabilities stemming from the measurement of derivatives at fair value (9 million euros), amounts payable to the GRTN and the Single Buyer in connection with the valuation of derivatives (9 million euros), amounts payable to employees (22 million euros) and amounts owed to pension and social security institutions (15 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 at the end of 2005, as required by IAS 39.

(in millions of euros)	12/31/05
Foreign exchange transactions	2
Interest rate transactions	64
Commodity transactions	9
Fair value recognized under current liabilities	**75**
of which:	
- included among "Other liabilities"	9
- included among "Current financial liabilities"	66

The portion of these liabilities that represents cash flow hedges is offset by a reserve included in shareholders' equity.s

NOTES TO THE INCOME STATEMENT

After allocating minority interest, the profit earned by the Edison Group in 2005 totaled 500 million euros, compared with a profit of 354 million euros in 2004. The main reasons for this improvement are:

- Healthy unit sales and the Group's ability to hold margins at a good level in the deregulated market, which offset the negative impact of a decrease in industrial margins caused mainly by the expiration of CIP-6 incentives for some power plants (about 160 million euros), a reduction in hydroelectric production and the stoppage of some power plants.
- Writedowns booked as a result of an impairment test of property, plant and equipment (81 million euros), net of the reversal of writedowns of some hydrocarbon concessions (12 million euros).
- A reduction in net financial expense, which fell from 310 million euros to 219 million euros, reflecting a decrease in indebtedness, a decline in the cost of money, a sharp drop in bank fees and the impact of the first-time adoption of IAS 32 and IAS 39.
- A significantly lower tax burden and a decrease in minority interest made possible by the corporate restructuring programs implemented in recent years.

In order to provide a clearer understanding of the progression that produced the cumulative results at December 31, 2005, the table below shows the Group's performance on a quarter by quarter basis:

	First quarter 2005 (*)	Second quarter 2005	Third quarter 2005	Fourth quarter 2005
Sales revenues	1,847	1,456	1,502	1,845
EBITDA	300	306	343	357
as a % of sales revenues	16.2%	21.0%	22.8%	19.3%
Deprec., amortiz. and writedowns	(140)	(141)	(140)	(236)
EBIT	160	165	203	121
as a % of sales revenues	8.7%	11.3%	13.5%	6.6%
Group interest in profit	**86**	**112**	**142**	**160**

(*) The Group did not prepare its report for the first quarter of 2005 in accordance with IAS/IFRS standards. Consequently, the data at March 31, 2005 are those listed in the special disclosure statements included in the report on operations in the first quarter of 2005.

19. Sales Revenues

Sales revenues totaled 6,650 million euros, for a gain of 1,023 million euros (+18.2%) compared with 2004. The Group's core businesses increased sales revenues by 1,053 million euros (+19.7%), thanks to higher unit sales of natural gas and an increase in the average prices charged for natural gas and electric power. Differently from the figure for 2004, which is provided for comparison purposes, this item reflects the valuation of contract work in progress under engineering contracts for the first half of 2005, as required by IAS 11.

The table below provides a breakdown of sales revenues:

(in millions of euros)	2005	2004	Change	% change
Revenues from the sales of:				
- Electric power	4,494	3,808	686	18.0%
- Natural gas	1,422	1,001	421	42.1%
- Oil	64	47	17	36.2%
- Steam	145	120	25	20.8%
- Water and other utilities	34	34	-	-
- Green certificates	29	20	9	45.0%
- Management of the electric network	36	38	(2)	(5.3%)
- Other revenues	25	48	(23)	(47.9%)
Total sales revenues	**6,249**	**5,116**	**1,133**	**22.1%**
Recovery of excise taxes	-	116	(116)	n.a.
Revenues from contract work in progress	214	256	(42)	(16.4%)
Transmission revenues	171	121	50	41.3%
Revenues from services provided to outsiders	16	18	(2)	(11,1%)
Total for the Group	**6,650**	**5,627**	**1,023**	**18.2%**

Excise taxes, which in previous years were included among sales revenues and raw materials and services used, are netted out and shown at their net value in the 2005 financial statements.
Sales revenues were generated mainly in Italy. Foreign revenues reflect primarily sales of the Tecnimont Group in the first six months of 2005.
A breakdown of revenues by geographic region is provided below.

Sales Revenues by Geographic Region

(in millions of euros)	2005	2004
Italy	6,247	4,760
France	84	58
Spain	-	3
Other euro-zone countries	24	70
Total euro-zone countries	**6,355**	**4,891**
Other EU countries	69	143
Eastern Europe	10	10
Latin America	58	49
Africa	61	183
Asia	97	351
Total for the Group	**6,650**	**5,627**

Sales Revenues by Business

(in millions of euros)	2005	2004	Change	% change
Electric Power operations	4,993	4,304	689	16.0%
Hydrocarbons operation	3,303	2,231	1,072	48.1%
Corporate activities	42	62	(20)	(32.3%)
Eliminations	(1,940)	(1,253)	(687)	54.8%
Core businesses	**6,398**	**5,344**	**1,054**	**19.7%**
Water	31	27	4	14.8%
Other operations	**31**	**27**	**4**	**14.8%**
Engineering	221	256	(35)	(13.7%)
Divested operations	**221**	**256**	**(35)**	**(13.7%)**
Total for the Group	**6,650**	**5,627**	**1,023**	**18.2%**

The 19.7% rise in sales revenues reported by the Group's core businesses reflects primarily gains by the electric power operations (+16% compared with 2004), which expanded unit sales to deregulated customers and benefited from the higher prices that could be charged to end customers, and the contribution of the hydrocarbons operations, which increased revenues by 48.1%, thanks to growing unit sales (+19.1%) and significantly improved conditions in the benchmark oil market.

20. Other Revenues and Income

In 2005, other revenues and income totaled 588 million euros, or 267 million euros less than in 2004, due in part to a different method used to recognize contract work in process in accordance with IAS 11 (as explained when discussing sales revenues).
This item includes 226 million euros in differentials on derivatives used to manage the risk of fluctuations in the price of fuels and electric power, including those that can be defined both as hedges in accordance with IAS 39 and as margin hedges (in 2004, they were treated as financial items because, as explained when discussing the Group's accounting principles, IAS 39 was adopted starting in 2005); 123 million euros representing the Group's pro rata interest in sales of non-gaseous fuel and recovery of logistics costs incurred for Edipower power plants under the Tolling Agreement; 27 million euros in insurance settlements; and 55 million euros from the recovery of costs incurred to provide services to partners in hydrocarbon exploration projects. Sundry operating items account for the difference.

21. Raw Materials and Services Used

The cost of raw materials and services used totaled 5,682 million euros, up 20.5% compared with 2004. A breakdown is as follows:

(in millions of euros)	2005	2004	Change	% change
Materials and services used:				
- Natural gas	2,747	1,935	812	42.0%
- Electric power	528	285	243	85.3%
- Blast furnace, recycled and coke furnace gas	276	201	75	37.3%
- Oil and other fuels	316	295	21	7.1%
- Demineralized industrial water	28	31	(3)	(9.7%)
- Green certificates	58	30	28	93.3%
- Other materials and utilities	146	450	(304)	(67.6%)
- Dispatching and balancing services	66	45	21	46.7%
- Facilities design, construction and maintenance	346	469	(123)	(26.2%)
- Transmission of electric power	385	299	86	28.8%
- Transmission and treatment of natural gas	254	212	42	19.8%
- Professional services	82	82	-	0.0%
- Insurance services	31	38	(7)	(18.4%)
- Excise taxes on natural gas and electric power	-	116	(116)	na
- Commodity derivatives	170	-	170	na
- Provisions and writedowns of acc. receiv.	59	56	3	5.4%
- Sundry charges	190	172	18	10.5%
Total for the Group	**5,682**	**4,716**	**966**	**20.5%**

Breakdown by Type of Business

(in millions of euros)	2005	2004	Change	% change
Electric Power operations	4,312	3,216	1,096	34.1%
Hydrocarbons operations	3,019	1,931	1,088	56.3%
Corporate activities	89	120	(31)	(25.8%)
Eliminations	(1,944)	(1,259)	(685)	54.4%
Core businesses	**5,476**	**4,008**	**1,468**	**36.6%**
Water	19	16	3	18.8%
Other operations	**19**	**16**	**3**	**18.8%**
Engineering	187	692	(505)	(73.0%)
Divested operations	**187**	**692**	**(505)**	**(73.0%)**
Total for the Group	**5,682**	**4,716**	**966**	**20.5%**

This expense item consists mainly of purchases of natural gas, electric power and other raw materials used in production processes. It also reflects the costs of goods held for resale, such as green certificates and non-gaseous fuel. The overall increase of more than 20% compared with 2004 reflects a rise in revenues and the higher prices paid for fuel and other purchases, which market prices did not reflect fully.
The consolidation of the Tecnimont Group's operations just for the first six months of 2005 accounts for most of the decrease shown by Other materials and utilities and by Facilities design, construction and maintenance.
The value shown for commodity transactions corresponds to both the amount of the transactions that can be classified as hedges in accordance with IAS 39 and to margin hedges. In 2004, before the adoption of IAS 39, they were treated as financial items.

