ANNUAL REPORT 2004

Report on Operations

EDISON
ENERGY FOR A NEW HORIZON

EDISON IN ITALY

Contents

ANNUAL REPORT 2004

Report on Operations

EDISON

Edison Today

Edison is one of the top operators in Italy's energy market. It produces, imports and sells electric power and hydrocarbons (natural gas and oil).

Electric Power

Italian Market in 2004		Facilities and Production Capacity in 2004	
Total Italian market	321.9 TWh	Total Italian installed capacity	69,520 MW
Deregulated market (estimated)	128.5 TWh	Edison installed capacity	6,400 MW
Edison sales	51.5 TWh	Edipower installed capacity (50%)	3,100 MW
Edison sales to the deregulated market	17.8 TWh	Total Italian net production of electric power	286.6 TWh
Edison STOVE and Energy Exchange sales	5.5 TWh	Edison's net production of electric power	35.6 TWh
		Net production of electric power *(Edipower)**	12.5 TWh
Market share *(of total market)*	16.0%	Share of total production	12.4%
Market share *(of deregulated market) (estimated)*	13.9%	Share of total production *(incl. 50% of Edipower)**	16.8%
Transmission network	**Customers**	**Production Outside Italy**	
2,900 Km	4,400 *(deregulated)*	343 GWh	

* Share of Edipower's installed capacity available to Edison under the current tolling contract.

Hydrocarbons

Italian Market in 2004		Facilities and Production Capacity in 2004	
Total market	79,289 Mill. m^3	Total Italian production	12,980 Mill. m^3
Edison sales in Italy	11,145 Mill. m^3	Edison production in Italy	1,027 Mill. m^3
Market share	14.1%	Share of total production	7.9%
		Concessions and permits in Italy	70
		Concessions and permits outside Italy	12
Edison sales outside Italy	313 Mill. m^3	Storage centers in Italy	2
		Reserves	23 billion m^3 of natural gas equivalents
Gas Transmission Network	**Customers**	**Production outside Italy**	
2,800 km of low-press. gas pipelines	154,000 *(direct)*	282 Mill. m^3	

The remaining Group operations are divided into the following areas of business:

Corporate Activities

The Group's Corporate Activities, carried out mainly by Edison Spa, the Group's Parent Company, to guide, manage and control the Group's industrial operations and provide centralized services to the operating units. The Corporate Activities also include holding companies and real estate companies that are consolidated on a line-by-line basis.

Water

International Water Holdings BV (IWH) is active in the international markets developing and managing projects to distribute and treat water. The sale of businesses in the Far East, Australia and Eastern Europe in the second half of 2003 was followed by the disposal of the Scottish operations in the first half of 2004. The only remaining operating businesses left are those located in South America.

Engineering

Tecnimont Spa, the engineering arm of the Edison Group, is engaged in the development and construction of facilities that produce polymers, generate energy and process and transport natural gas.

Tecnimont is the leading contractor in the design and construction of chemical plants that produce polyolefins, polypropylene and polyethylene.

Simplified Structure of the Edison Group at December 31, 2004

EDISON

ENERGY

Electric Power Business Unit

Hydrocarbons Business Unit

Energy Management Business Unit

Marketing & Distrbution Business Unit

Edison Spa (1)

Edison Energie Speciali
(100%)
Production of Electric Power

Edison Rete
(100%)
Electric Power Transmission Network

Edipower (2)
(40%)
Production of Electric Power

Edison International
(100%)
Hydrocarbon Exploration and Production

Edison Stoccaggio
(100%)
Natural Gas Storage

Edison Trading
(100%)
Energy Management

Edison Energia
(100%)
Energy Purchasing and Distribution

Edison DG
(100%)
Natural Gas Distribution

Edison per Voi
(100%)
Natural Gas Sales

OTHER OPERATIONS

IHW
(50%)
Water

Tecnimont
(100%)
Engineering

Electric Power Operations

Hydrocarbons Operations

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

(2) Edipower is an affiliated company valued by the equity method.

A Letter to the Stockholders

Dear Stockholders:

In 2004, your Company reported excellent results in terms of its operating and financial performance, marketing and industrial achievements, and strategic growth.