22. Labor Costs

At 250 million euros, labor costs were 41 million euros less than in 2004. The sale of the Tecnimont Group and the corresponding reduction in staff discussed in the note to Provision for employee severance indemnities and provision for pensions account for most of this decrease.

23. EBITDA

At December 31, 2005, EBITDA amounted to 1,306 million euros, or 11.5% less than in 2004.

A breakdown by type of business is as follows:

(in millions of euros)	2005	as a % of sales revenues	2004	as a % of sales revenues
Electric Power operations	1,006	20,1%	1,205	28.0%
Hydrocarbons operations	353	10,7%	335	15.0%
Corporate activities	(76)	n.a.	(89)	n.a.
Eliminations	-	n.a.	-	n.a.
Core businesses	**1,283**	**20,1%**	**1,451**	**27.2%**
Water	8	25,8%	4	14.8%
Other operations	**8**	**25,8%**	**4**	**14.8%**
Engineering	15	6,8%	20	7.8%
Divested operations	**15**	**6,8%**	**20**	**7.8%**
Total for the Group	**1,306**	**19,6%**	**1,475**	**26.2%**

The EBITDA amount reflects the positive impact of higher unit sales and the Group's ability to hold a relatively steady margin on sales in the deregulated market. On the other hand, the higher prices paid for raw materials could not be reflected fully in the prices charged. The reason for this divergence is that, while the cost of natural gas and other oil-linked fuels rose by more than 40%, the average price of energy on the Electric Power Exchange increased by about 14%.

The decrease in EBITDA reported by the Group's core businesses (-12.0% compared with 2004) is due to a negative performance by the **electric power operations** (-16.5%). This decline, which was in line with expectations, was caused primarily by the expiration of CIP-6 incentives for some of the Group's power plants (about 160 million euros), shutdowns of some power plants for scheduled and extraordinary maintenance and a decrease in hydroelectric output caused by a reduction in the availability of water resources, offset in part by a steady rise in sales, especially to customers in the deregulated market, made possible by the startup of the Candela power plant, and by an improvement in margins.
The EBITDA increase of 5.4% reported by the **hydrocarbons operations** reflects a rise both in unit sales and unit sales prices, which more than offset the impact of an extraordinary charge (about 20 million euros) incurred to use the strategic reserves during the periods of unusually intense cold that occurred during the first three months of 2005.

24. Depreciation, Amortization and Writedowns

A breakdown of depreciation, amortization and writedowns, which totaled 657 million euros, is provided below:

(in millions of euros)	2005	2004	Change	% change
Depreciation of property, plant and equipment	514	487	27	5,5%
Depreciation of investment property	1	1	-	-
Amortization of hydrocarbon concessions	31	32	(1)	(3,1%)
Amortization of other intangible assets	33	33	-	-
Writedowns of property, plant and equipment	85	71	14	19.7%
Writedowns of investment property	5	12	(7)	n.a.
Writedowns (Reversals of writedowns) of hydrocarbon concessions	(12)	22	(34)	n.a.
Writedowns of intangible assets	-	2	(2)	n.a.
Total for the Group	**657**	**660**	**(3)**	**(0,5%)**

Breakdown by Type of Business

(in millions of euros)	2005	2004	Change	% change
Electric power operations	546	502	44	8.8%
Hydrocarbons operations	92	134	(42)	(31.3%)
Corporate activities	15	19	(4)	(21.1%)
Core businesses	**653**	**655**	**(2)**	**(0.3%)**
Water	1	2	(1)	n.m.
Other operations	**1**	**2**	**(1)**	**n.m.**
Engineering	3	3	-	-
Divested operations	**3**	**3**	**-**	**-**
Total for the Group	**657**	**660**	**(3)**	**(0.5%)**

As mentioned earlier in this report, writedowns of property, plant and equipment of 85 million euros were booked mainly to reflect the findings of the impairment tests performed on some of the property, plant and equipment held by the electric power operations (81 million euros). In the case of the hydrocarbons operations, writedowns of certain concessions totaling 12 million euros booked in previous years were

reversed in 2005. Lastly, the useful lives of certain hydroelectric power plants were changed following the official enactment of a decree that extended the term of government concessions. This change had a marginal impact on depreciation.
The increase in depreciation of property, plant and equipment reflects the commissioning of the Candela power plant.

25. Net Financial Income (Expense)

Net financial expense came to 219 million euros, for a decrease of 91 million euros compared with 2004. This decrease reflects a reduction in indebtedness, a lower cost of funds and the absence of non-recurring fees paid in 2004. The decrease also reflects a different presentation of the results generated by derivative transactions, a portion of which is reflected as part of the industrial margin due to the adoption of IAS 39 as of January 1, 2005. For more details see the paragraph "Analisys of Forward Transactions and Derivatives".

A breakdown of net financial expense is as follows:

(in millions of euros)	2005	2004	Change
Financial income			
Interest earned on derivatives	102	119	(17)
Interest earned on bank and postal accounts	9	7	2
Interest earned on amounts due from the tax administration	6	8	(2)
Interest earned on receivables owed by other companies	6	5	1
Other financial income	3	12	(9)
Total financial income	**126**	**151**	**(25)**
Financial expense			
Interest paid on bond issues	(123)	(124)	1
Charges paid on derivatives	(111)	(167)	56
Interest paid to banks	(71)	(104)	33
Bank fees	(15)	(39)	24
Capitalized interest paid on decommissioning projects	(7)	(6)	(1)
Interest paid to other lenders	(2)	(6)	4
Interest paid on finance leases	(2)	(2)	-
Interest paid in connection with employee severance benefits	(3)	(3)	-
Other financial expense	(7)	(12)	7
Total financial expense	**(339)**	**(463)**	**124**
Foreign exchange translation gains (losses)			
Foreign exchange translation gains	36	28	8
Foreign exchange translation losses	(42)	(26)	(16)
Net foreign exchange translation gain (loss)	**(6)**	**2**	**(8)**
Net consolidated financial income (loss)	**(219)**	**(310)**	**91**

Financial income, income of 126 million euros includes the following:

- 102 million euros in gains on derivatives, broken down as follows: 93 million euros generated by contracts that hedge the risk of interest rate fluctuations (64 million euros attributable to completed contracts and 29 million euros in fair value adjustments to existing contracts) and 9 million euros in fair value adjustments to commodity derivatives. The amount shown for 2004 is not comparable because, as already explained, it includes a portion of the gain that in 2005 is included in the industrial margins.
- 9 million euros in interest earned on bank accounts (7 million euros in 2004).
- 6 million euros in interest earned on amounts due from the tax administration (8 million euros in 2004).
- 6 million euros in interest earned on long-term receivables (8 million euros in 2004).

Financial expense of 339 million euros includes the following:

- 123 million euros in interest accrued on bond issues (124 million euros in 2004).
- 111 million euros in charges paid on derivatives, broken down as follows: 95 million euros generated by contracts that hedge the risk of interest rate fluctuations (70 million euros attributable to completed contracts and 25 million euros in fair value adjustments to contracts outstanding at December 31, 2005) and 16 million euros in charges representing the differentials on the portion of derivatives executed to manage risks related to the price of raw materials that cannot be classified as hedges pursuant to IAS 39.
- 71 million euros in interest paid to banks (104 million euros in 2004).
- 15 million euros in bank fees (39 million euros in 2004).

Financial expense also includes a charge of 7 million euros that has as its offset a provision for risks related to the decommissioning and remediation of industrial sites by the hydrocarbons operations and a charge of 3 million euros related to the provision for employee severance benefits recognized as a result of the adoption of IAS 19.

As explained earlier in a separate disclosure contained in these notes, the financial impact of interest rate differentials reflects the positive effect of derivatives that hedge the risk of changes in the prices of raw materials, which offset in part the negative balance generated by commercial transactions executed by companies that use foreign currencies and by the translation into the Group's reporting currency of financial statements denominate in foreign currencies.

26. Income from (Expense on) Equity Investments

A breakdown of the credit balance of 23 million euros is as follows:

Income:

- A gain of 23 million euros on the sale of a 5.1% interest in AEM Spa;
- 7 million euros in dividends received from publicly traded companies (5 million euros from AEM Spa);
- A gain of 4 million euros on the sale of a 90% interest in Edison LNG;
- A gain of 2 million euros on the sale of the interest held in Gemina;
- 1 million euros generated by writing up to market value equity investments held for trading.

Expense:

- A loss of 3 million euros on the sale of a 39% interest in Sidi Krir Generating Company Ltd (2 million euros) and of the interest held in Edison France (1 million euros);
- A charge of 11 million euros booked to recognize the writedowns of interests held in certain Group companies, with IPSE 2000 accounting for the largest writedown (8 million euros).

27. Other Income (Expense), Net

Other expense of 17 million euros is the net result of certain residual items that are not related directly to the Group's industrial operations. The main items included in this account are:

Income

- 67 million euros from the recognition in earnings of the portion of certain reserves that exceeded the amount paid out, the largest of which had to do with the settlement of the Cereol/Oleina dispute (32 million euros), the Iniziativa Edilizia dispute (7 million euros), the Ferrocemento Cambogi dispute (5 million euros) and tax disputes, offset by a corresponding tax item.
- 16 million euros in miscellaneous income.