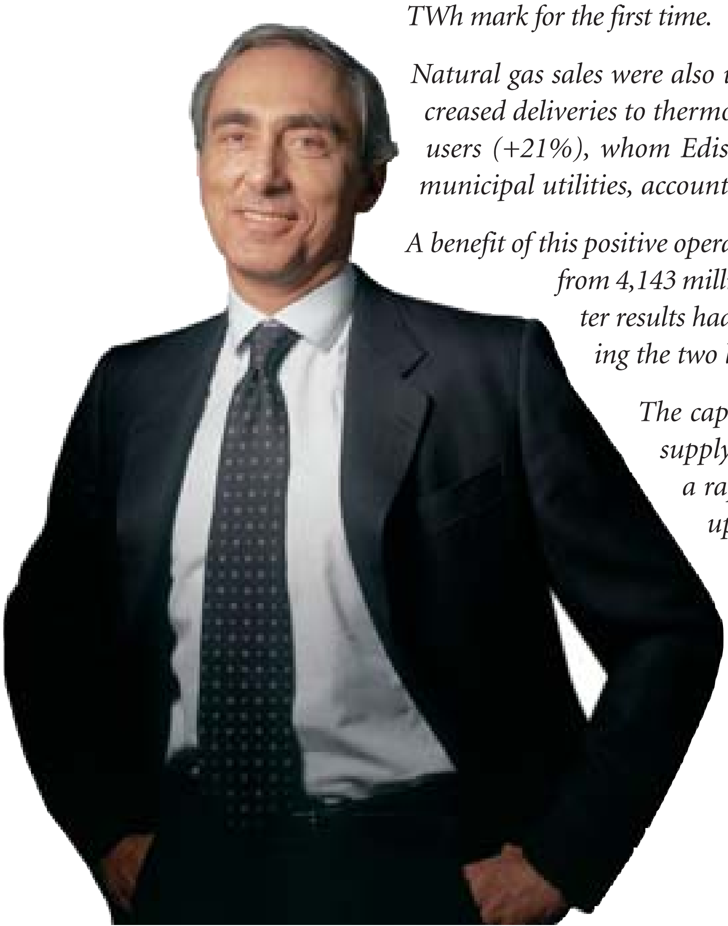
After two years that were devoted to completely transforming our business portfolio, drastically reducing our indebtedness, restructuring our corporate organization and launching an ambitious capital investment program, which created the foundation for our growth, 2004 was the first year in which extraordinary factors did not play a significant role.

All operating data show a clear improvement: net income totaled 155 million euros, or 8% more than in 2003, when the bottom line had been boosted by extraordinary gains of about 300 million euros; income before taxes and extraordinary items rose to 380 million euros in 2004, up from 111 million euros in 2003; and EBIT grew to 615 million euros, compared with 415 million euros in 2003.

The positive results achieved in 2004 are due in part to the synergies that have been developed between the electric power and natural gas operations. These synergies, which are consistent with the Group's strategy, have increased the Group's overall competitiveness and will produce further improvements in operating results in future years.

Thanks to its ability to boost unit sales during a year when national demand for energy expanded only modestly, the Group was able to strengthen its presence in the electric power and natural gas markets. As a result, core business revenues increased by 10% to 5,668 million euros.

Successful trading on the newly established Electric Power Exchange and growth in the deregulated market, supported by a tolling contract with Edipower that is now fully operational, enabled the Group to report sharply higher unit sales of electric power (+14%), passing the 50 TWh mark for the first time.



Natural gas sales were also up strongly, reaching 11.4 billion cubic meters (+14%). Increased deliveries to thermoelectric power plants and sharply higher sales to residential users (+21%), whom Edison serves both directly and through alliances with former municipal utilities, account for this improvement.

A benefit of this positive operating performance was a reduction in indebtedness, which fell from 4,143 million euros to 3,855 million euros. A lower level of debt and better results had a positive impact on the Group's credit worthiness, convincing the two leading international rating agencies to boost its standing.

The capital expenditure program, which is designed to expand the supply of electric power and natural gas, is being implemented at a rapid pace. The electric power operations are close to starting up the Altomonte and Candela power plants. Construction is also continuing at the Torviscosa job site, where a new power plant should be completed later this year, and this past May, ground was broken on the Simeri Crichi power plant, which is expected to go on stream in 2007. Edipower is continuing the repowering of its facilities. In 2004, it *started up the new gas turbines at the Sermide power plant, and the inauguration of the Piacenza and Chivasso power plants is scheduled for later this year.*

The natural gas operations were also busy with several projects that will increase the natural gas supply for the Italian market. A natural gas pipeline linking Italy with Libya, which was built in part by Tecnimont, was inaugurated in October. With this new facility, which has a throughput of 8 billion cubic meters of natural gas a year, Edison will have direct access to 4 billion cubic meters of natural gas per year from Libya. The project to build an LNG regasification terminal in the Northern Adriatic has received the requisite permits from the relevant authorities and is now in the executive phase. This facility, which will have a production capacity of 8 billion cubic meters of natural gas a year, is a joint venture with ExxonMobil and Qatar Petroleum. In addition, a project for an LNG terminal in Rosignano, in partnership with BP and Solvay, has received the green light from the Italian Ministry of the Environment.

The recent establishment of a deregulated and competitive energy market has created a great challenge, but one that we can win. Our industry has made great strides in recent years, with changes in the regulatory framework, the privatization of the generating companies and the start of the Electric Power Exchange. However, if these efforts are to truly succeed, the available supply must also expand significantly - only massive investments by strong operators can deliver more energy at a competitive cost. The entire Italian electric power industry is making a major effort to achieve these goals. Edison is in the forefront of this process, striving to achieve sufficient size to compete effectively in the marketplace and contribute to the creation of true competition in Italy.

Following the strategic guidelines in our growth plans, the Company will continue to expand in future years, adding new and more modern production facilities; diversifying and optimizing its supply sources; and developing the integrated spectrum of electric power, natural gas and other quality services that it needs to support its planned expansion in the national energy market.

The goals that we have set for ourselves are attainable. Edison has strengthened its image as a leader in an increasingly open and competitive market.

The term of office of the current Board of Directors expires with the next Stockholders' Meeting. I would like to take this opportunity to thank all of the Group's employees, whose professionalism, dedication and enthusiasm have made the outstanding results of recent years possible. I would also like to thank our stockholders for their confidence in the management team and the concrete support they provide the Company.

We are certain that in future years, building on the foundation of its achievements, Edison will play an increasingly important role in the Italian energy market while producing gratifying results and creating value and growth for its stockholders, employees and customers and for the communities where it operates.

Umberto Quadrino
Chairman Edison Spa

Our team

Chairman: Umberto Quadrino

Chief Executive Officer: Giulio Del Ninno

Finance: **F. Balsamo**
Planning, Accounting & Control: **M. Quaglini**
Strategies & Industrial Develop.: **F. Khallouf**
Corporate Communications: **A. Prandi**
Institutional Relation: **G. Nava**
Renewable Sources: **N. De Sanctis**

Internal Audit: **G. Mirabelli**
Economic Research: **M. Fortis**
General Counsel: **P. Biandrino**
Human Resources: **G. Colombo**
Market Regulation: **E. Gatta**
Market Legislation and Antitrust: **E. Bruti Liberati**

Asset Projects Development: **R. Potì**
Engineering: **G.B. Retegno**

Research & Development: **C. Serracane**
Procurement: **F. Chiappa**

Power Assets BU: **C. Banfi**
Hydrocarbon Assets BU: **G. Serena**

Energy Management BU: **M. Peruzzi**
Marketing & Sales BU : **A. Zaccari**

Board of Directors, Statutory Auditors and Independent Auditors

Board of Directors

Chairman		Umberto Quadrino [(1)]
Deputy Chairman	Independent	Umberto Tracanella [(2)]
Chief Executive Officer		Giulio Del Ninno [(1)]
Directors		Mario Cocchi
		Michel Cremieux
	Independent	Paolo Iovenitti
		Gaetano Micciché
		Piergiorgio Peluso
	Independent	Sergio Pininfarina
		Eugenio Razelli
	Independent	Dario Velo
		Romain Camille Zaleski

(1) The Chairman and the Chief Executive Officer are legal representatives of the Company with broad executive authority. The Board of Directors retains jurisdiction over the approval of transactions with a material impact on the Company's operations, balance sheet and financial position, especially when they involve related parties.
(2) The Deputy Chairman is a legal representative of the Company and, if necessary, can exercise the functions that the Bylaws attribute to the Chairman.

Board of Statutory Auditors

Chairman	Sergio Pivato
Statutory Auditors	Salvatore Spiniello
	Ferdinando Superti Furga