Expense:

- 83 million euros for additions to the provisions for risks, broken down as follows: 63 million euros for contingent liabilities incurred in 2005, including accrued statutory interest; 13 million euros for future charges in connection with the remediation of non-industrial Group sites; 4 million euros for writedowns of prior-period IRPEG refunds receivable; and 3 million euros for contingent liabilities for guarantees provided upon the sale of equity investments.
- 17 million euros for miscellaneous charges.

28. Income Taxes

Income taxes recognized on the income statement amounted to 16 million euros (88 million euros at December 31, 2004), broken down as follows:

(in millions of euros)	2005	2004	Change	% Change
Current taxes	139	261	(122)	(87.8%)
Net deferred-tax liabilities (assets)	(123)	(73)	(50)	40.7%
Dividend tax credits	-	(100)	100	n.s.
Total for the Group	**16**	**88**	**(72)**	**n.s.**

Current taxes include liabilities of 88 million euros for corporate income taxes (IRES) and 46 million euros for local income taxes (IRAP). Other taxes due outside Italy account for the balance.
The effects of the first-time filing of a consolidated tax return produced a net tax benefit of 2 million euros for the Group's Parent Company.

The balance shown for **deferred taxes** is the result of the following items:

- Booking of deferred-tax liabilities of 71 million euros attributable as follows: 11 million euros for latent taxes arising from the adoption of IAS 39 to value financial instruments held by Group companies, 35 million euros for the excess depreciation and amortization booked for tax purposes by the Edipower subsidiary and 5 million euros for the impact of accounting for finance leases in accordance with IAS 17, with sundry items accounting for the balance.
- Utilization of 126 million euros in deferred-tax liabilities related mainly to depreciation of property, plant and equipment that is not tax deductible because it results from the use of the fair value method to value industrial facilities and to writedowns.
- Booking of deferred-tax assets of 108 million euros attributable mainly to the recognition of a tax loss carryforward of 60 million euros (41 million euros attributable to the Group's Parent Company and 19 million euros attributable to Edipower), to taxed provisions for risks totaling 36 million euros and to the impact of the adoption of IAS 39 and valuation differences of non-current assets for the balance.
- Utilization of 40 million euros in deferred-tax assets. This amount includes 27 million euros attributable to the Edipower subsidiary, including 16 million euros from the reversal of the amortization of goodwill not recognized for IAS purposes.

The tax rate was lower than its theoretical level, due mainly to the success of programs implemented in recent years to streamline and optimize the Group's organization and the recognition of tax loss carryforwards.

A breakdown of deferred taxes is as follows:

(millions of euros)	12/31/04	Provisions	Utilizations	IAS 39 to sharehol. equ.	Reclass.	12/31/05
Provision for deferred taxes						
Valuation difference of property, plant and equipment	1,212	54	(125)	-	-	1,141
Adoption of IAS 17 to value finance leases	42	5	-	-	-	47
Adoption of IAS 39 to value financial instruments:						
- impact on the Income Statement	-	11	(1)	-	(2)	8
- impact on Shareholders' Equity	-			14	-	14
Other deferred-tax liabilities	6	1	-	-	-	7
Total provision for deferred taxes	**1,260**	**71**	**(126)**	**14**	**(2)**	**1,217**
Offsetting	(52)				(69)	(121)
Total net provisions for deferred taxes	**1,208**	**71**	**(126)**	**14**	**(71)**	**1,096**
Deferred-tax assets:						
Tax loss carryforward	52	60	(7)	-	-	105
Taxed reserves for risks	42	36	(7)	-	-	71
Adoption of IAS 39 to value financial instruments:						
- impact on the Income Statement	-	5	(6)	-	2	1
- impact on Shareholders' Equity	-	-		7	-	7
Other deferred-tax assets	54	7	(20)	-	-	41
Total deferred-tax assets	**148**	**108**	**(40)**	**7**	**2**	**225**
Offsetting	(52)	-	-	-	(69)	(121)
Total net deferred tax assets	**96**	**108**	**(40)**	**7**	**(67)**	**104**
Provision for deferred taxes net of deferred-tax assets	**1,112**					**992**

29. Profit (Loss) from Discontinued Operations

The profit of 86 million euros reflects the net gain generated by the sale of the engineering operations (Tecnimont Group). This amount is net of the provisions for guarantees set aside at the time of sale. Additional information is provided in the section of this Report entitled "Information about the Discontinued Operations."

30. 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.

2004	(in millions of euros)	**2005**
354	Group interest in profit (loss)	500
(3)	Net income attributable to convertible and nonconvertible savings shares [1]	(3)
351	Group interest in net income attributable to the common shares (A)	497
	Weighted average number of shares outstanding (common and savings) determined for the purpose of computing earnings per share:	
4,233,223,651	- basic (B)	4,266,333,515
4,569,109,690	- diluted (C) [2]	4,688,483,256
	Profit (Loss) per share (in euros)	
0,0829	- basic (A/B)	0,1165
0,0768	- diluted (A/C) [2]	0,1060

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

OTHER INFORMATION

Information About the Discontinued Operations (IFRS 5)

On October 25, 2005, Edison completed the sale of 100% of the share capital of Tecnimont Spa to Maire Tecnimont Spa, a company of the Maire Group.
Concurrently with the sale, Edison subscribed a capital increase carried out by Maire Tecnimont, paying 50 million euros for a 19.5% interest in Maire Tecnimont Spa. The remaining 80.5% of this company is owned by Maire Holding Spa. Edison's investment is assisted by a put-and-call option that can be exercised starting in the fourth year.
Edison has chosen to exercise its put option immediately. As a result, the shares covered by the option will be transferred to Maire Holding within three years of today's date, unless an earlier exercise becomes possible pursuant to the terms of the contract or if Maire Holding exercises its call option.
The sales price for Tecnimont was set at 180 million euros, net of the finance charges that Edison has incurred to monetize the deferred portion of the price (30 million euros) and the receivable of 50 million euros generated by the exercise of the put option. These assets were monetized when Edison signed a contract assigning these receivables to a bank.
In view of certain guarantees that Edison provided on behalf of Tecnimont to secure outstanding orders, Maire Tecnimont has undertaken a blanket obligation to release Edison from these guarantees as quickly as possible and has provided certain guarantees for Edison's benefit. The sale of Tecnimont generated a gain of about 86 million euros in Edison's consolidated financial statements (net of related provisions for guarantees) but will not have a material effect on the net consolidated financial position

BALANCE SHEET OF THE ENGINEERING OPERATIONS (in millions of euros)	9/30/05
Non-current assets	33
Current assets	403
Total assets	**436**
Group interest in shareholders' equity	69
Minority interest in shareholders' equity	-
Total shareholders' equity	**69**
Non-current liabilities	58
Current liabilities	309
Total liabilities and shareholders' equity	**436**

INCOME STATEMENT OF THE ENGINEERING OPERATIONS (in millions of euros)	1/1/05 to 9/30/05
Sales revenues	313
EBITDA	14
Depreciation and amortization	(3)
EBIT	11
Net financial expense	(3)
Profit before taxes	8
Net profit	**1**

During the period from July 1, 2005 to September 30, 2005, the discontinued operations generated a profit of 109,000 euros.

Contingent Commitments and Risks

	12/31/05
Guarantees provided	2,655
Collateral provided	2,441
Other commitments and risks	656
Total	**5,752**

Guarantees Provided

Guarantees provided totaled 2,655 million euros. This figure is equal to the undiscounted amount of potential commitments on the balance sheet date. It includes the following:

- 612 million euros for guarantees provided by Edison Spa to customers of Tecnimont Spa (590 million euros) and Protecma Srl (22 million euros) for the performance of supply contracts.
- 772 million euros in guarantees provided by Edison Spa to the Milan tax office on behalf of subsidiaries for offsetting VAT credits and those provided to subsidiaries in connection with the intra-Group assignment of tax credits.
- 146 million euros in sureties provided by Edison Spa to banks to secure project financing, facilities and credit lines provided to Group companies.
- 25 million euros for a commitment to contribute capital and/or provide the subordinated financing needed by the Edipower Spa affiliate for its repowering program (Repowering Equity Contribution Agreement).

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

Collateral Provided

Collateral provided, which came to 2,441 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 (801 million euros) and Serene shares (111 million euros) pledged to a pool of banks to secure financing facilities. Following the refinancing of Serene's debt, the Group has requested the cancellation of the corresponding pledge.
Collateral provided also includes additional collateral for liabilities listed on the balance sheet (1,329 million euros), which generally consist of mortgages and encumbrances granted on thermoelectric facilities to secure financing. A total of 368 million euros refers to mortgages that are in the process of being cancelled.

Other Commitments and Risks

Other commitments and risks of 656 million euros reflect commitments undertaken to complete construction of the Candela, Altomonte, Simeri Crichi and Torviscosa power plants (for a total of 276 million euros) and commitments of Edipower toward suppliers for purchase and construction contracts (Edison's pro rata share was 330 million euros).

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

- The Group's **hydrocarbons** operations have entered into contracts for the importation of natural gas. As is usually the case, contracts of this magnitude and of these durations contain take-or-pay clauses that obligate the buyer to pay for any shortage between the stipulated maximum quan-

tities 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. When fully operational, the import contracts that are currently being implemented with Russia, Libya and Norway will provide total supplies of 7.4 billion cubic meters of natural gas a year. In addition, the Group signed an import contract with Qatar that call 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 2007. When this agreement is fully operational, Qatar will supply a total of 6.6 billion cubic meters of natural gas a year. Payments required as a result of the take-or-pay clause are made on the basis of a price that reflects the contract price but is indexed to current market terms. These contracts have terms ranging between 10 and 25 years. When all of the contracts are fully operational, the annual supply of natural gas will amount to 14 billion cubic meters a year.

- Insofar as the **electric power operations** are concerned, the agreements governing loans received by Parco Eolico San Giorgio and Parco Eolico Foiano, which are secured by a special lien on existing equipment and facilities, entail additional commitments. These commitments and risks include the assignment to the Agent, who acts as representative of the assignee banks, of existing or future receivables generated by supply contracts and a special lien for the benefit of the lending banks on assets of any kind that may be owned by the borrower companies in the future and on any receivables generated by the sale of such assets. Loans received by Termica Milazzo and Termica Celano are secured by a negative pledge of Edison Spa shares and, for Termica Celano, a pledge commitment toward the lender bank, should certain noncompliance conditions occur. Termica Celano Srl granted to its lender banks a special pledge on the equipment of its cogenerating power plant. Termica Milazzo Srl granted to its lender banks a mortgage and special pledge on all of the production facilities it owns.
- 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.
- Pursuant to the contract for the purchase through subscription of Utilità Spa shares, Edison has options to either buy an additional 16% interest in the share capital of Utilità Spa or sell its entire interest in that company. These options may be exercised by and not later than July 31, 2007. The value of the buy option is equal to the subscription price of the shares plus an amount equal to the interest accrued between the date of subscription of the shares and the date the option is exercised. The value of the sell option is equal to the corresponding interest in the underlying shareholders' equity, less reserves, at September 28, 2005.
- In addition, the agreement executed in connection with the sale of Edison LNG, now Terminale GNL Adriatico Srl, this past May 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 the two majority shareholders are responsible, that would prevent the construction of the terminal (put-and-call clause);
  - For the two majority shareholders, the right to buy the 10% interest held by Edison if the supply contract with RasGas should be cancelled for reasons for which Edison is responsible (call clause);
  - A price for the sale of shares if the put or call options are exercised, which will be determined based on the value of the company's shareholders' equity at the time of sale;
  - 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.

Status of the Principal Legal and Tax Disputes Pending at December 31, 2005

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 can reasonably be estimated as a result of obligations that existed on the balance sheet date and for which provisions have been established, based on available information, is reviewed below.

A) Edison Spa

Stava Dam Disaster

On July 29, 2005, Edison paid the Autonomous Province of Trento the balance of 6.4 million euros due on the agreement reached to settle a dispute concerning the apportionment of responsibility among the parties jointly liable for the damages caused by the collapse of the Prestavel catchment basins in 1985. In this agreement, Edison agreed to pay a total of 17.2 million euros to settle any and all claims by the Autonomous Province of Trento and the Italian government, with which the Autonomous Province signed a separate settlement agreement. The settlement has been joined by the other jointly liable parties. The disputes with the remaining injured third parties are in the process of being settled. The provision for risks set aside for this purpose has been used in part to cover the settlement amounts paid to the Autonomous Province of Trento.

Actions for Damages Arising from the Operation of Chemical Facilities Transferred to Enimont

One of the proceedings pending before the courts for damages caused by the operation of certain facilities prior to their transfer to Enimont has been settled. The remaining actions are ongoing.

The status of pending lawsuits is as follows:

- On October 19, 2005, Edison and the Ministry of the Environment and Protection of the Territory settled a lawsuit that was pending before the Court of Brescia over environmental damages caused by the operation of a petrochemical factory in Mantua. Under the agreement, Edison will pay a total amount of 12 million euros in three equal annual installments. In exchange, the Ministry will desist from all acts and actions and, generally, from all claims for compensation and requests for environmental remediation.
- 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.
- The action in which Dibra is suing EniChem and Montecatini for damages stemming from the sale of the Cesano Maderno factory has been suspended, pending the outcome of the related lawsuit mentioned above.

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). 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.

Edison - Ferrocemento Arbitration

On June 13, 2005, Edison reached an agreement with Ferrocemento settling any and all present and future claims related to the commitments undertaken in the 1996 contract covering the sale of Edison's investment in Gambogi Costruzioni to Ferrocemento. As a result of this settlement, Edison paid Ferrocemento the total sum of 5.1 million euros. The provision set aside by the Company to cover risks related to the abovementioned commitments were sufficient to cover the settlement.

European Commission - Antitrust Proceedings Against Ausimont

Edison has filed its observations and defensive positions in response to a Notice of Charges from the Commission of the European Union with which it was served on January 28, 2005. Through this notice, the Commission informed Edison that it had begun proceedings, of which Edison was one of the targets, for antitrust violations in connection with the establishment of a cartel in the market for hydrogen peroxide and its derivatives, sodium perborate and sodium carbonate, alleging that Ausimont, a company that Montedison (now Edison) sold to Solvay in 2002, was a member of this cartel. On June 27 and 28, 2005, a hearing was held before the Commission of the European Union. At the hearing, Edison reiterated that it had nothing to do with the cartel. The Commission is expected to make its determinations early in 2006.

Sale of Ausimont: Solvay Arbitration

On May 11, 2005, Solvay Sa and Solvay Solexis Spa, acting through the International Chamber of Commerce (ICC) - International Arbitration Chamber, served Edison with a notice of request for arbitration 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). All of the claims put forth thus far have to do with indemnification lawsuits that are still pending and, consequently, the actual amount of the claims cannot be determined exactly. However, the Company believes that it has valid grounds to contest all of the claims. Solvay SA and Solvay Solexis expressly reserved the right to file additional claims and request additional arbitrations. The parties have designated their arbitrators and Edison has filed a response brief asking the Board of Arbitrators to reject the claims put forth by Solvay Sa and Solvay Solexis on procedural and substantive grounds and lodging a counterclaim for the potential damages that the behavior of Solvay Sa may cause Edison to suffer within the framework of the proceedings for antitrust violations launched by the European Commission in connection with the establishment of a cartel in the market for hydrogen peroxide and its derivatives, sodium perborate and sodium carbonate. The arbitration proceedings will begin after a Chairman of the Board of Arbitrators is appointed. The parties have signed the Terms of Reference.

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

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, the technical consultant appointed by the Investigating Judge has filed his report on the fairness of the share exchange ratio used for the abovementioned merger. The consultant, 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
The Company does not agree with the conclusions of the technical consultant and will take all appropriate defensive action in the course of the proceedings. Nevertheless, in keeping with a conservative approach, it has set aside an adequate provision.

Cereol Holding - Oleina Arbitration

On June 1, 2005, Edison and Bunge signed an agreement that permanently and definitively settled any and all present and future claims that may arise from the obligations undertaken by Edison pursuant to a contract (executed in 2002) to sell its interest in Cereol. The settlement also covers any claims by Bunge in connection with the Oleina arbitration, through which Cereol Holding and Ildom were seeking a determination and payment of the price of shares representing 49% of Oleina's share capital, which an arbitration award and a subsequent addendum had set at USD107.5 million. Under the settlement, Edison paid Bunge USD85 million. Edison carries ample provisions on its balance sheet to cover the risks associated with the abovementioned obligation.

Val Martello Flood

On June 21, 2005, Edison paid the Province of Bolzano 16.2 million euros, 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 carries ample provisions on its balance sheet to cover the risks associated with the abovementioned obligation.

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. During 1998, Montedison Finance Europe reached a settlement with the two largest creditors in the Domp Bankruptcy, paying them the sum of about 2.6 million euros. In return, these creditors waived claims equivalent to 75% of all of the claims filed in the bankruptcy proceedings.

Immobiliare Assago - Nepa Arbitration

The consultant appointed to quantify the amount of lost profits is currently working the technical report on this issue requested by the Board of Arbitrators on May 31, 2004, when it handed down a non-final award ordering Immobiliare Assago to pay Nepa the amount of 1.25 million euros for damages incurred.

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 de-

velopment 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.

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:

A) Edison Spa

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, Edison has filed an appeal with the Supreme Court to overturn 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. The appellate court judge has not yet filed a detailed written decision. The next hearing has been set for May 17, 2006.

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

Following the filing by some of the plaintiffs of briefs opposing the request filed by the Office of the Public Prosecutor of Brindisi on May 4, 2004 asking that the case be dropped, 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 with a hearing in chambers to discuss the opposing briefs.

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

During the preliminary phase of these proceedings, the Public Prosecutor at the Court of Syracuse, in Sicily, placed under investigation certain former Directors and executives of Montedison (now Edison)

for allegedly dumping effluents containing mercury into the sea from the Priolo plant.
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. In the course of the investigation, the Prosecutor entered Company facilities and seized documents.