Independent Auditors

PricewaterhouseCoopers Spa

Information About the Company's Securities

Number of shares at December 31, 2004

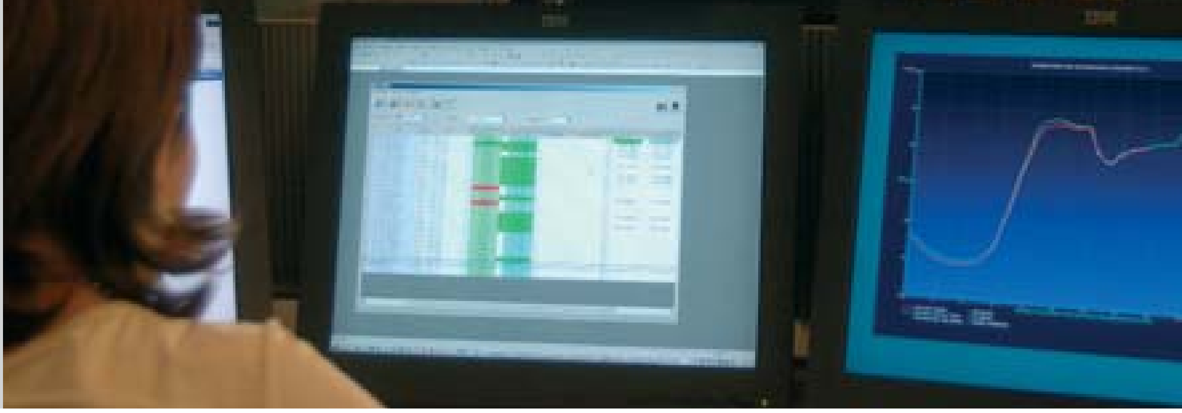
Common shares	4,148,295,546
Nonconvertible savings shares	110,592,420
Warrants outstanding	1,025,610,224

Major Stockholders at December 31, 20044

	% of voting rights	% interest
Italenergia Bis [(1)]	63.458%	61.810%
Carlo Tassara Finanziaria Spa [(2)]	15.901%	15.488%
EDF Eléctricité de France [(3)]	2.333%	2.273%

(1) Interest held directly and indirectly, 0.011% of which represents shares without voting rights.
(2) Interest held directly and indirectly.
(3) Pursuant to Decree Law No. 192/2001, converted into Law No. 301/2001, the voting rights conveyed by the Edison shares held by Eléctricité de France in excess of a 2% interest have been suspended.

Financial Highlights



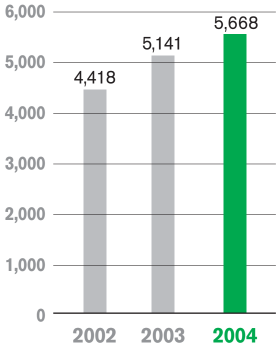
Edison Group	2004	2003	Core Businesses (Energy and Corporate) 2004	2003
Net revenues	**6,497**	6,287	**5,668**	5,141
EBITDA	**1,254**	1,103	**1,226**	1,087
as a % of net revenues	**19.3%**	17.5%	**21.6%**	21.1%
EBIT	**615**	415	**592**	439
as a % of net revenues	**9.5%**	6.6%	**10.4%**	8.5%
Income bef. extraord. items and taxes (1)	**380**	111	**342**	167
Group interest in net income	**155**	144	**132**	339
Capital expenditures	**452**	352	**442**	328
Net invested capital (1)	**9,792**	10,156	**9,861**	10,171
Net borrowings (1)	**3,855**	4,143	**4,152**	4,364
Stockholders' equity before minority interest (1)	**5,940**	6,013	**5,709**	5,807
Group interest in stockholders' equity (1)	**5,412**	5,213	**5,186**	5,014
ROI (3)	**6.96%**	4.15%	**6.67%**	4.48%
Debt/Equity ratio	**0.65**	0.69	**0.80**	0.75
Number of employees (1) (2)	**3,857**	3,970	**2,272**	2,342
Stock market prices (in euros) (4)				
- common shares	**1.5570**	1.4869		
- nonconvertible savings shares	**1.5091**	1.3047		
- warrants outstanding	**0.5530**	0.5610		
Earnings (loss) per share				
- basic	**0.0358**	0.0396		
- diluted	**0.0287**	0.0327		

(1) Year-end amounts.
(2) Companies consolidated on a line-by-line basis and Group interest in companies consolidated by the proportional method.
(3) EBIT divided by average net invested capital, computed after deducting the value of equity investments held as fixed assets.
(4) Simple arithmetic mean of the prices for the last calendar month of the period or fiscal year.