Brindisi, Novara and Verbania Petrochemical Facilities - Criminal Proceedings for Injuries Caused by Exposure to Asbestos Dust

The criminal proceedings pending before the lower Court of Brindisi in connection with the death of two employees and the illness of a third one ended on December 14, 2005 with a not guilty verdict for all defendants. The case pending in Novara in connection with the death of an employee was dismissed. Hearings have begun in the action filed against certain former Directors and executives of Montefibre in connection with events at the Verbania plant. The proceedings are expected to come to a conclusion in June 2006.

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

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 currently waiting for a decision. Under the abovementioned settlement, the parties agreed to waive the right to appeal, accepting as final the lower court decision that directed Montedison (now Edison) to pay Mittel Investimenti Finanziari the amount of 4,235 million lire.

Sale of Tecnimont: Edison/Falck Arbitration

On July 6, 2005, in the arbitration proceedings concerning the dispute that arose when Falck failed to purchase Edison's interest in Tecnimont, the Board of Arbitrators, having found that Falck failed to perform the contract for the sale of Tecnimont and that Edison's demand that the contract be enforced was not admissible, issued an order appointing an expert appraiser to determine the damage that Edison suffered because of Falck's failure to perform. In view of this order, Edison amended its claims, dropping the request that the contract be enforced. Subsequently, the Board of Arbitrators set a deadline by which the parties may file additional briefs and will then appoint a technical consultant who will be asked to quantify the damages suffered by Edison.

MEMC Lawsuits

In the two proceedings filed by MEMC against Edison and Edison Energia before the Court of Milan and the Court of Venice in connection with business transactions involving the sale and supply of electric power, no appeal has been filed against the decision handed down by the Court of Milan ordering MEMC to pay Edison the amount of Edison's counterclaim, i.e., 3.2 million euros. In the other proceedings, which are pending before the Court of Venice, all of the claims of the opposing party were rejected and MEMC was ordered to pay all costs.

B) Other Group Companies

Pizzo Sella Real Estate Development and Seizure of Assets in Sicily

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 course of the proceedings, Finimeg complained that the order of seizure was issued as a result of a trial to which neither Finimeg nor Poggio Mondello were a party and in which, therefore, they were unable to defend their interests.
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 incurred as a result of the seizure of their properties, 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. All other disputes concerning sales of homes in the abovementioned development are still pending before the lower court.
The proceedings filed to challenge the order of attachment issued by the Court of Palermo on May 15, 2002 within the context of an action involving the issuance of preventive measures are continuing. By a decision handed down on May 15, 2002, the Court of Palermo ordered that the order of attachment concerning the shares and assets of the Finsavi and Generale Impianti affiliates and of the Calcestruzzi Palermo, Frigotecnica and Poggio Mondello subsidiaries be converted into an order of confiscation.

Disputes Concerning the Supply of Electric Power

As a result of business transactions involving the sale and supply of electric power, a former customer filed a lawsuit, alleging that repeated interruptions in the supply of electric power caused extensive damage to its production system.

Challenges to Resolutions Adopted by the Shareholders' Meetings of Sarmato Energia and Consorzio di Sarmato

In a matter concerning Sarmato Energia and Consorzio Sarmato, joint ventures established to produce electric power that are owned by Edison as the controlling shareholder and certain municipal electric utilities as minority shareholders, the Court is expected to hand down a decision in a 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.
In 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, both parties are currently in the process of filing closing arguments.

Termica Milazzo - EniPower Lawsuit

On July 11, 2005, Edison and EniPower Spa reached an agreement in which they settled all of the disputes that arose with regard to the interpretation of certain provisions of the Bylaws of Termica Milazzo Srl, in connection with which EniPower challenged the resolution that appropriated the earnings shown in the company's financial statements at December 31, 2003. In the settlement, the parties agreed to specific procedures to implement the disputed provisions of the Bylaws, which deal with the distribution of the company's earnings to the partners. Under the settlement, EniPower waived all claims put forth in the abovementioned challenge.

Edison Trading and Edipower - Brindisi Coal Storage Facility

On March 3, 2005, the Public Prosecutor of the Court of Brindisi ordered the seizure of the coal storage facility at Edipower's Brindisi North power plant. The technical consultant appointed by the Public Prosecutor of the Court of Brindisi to determine the existence, if any, of contamination of the subsoil and aquifer has not completed his work. In the meantime, Edipower filed and was granted a new petition asking that the seizure of the coal stored at the facility be lifted in exchange for implementing special operating procedures that allow the power plant to operate while the order of seizure remains in force.

Tedesco and Ferro Arbitration

On August 30, 2005, Messrs. Tedesco and Ferro served Montedison Srl with notice of a request for arbitration in connection with a preliminary sales contract valued at 2 million euros for an area located in Mazara del Vallo. In their request for arbitration, the plaintiffs ask that Montedison be found in default with regard to the sale of the property, free of any unauthorized encumbrances. The Board of Arbitrators is currently being impaneled. At this stage in the dispute, it is impossible to make a reliable assessment of the risk of a cash outlay or of the amount involved.

The developments that affected the status of the main **tax disputes** in 2005 are reviewed below:

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

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

Edison Spa Tax Audit for the 2002 Fiscal Year

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

Transactions Among Group Companies and with Related Parties

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

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

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.

The transactions with Edison's controlling company include the amounts rebilled by Italenergia Bis Spa for seconded employees and interest on balances in intra-Group current accounts until September 16, 2005. On that date, Italenergia Bis Spa sold its controlling interest in Edison Spa to Transalpina di Energia Srl, a company owned in equal shares by WGRM Holding 4 Spa and Delmi Spa. WGRM Holding 4 is a wholly-owned subsidiary of EDF Sa and Delmi is a 51% subsidiary of AEM Spa.

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 Notes to the financial statements.

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 2005 shows that the Group has a credit balance of 59.1 million euros

Intra-Group Assignment of Tax Credits - In 2005, in order to optimize the use of financial resources within the Group as allowed by Article 43 Ter of Presidential Decree No. 602/73, as amended, which permits intra-Group transfers of credits for corporate income taxes (IRES), Edison Spa transferred to several Group subsidiaries the surplus IRES credit generated in the 2004 fiscal year. The credit totaled 69.7 million euros, all collected by the subsidiaries during the year.

Consolidated Corporate Income Tax (IRES) Return - Edison Spa, as allowed by Article 117 and following of Presidential Decree No. 917/86 (Uniform Income Tax Code, abbreviated as TUIR in Italian), as amended and integrated by Legislative Decree No. 344/2003, opted to file a consolidated corporate income tax return together with its domestic subsidiaries (direct or indirect ownership greater than 50%) for the three-year period from 2005 to 2007.
Accordingly, 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, Edison Spa and each subsidiary signed a bilateral agreement governing their mutual relationship for the purposes of the abovementioned filing status. The terms of these agreements are identical for all subsidiaries.

Other Transactions with Related Parties Within the Edison Group

In 2005, 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. Obviously, the changes in the shareholder base of Edison Spa that occurred this past September had an impact on the Group's transactions with related parties.
The table below shows figures related to the Balance Sheet that were outstanding at December 31, 2005. Figures related to the Statement of Income are only those executed since September 2005.

(in millions of euos)	AEM Group	EDF Group	ENIA Group	SEL Group	Banca Popolare di Milano	Mediobanca
Balance sheet figures						
Value of trade receivables	14	40	1			
Value of trade payables	16	9	7			
Value of loans receivables						
Value of loans payable					16	85
Statement of Income Figures						
Sales of goods and services	39	199	4			
Puechases of goods and services	18	81	34	3		
Financial income						
Financial expence						2

Commercial Transactions

Electric Power Operations - During 2005, the electric power operations supplied 673 GWh of electric power, corresponding to revenues of 54 million euros, to the following companies of the Fiat Group: CNH Italia Spa, Comau Spa, Centro Ricerche Fiat Spa, Elasis Spa, Ferrari Spa, Fiat Auto Spa, Fiat Avio Spa, New Holland Kobelco Construction Machinery Spa, Se.Co.Sv.Im. Srl, Global Value Services Spa, Isvor Fiat Spa, Iveco Fiat Spa, La Stampa Spa, Magneti Marelli Powertrain Spa, Sistemi e Sospensioni Spa, Teksid Aluminium Srl, Teksid Spa, Maserati Spa and Maserati Spa a Socio Unico.

The electric power operations also sold industrial steam valued at about 8 million euros to Sata Spa, Fiat Auto, Sistemi e Sospensioni Spa, FA Powertrain Spa and Fiat Gesco Spa.
In addition, the electric power operations sold electric power worth about 64 million euros to the Multiutility Group (Carlo Tassara Finanziaria Spa Group) and bought about 1 million euros worth of electric power (19.7 GWh).
The Electric Power operations executed the following additional transactions with the EDF Group:

- A contract for the supply of electric power in France, which resulted in the purchase of electric power worth about 31 million euros (1,047 GWh); the purchase of about 13 million euros worth of electric power (258 GWh) in Italy; and the sale of more than 2,979 GWh of electric power valued at 180 million euros. In addition, revenues from transmission services amounted to 9 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 20 million euros.
- The EDF Group provides technical, engineering and management services at power plants in Taranto and Piombino, and at the Milan headquarters.

Edison Spa supplied AEM Spa with steam valued at about 1 million euros from its Sesto San Giovanni power plant. In addition, Consorzio di Sarmato booked revenues of about 4 million euros (corresponding to about 48.5 million KWh) 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 a receivable of 4 million euros owed by Aem Trading Srl and revenues of 19 million euros from

the sale of fuel oil. Purchases of fuel and related incidental expenses incurred in connection with the Edipower power plant generated costs of 3 million euros paid to Aem Trading and payables amounting to 1 million euros.

In addition, as part of the electric power procurement operations, Edison Trading made the following purchases of electric power: 3 million euros from Sel Edison Spa (SEL Group), 13 million euros from Enia Spa and 4 million euros from Aem Elettricità Spa.

Hydrocarbons Operations - During 2005, the hydrocarbons operations sold industrial steam valued at about 5 million euros to Sata Spa, Fiat Auto, Sistemi e Sospensioni Spa, FA Powertrain Spa and Fiat Gesco Spa.
The hydrocarbons operations also sold 63 million cubic meters of natural gas to FIAT - GM Powertrain Italia, Sata Spa and Sevel Spa, generating about 13 million euros in revenues.
An additional 42 million cubic meters of natural gas, valued at about 10 million euros, were sold to Fenice Spa (EDF Group). The hydrocarbons operations also purchased about 68 million standard cubic meters of natural gas from ENBW Trading GmbH (EDF Group) at a cost of 12 million euros. Lastly, the hydrocarbons operations owed 3 million euros to the Blumet affiliate, a company of the Enia Group, for purchases of natural gas.

Corporate Activities - Edison Spa purchased goods and services from and incurred other costs in transactions with Fiat Group companies (Savarent, Trantor, Ingest Facility, Sirio, Orione, Fiat Media Center and Fast Buyer Spa) totaling 4 million euros. In addition, it paid Fenice Spa (EDF Group) about 4 million euros for environmental remediation costs at Company locations.

Financial Transactions

The main financial transactions executed by Edison Spa in which the banks that were its shareholders until September 16, 2005 played a significant role are reviewed below:
- Banca Intesa served as an advisor to Edison and DEPA in a project for a pipeline linking Italy with Greece (IGI);
- Banca Intesa provided a revolving financing facility of 100 million euros that matures on October 26, 2006;
- Banca Intesa and Capitalia were among the organizers of the restructuring of Edipower's indebtedness;
- The Group executed foreign exchange transactions with an aggregate value of about USD200 million with JPMorganChase.
- Sanpaolo IMI Spa served as organizer, lender and agent in connection with a 70 million euro loan and a 30 million euro revolving facility provided to Serene Spa.

Transactions completed after September 16, 2005 with Edison's new shareholder banks included a 40 million euro line of credit provided by Banca Popolare di Milano that expires on June 18, 2007.

The total fees paid amounted to less than 1 million euros.

Treasury Shares

At December 31, 2005, 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, 2005

Edison - Stefano Bollino Reelected Joint Representative of the Holders of Savings Shares

In February, the holders of Edison Spa savings shares met in a Special Meeting, convened on the first calling, and reelected Stefano Bollino as their joint representative. Mr. Bollino was elected for a term of three years. Consequently, he will remain in office until the date of the Shareholders' Meeting convened to approve the financial statements for the year ended December 31, 2008.

Edison Inaugurates a Wind Farm in Ripabottoni

In February, Edison commissioned the Ripabottoni Wind Farm. Located in the province of Campobasso, this new facility will have 24 aerogenerators with a total generating capacity of 16 MW. They will produce 32 million kWh, enough electricity to meet the needs of 16,000 households. The technology used at Ripabottoni is based on three-blade aerogenerators with a generating capacity of 0.66 MW per unit. Construction of the facility took six months and required an investment of 20 million euros. The installation of the wind generators was carried out with the utmost respect for the local landscape and existing activities. The Ripabottoni facility brings the number of Edison wind farms to 24. Their total installed capacity is almost 260 MW, 60 MW of which were brought on stream in the last two years.

Edison - Future Acquisition of EDF Italia

In February, Edison's Board of Director authorized the Chief Executive Officer to negotiate the purchase of EDF Italia's operations. In 2005, EDF Italia, which is active in the deregulated market for electric power, sold a total of 8 Terawatt-hours to a broad range of industrial and residential customers.
This acquisition is consistent with Edison's strategy of maximizing available commercial and structural synergies with its industrial shareholders. The purchase of EDF Italia is expected to close once it is approved by the regulatory authorities, presumably by June 30, 2006.

Milan, February 21, 2006

The Board of Directors
by Giuliano Zuccoli
Chairman

SCOPE OF CONSOLIDATION

at December 31, 2005

SCOPE OF CONSOLIDATION AT DECEMBER 31, 2005

List of Equity Investments

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12/31/05	12/31/04
A) Investments in Companies Included in the Scope of Consolidation					
A.1) Companies Consolidated Line by Line					
Parent Company					
Edison Spa	Milan (IT)	EUR	4,273,107,754		
Core Businesses – Electric Power Operations					
Electric Power Business Unit					
Consorzio di Sarmato Soc. Cons. P.A.	Milan (IT)	EUR	200,000	52.500	52.500
Ecofuture Srl (single shareholder)	Milan (IT)	EUR	10,200	100.000	100.000
Edison Rete Spa (single shareholder)	Milan (IT)	EUR	106,778,200	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	–
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
Stel Spa	Milan (IT)	EUR	1,000,000	75.000	75.000
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) form. Montecatini Srl (single shareholder) (in liquid.)	Milan (IT)	EUR	100,000	100.000	–
Parco Eolico Faeto Srl (single shareholder)	Milan (IT)	EUR	11,300	100.000	100.000
Parco Eolico Foiano Srl (single shareholder)	Milan (IT)	EUR	683,000	100.000	100.000
Parco Eolico San Giorgio Srl (single shareholder)	Milan (IT)	EUR	8,911,200	100.000	100.000
Core Businesses – Hydrocarbons Operations					
Core Businesses – 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

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Type of investment relationship (e)
				I
52.500	Edison Spa	-	-	SUB
100.000	Edison Spa	-	- h	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
75.000	Edison Spa	-	-	SUB
70.000	Edison Spa	-	- h	SUB
70.000	Edison Spa	-	- h	SUB
65.000	Edison Spa	-	- h	SUB
60.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison Energie Speciali Spa (single shareholder)	-	- h	SUB
100.000	Parco Eolico San Giorgio Srl (single shareholder)	-	- h	SUB
100.000	Edison Energie Speciali Spa (single shareholder)	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
70.000	Edison Spa	-	- h	SUB
30.000	Selm Holding International Sa	-		
100.000	Edison Spa	-	- h	SUB
0.000	Edison Spa	-	-	SUB
100.000	Selm Holding International Sa			

SCOPE OF CONSOLIDATION (continued)
List of Equity Investments

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12/31/05	12/31/04
Core Businesses – Energy Management					
Energy Management Business Unit					
Edison Hellas Sa	Athens (GR)	EUR	263,700	100.000	100.000
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
Core Businesses – Marketing and Distribution					
Marketing and Distribution Business Unit					
Edison Energia Spa (single shareholder)	Milan (IT)	EUR	22,000,000	100.000	100.000
Edison Per Voi Spa (single shareholder)	Selvazzano Dentro (Pd) (IT)	EUR	3,592,000	100.000	100.000
Core Businesses – Corporate Activities					
Italian and Foreign Holding Companies					
Atema Limited	Dublin 2 (IE)	EUR	1,500,000	100.000	100.000
Finanziaria di Partecipazioni Elettriche Finel Spa	Milan (IT)	EUR	194,000,000	100.000	60.000
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) form. Come Iniziative Immobiliari 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	Conegliano (Tv) (IT)	EUR	10,000	–	–

A.2) Companies Consolidated by the Proportional Method

Name	Head office	Currency	Share capital	12/31/05	12/31/04
Core Businesses – Electric Power Operations					
Electric Power Business Unit					
Bluefare Ltd	London (GB)	GBP	1,000	50.000	50.000
Ibiritermo Sa	Ibirite' - Estado De Minas Gerais (R)	BRL	7,651,814	50.000	50.000
Sel Edison Spa	Castelbello (Bz) (IT)	EUR	84,798,000	42.000	42.000
Sel Edison Net Srl	Castelbello Ciardes (Bz) (IT)	EUR	200,000	42.000	42.000
Serene Spa	Milan (IT)	EUR	25,800,000	66.320	66.320
Renewable Sources					
Parco Eolico Castelnuovo Srl	Castelnuovo di Conza (Sa) (IT)	EUR	10,200	50.000	50.000
Other Electric Power Operations					
Edipower Spa	Milan (IT)	EUR	1,441,300,000	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	-	-	SUB
100.000	Edison Spa	-	- h	SUB
51.000	Edison Spa	-	-	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison D.G. Spa (single shareholder)	-	- h	SUB
100.000	Edison Spa	-	-	SUB
80.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	-	SUB
99.950	Edison Spa	-	-	SUB
0.050	Montedison Srl (single shareholder)			
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
0.000	Edison Spa	-	-	SUB
50.000	Edison Spa	-	-	JV
50.000	Edison Spa	-	-	JV
42.000	Edison Spa	-	-	JV
100.000	Sel - Edison Spa	-	-	JV
66.320	Edison Spa	-	- g	JV
50.000	Edison Energie Speciali Spa (single shareholder)	-	-	JV
40.000	Edison Spa	-	-	JV

SCOPE OF CONSOLIDATION (continued)

List of Equity Investments

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 12/31/05	12/31/04
Core Businesses – Hydrocarbons Operations					
Hydrocarbons Business Unit					
Ed-ina D.o.o.	Zagreb (HR)	HRK	20,000	50.000	50.000
Soc. Stud. Prom. Gasdot. Alg-Ita V. Sardeg. Galsi Spa	Milan (IT)	EUR	3,850,000	18.000	18.000
Other Operations					
Water					
Internat. Water Serv. (Guayaquil) Interagua C. Ltda	Guayaquil (Ec)	USD	17,820,000	26.550	26.550
International Water (Tunari) Bv	Amsterdam (NL)	EUR	20,000	50.000	50.000
International Water (Tunari)	Luxembourg (LU)	EUR	559,157	50.000	50.000
International Water (UK) Limited	London (GB)	GBP	1,001	50.000	50.000
International Water Holdings Bv	Amsterdam (NL)	EUR	40,000	50.000	50.000
International Water Services (Guayaquil) Bv	Amsterdam (NL)	EUR	20,000	29.500	29.500
International Water Services Limited	George Town - Grand Cayman (GBC)	USD	45,100	49.890	49.890
International Water Services Ltd (form. International Water Services Ag)	Zug (CH)	CHF	100,000	50.000	50.000
Iwl (Asia Pacific) Pte Ltd	Singapore (SG)	SGD	2	50.000	50.000
Iwl Adelaide Pty Ltd (in liquid.) (form. Iwl Adelaide Pty Ltd)	Chippendale (AU)	AUD	1,020,460	50.000	50.000
Iwl Corporate Limited	London (GB)	GBP	1	50.000	50.000
Iwl Services Holdings (UK) Limited	London (GB)	GBP	2	50.000	50.000

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Type of investment relationship (e)
50.000	Edison International Spa	-	-	JV
18.000	Edison Spa	-	-	JV
90.000	International Water Services (Guayaquil) Bv	-	-	JV
100.000	International Water Holdings Bv	-	-	JV
100.000	International Water (Tunari) Bv	-	-	JV
0.100	International Water Services Limited	0.000	0.000	JV
99.900	Iwl Corporate Limited	100.000	100.000	
50.000	Edison Spa	-	-	JV
59.000	International Water Holdings Bv	-	-	JV
99.780	International Water Holdings Bv	-	-	JV
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 Holdings (UK) Limited	-	-	JV
100.000	International Water Holdings Bv	-	-	JV

List of Equity Investments

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/04
B) Equity investments valued by the Equity Method				
Core Businesses – Electric Power Operations				
Electric Power Business Unit				
Consorzio Barchetta	Jesi (An) (IT)	EUR	2,000	-
Consorzio Montoro	Narni (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 Businesses – Hydrocarbons Operations				
Hydrocarbons Business Unit				
Nile Valley Gas Company (Nvgc) S.A.E.	Cairo (EG)	EGP	50,000,000	-
Core Businesses – Marketing and Distribution				
Marketing and Distribution Business Unit				
Blumet Spa	Reggio Emilia (IT)	EUR	7,600,000	-
Estgas Spa	Udine (IT)	EUR	495,000	-
Eta 3 Spa	Arezzo (IT)	EUR	2,000,000	-
Gasco Spa	Bressanone (Bz) (IT)	EUR	350,000	-
Prometeo Spa	Osimo (An) (IT)	EUR	1,938,743	-
S.A.T. - Servizi Ambiente Territorio Spa	Sassuolo (Mo) (IT)	EUR	27,752,560	-
Utilità Spa	Milan (IT)	EUR	2,307,692	-
Core Businesses – Corporate Activities				
Real state				
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	-
Dormant Companies and Other Companies				
Syremont Spa	Messina (IT)	EUR	750,000	-
Other Operations				
Water				
Aguas del Tunari Sa	La Paz (BO)	BOB	146,500	-

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
50.000	Jesi Energia Spa	-	-		ASS
25.000	Edison Spa	-	-		ASS
50.000	Termica Celano Srl	-	-		ASS
30.000	Sondel Dakar Bv	-	-	3.7	ASS
20.000	Edison Spa	-	-	16.0	ASS
35.000	Edison Spa	-	-	0.5	ASS
40.570	Edison Spa	-	-	4.3	ASS
37.500	Edison International Spa	-	-	2.9	ASS
25.790	Edison Spa	-	-	3.4	ASS
33.330	Edison Spa	-	-	0.2	ASS
33.010	Edison Spa	-	-	1.3	ASS
40.000	Edison Spa	-	-	0.1	ASS
21.000	Edison Spa	-	-	0.5	ASS
40.000	Edison Spa	-	-	21.5	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
40.000	Edison Spa	-	-		ASS
55.000	International Water (Tunari) Sarl	-	-		ASS

List of Equity Investments

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/04
C) Companies Valued at Cost as Ownership is Subject to Lasting Restrictions				
Core Businesses – Electric Power Operations				
Electric Power Business Unit				
Biomasse Emilia Romagna Srl (in liquid.)	Cesena (Fo) (IT)	EUR	10,000	-
Core Businesses – Hydrocarbons Operations				
Hydrocarbons Business Unit				
Auto Gas Company S.A.E. (in liquid.)	Cairo (EG)	EGP	1,700,000	-
Core Businesses – Marketing and Distribution				
Marketing and Distribution Business Unit				
Edison Gas Espana Sa (single shareholder In liquid.)	Barcellona (E)	EUR	60,200	100.000
Core Businesses – Corporate Activities				
Dormant Companies and Other Companies				
Codest Srl	Pavia di Udine (Ud) (IT)	EUR	15,600	-
Consorzio Friulano Per Il Tagliamento	Udine (IT)	EUR	10,330	-
In Liquidation or Subject to 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 receiver.) (single sharehold) form. Calcestruzzi Palermo Spa (in receiver.) (single shareholder)	Palermo (IT)	EUR	108,360	-
Cempes Scrl (in liquid.)	Villa Adriana - Tivoli (Rm) (IT)	EUR	15,492	-
CI.FAR. Scarl (in bankruptcy)	Udine (IT)	LIT	20,000,000	-
Compo Chemical Company (in liquid.)	Wilmington - Delaware (Usa)	USD	1,000	-
Compo Shoe Machinery Corp. Of Canada (in liquid.)	Montreal - Quebec (Cdn)	Cad	500	-
Coniel Spa (in liquid.)	Rome (IT)	EUR	1,020	-
Consorzio Carnia (in liquid.)	Sesto San Giovanni (Mi) (IT)	EUR	51,645	-
Consorzio Carnia Scrl (in liquid.)	Rome (IT)	EUR	45,900	-
Convolci Scnc (in liquid.)	Sesto San Giovanni (IT)	EUR	5,165	-
Ferruzzi Trading France Sa (in liquid.)	Parigi (F)	EUR	7,622,451	-
Finimeg Spa (single shareholder) (in liquid.)	Milan (IT)	EUR	2,425,200	100.000
Finsavi Srl in receivership	Palermo (IT)	EUR	18,698	-
Frigotecnica Srl (single shareholder) in receivership (in liquid.)	Palermo (IT)	EUR	76,500	-
Gerinia Srl (in liquid.)	Milan (IT)	EUR	52,132	-
Groupement Gambogi-Cisa (in liquid.)	Dakar (SN)	XAF	1,000,000	-
Inica Sarl (in liquid.)	Lisbona (P)	Pte	1,000,000	-
Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	Milan (IT)	EUR	1,549,350	-
Nuova I.S.I. Impianti Selez. Inerti Srl (In bankruptcy)	Vazia (Ri) (IT)	LIT	150,000,000	-
Poggio Mondello Srl (single shareholder) in receivership	Palermo (IT)	EUR	364,000	-
Rosfid Srl (in liquid.)	Milan (IT)	LIT	46,000,000	-
Sistema Permanente di Servizi Spa (in bankruptcy)	Rome (IT)	EUR	154,950	-
Soc. Gen. per Progr. Cons. e Part. Spa (under extraord. admin.)	Rome (IT)	LIT	300,000,000	-
Sorrentina Scarl (in liquid.)	Rome (IT)	EUR	46,480	-
Trieste Tre Srl (in liquid.)	Ravenna (IT)	EUR	10,400	-

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
51.000	Edison Spa	-	- I		SUB
30.000	Edison International Spa	-	-		ASS
100.000	Edison Spa	-	-		SUB
33.330	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
16.300	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		OC
20.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
55.000	Edison Spa	-	-		SUB
100.000	Edison Spa	-	L 0.000		SUB
33.330	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
60.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		SUB
100.000	Nuova Alba Srl (single shareholder)	-	-		SUB
100.000	Nuova Alba Srl (single shareholder)	-	-		SUB
35.250	Edison Spa	-	-		ASS
17.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		OC
17.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		OC
27.370	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
100.000	Edison Spa	-	-		SUB
100.000	Edison Spa	-	- H		SUB
50.000	Edison Spa	-	L 0.000		ASS
100.000	Edison Spa	-	L 0.000		SUB
31.000	Montedison Srl (single shareholder)	-	- I		ASS
50.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
20.000	Edison Spa	-	-		ASS
100.000	Edison Spa	-	- H		SUB
33.330	Montedison Srl (single shareholder)	-	-		ASS
100.000	Finimeg Spa (single shareholder) (in liquid.)	-	L 0.000		SUB
42.280	Edison Spa	-	- I		ASS
12.600	Edison Spa	-	-		OC
59.330	Edison Spa	-	-		SUB
25.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS
50.000	Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	-	-		ASS

List of Equity Investments

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/04
D) Investments in Other Companies Valued at Fair Value				
D.1) Trading Investments				
Acea Spa				
Acegas Spa				
Acsm Spa				
American Superconductor Corp.				
Amga Spa				
D.2) Available-for-sale Investments				
Publicly Traded Securities				
RCS				
Other available-for-sale investments that are not publicly traded				
Total				

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
				3.1	OC
				5.5	OC
				3.2	OC
				1.1	OC
				16.2	OC
				29.8	OC
				43.9	OC
				161.9	

Companies Added to the Scope of Consolidation in the Year Ended 12/31/05

Name	Head office	Currency	Share capital at 12/31/05	Consolidated Group interest
Newly Established Companies				
Hydro Power Energy Srl - Hpe Srl (single shareholder)	Bolzano (IT)	EUR	50,000	100
Companies Previously Valued at Cost				
Monsei Esco Srl (single shareholder) (form. Montecatini Srl)	Milan (IT)	EUR	100,000	100

Companies Removed from the Scope of Consolidation in the Year Ended 12/31/05

Name	Head office	Currency	Share capital at 12/31/04	Consolidated Group interest at 12/31/04
Divested Companies				
Edison France Sarl	Paris (FR)	EUR	7,700	100
Emp. Madrilena de Ing. Y Costr. Sa	Madrid (ES)	EUR	60,110	100
Engineering & Designs Tecnimont Icb Pvt Ltd	Mumbai (IN)	IDR	100,000	50
Finewell Limited	Nicosia (CY)	CYP	1,000	100
Flandres Energies Snc	Parigi (FR)		37,500	50
Gazintek	Kiev (UA)	UAH	477,495	46.2
Guandong Contractor	Montigny Le Bretonneux (FR)	EUR	1,000	34.9
Icogas Tecnologia 2000 Sl	Donastia (ES)	ESP	500,000	66
Imm. Lux. Sa	L-1511 Luxembourg (LU)	EUR	780,000	100
Jts Contracting Company Limited	Floriana, La Valletta (MT)	EUR	100,000	41.6
Protecma Srl (single shareholder)	Milan (IT)	EUR	3,000,000	100
Sofregaz Sa	Parigi (FR)	EUR	17,500,000	66
Stts	Montigny Le Bretonneux (FR)	EUR	1,000	34.9
Tecnimont Arabia Limited	Jeddah (SA)	SAR	5,500,000	51
Tecnimont Benelux Sa	BrusselsE (B)	EUR	250,000	100
Tecnimont Chile Ltda	Santiago (CL)	CLP	277,934,149	100
Tecnimont Do Brasil Ltda	São Paulo (BR)	BRL	1,000,000	100
Tecnimont Icb Private Limited	Kalina - Mumbay (IN)	IDR	13,886,700	50
Tecnimont International Sa	Luxembourg (LU)	EUR	200,000	100
Tecnimont Nigeria Ltd	Ikoyi - Lagos (NG)	NGN	5,000,000	70
Tecnimont Poland Sp.Zo.O	Warsaw (Pl)	PLZ	50,000	100
Tecnimont Spa (single shareholder)	Milan (IT)	EUR	52,000,000	100
Tpi-Tecnimont Planung Und Industrieanlagenbau Gmbh	Grimma (DE)	EUR	260,000	100
Tws Sa	Lugano (CH)	CHF	100,000	100
Absorbed Companies				
Asep Gas Srl	Porto Mantovano Mn (IT)	EUR	221,000	80
Icb Contractors Private Limited	Mumbay (IN)	IDR	3,000,000	50
International Water (Bulgaria) Bv	Amsterdam (NL)	EUR	20,000	50
International Water (Czech Republic) Bv	Amsterdam (NL)	EUR	20,000	50
International Water (District Heating) Bv	Amsterdam (NL)	EUR	18,000	50
International Water (Estonia) Bv	Amsterdam (NL)	EUR	20,000	50
International Water (Highlands) Bv	Amsterdam (NL)	EUR	20,000	50
International Water (Moray Montrose) Bv	Amsterdam (NL)	EUR	20,000	50
International Water (Mwc) Bv	Amsterdam (NL)	EUR	20,000	50
International Water (Poland) Bv	Amsterdam (NL)	EUR	20,000	50
International Water (Riverland) Bv	Amsterdam (NL)	EUR	20,000	50
International Water (Tay) Bv	Amsterdam (NL)	EUR	20,000	50
International Water Consulting Ag	Schwyz (CH)	CHF	100,000	50

Companies Removed from the Scope of Consolidation in the Year Ended 12/31/05

Name	Head office	Currency	Share capital at 12/31/04	Consolidated Group interest at 12/31/04
International Water Development Bv	Amsterdam (NL)	EUR	20,000	50
International Water Enterprises Bv	Amsterdam (NL)	EUR	20,000	50
International Water Services (Philippines) Bv	Amsterdam (NL)	EUR	20,000	50
International Water Services Holdings Bv	Amsterdam (NL)	EUR	20,000	50
International Water Uu (Prague) Bv	Amsterdam (NL)	EUR	20,000	50
Megs Srl (single shareholder)	Sesto San Giovanni (Mi) (IT)	EUR	260,000	100
Parco Eolico Montemignaio Srl (single shareholder)	Milan (IT)	EUR	40,000	100
Parco Eolico San Bartolomeo Srl (single shareholder)	Milan (IT)	EUR	10,200	100
Parco Eolico Vaglio Srl (single shareholder)	Milan (IT)	EUR	10,200	100
Companies in Liquidation				
Edison Gas Espana Sa	Barcelona (ES)	EUR	60,200	100
Finimeg Spa (single shareholder)	Milan (IT)	EUR	2,425,200	100
Iwl Adelaide Pty Ltd	Chippendale (AU)	AUD	1,020,460	50
Liquidated Companies				
International Water (Adelaide I) Sarl	Luxembourg (LU)	EUR	15,098	50
International Water (Adelaide II) Sarl	Luxembourg (LU)	EUR	36,295	50
International Water (Mwc) Sarl	Luxembourg (LU)	EUR	13,248,194	50
Iwl Services (Usa) Inc.	Wilmington - Delaware (USA)	USD	1	50
Moravska Vodarenska Spolecnost As (in liquid.)	Breclav (CZ)	CZK	2,100,000	50
Styrija Plin D.O.O.	Slovenska Bistrica (SI)	SIT	7,000,000	100
Companies Affected by a Change in Investment Relationship				
Edison LNG Spa (single shareholder)	Milan (IT)	EUR	10,000,000	100

Notes

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

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

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

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

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

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

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

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

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

(m) This investment is encumbered by an attachment, for a maximum amount of 1,900,000 euros, ordered by the Court of Varese on June 14, 2004.

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 2005, comprising the 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. The aforementioned consolidated financial statements are the first to be prepared in compliance with the International Financial Reporting Standards as adopted by the European Union.

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 as comparatives the corresponding amounts of the prior year determined in accordance with the same accounting principles, except for the effect of the application of IAS 32 and IAS 39 which, as allowed by IFRS 1, have been applied starting from 1 January 2005. Moreover, a specific section of the notes to the consolidated financial statements illustrates the effects of the transition to the IFRS as adopted by the European Union and, for the purpose of completeness, contains a reference to 'Transition to IAS/IFRS' approved by the board of directors on 28 July 2005 and published as separate document. This document reports the disclosure related to the IFRS 1 reconciliation schedules, which we examined and on which we issued our auditors' report on 28 July 2005.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel.0458002561

3 In our opinion, the consolidated financial statements of EDISON SpA SpA as of 31 December 2005 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, cashflows changes in shareholders' equity and of EDISON Group for the year then ended.

Milan, 15 March 2006

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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Edison Spa
31 Foro Buonaparte
20121 Milan, Italy

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VAT No. 08263330014
REA Milan No. 1698754

Edison Spa
31 Foro Buonaparte - 20121 Milan - Italy - Ph +39 02 6222.1

www.edison.it