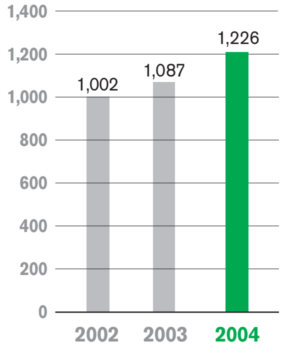
Edison Spa	2004	2003
Net revenues	**3,384**	2,931
EBITDA	**719**	426
as a % of net revenues	**21.2%**	14.5%
EBIT	**316**	8
as a % of net revenues	**9.3%**	0.3%
Net income (loss)	**312**	144
Capital expenditures	**389**	151
Net invested capital	**8,472**	8,553
Stockholders' equity	**4,221**	3,861
Net borrowings	**4,251**	4,692
Debt/Equity ratio	**1.01**	1.22
Number of employees	**1,631**	1,337

Financial Highlights of the Core Businesses

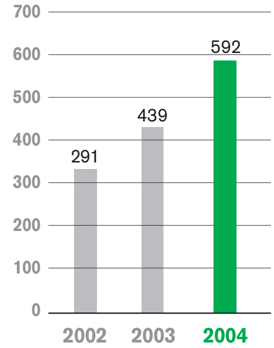
Net Revenues



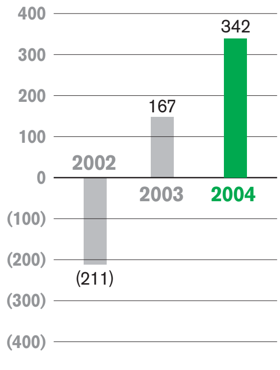
EBITDA



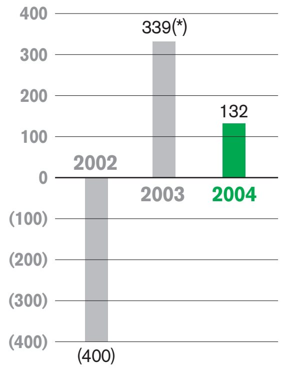
EBIT



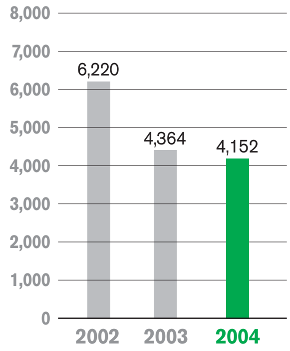
Income bef. extraord. items, taxes and minority interest



Group interest in net income



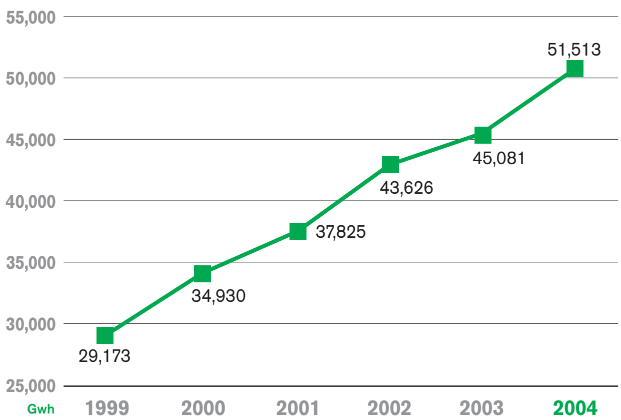
Net borrowings



(*) Includes 320 million euros earned on the sale of natural gas reserves in Egypt (WDDM).

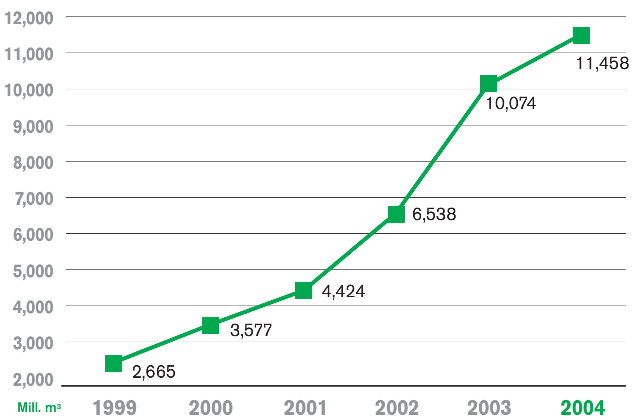
Sales Trends of the Edison Group

Electric Power



Note: Pro forma data for 1999, 2000 and 2001.

Natural Gas



Performance and Results of the Group

Net Revenues and EBITDA by Type of Business

	Net revenues	EBITDA	% of net revenues
Core Businesses	**5,668**	**1,226**	**21.7%**
broken down as follows:			
Energy			
- Electric Power Operations	4,581	989	21.6%
- Hydrocarbons Operations	2,291	325	14.2%
Corporate Activities and adjustments	(1,204)	(88)	7.3%
Other Operations	**829**	**28**	**3.4%**
broken down as follows:			
Continuing Operations:			
- Water	27	4	14.8%
- Engineering	802	24	3.0%
Total	**6,497**	**1,254**	**19.3%**

As a result of the changes in the Group's portfolio of businesses that occurred in 2003, the data for 2004 are not fully comparable with those for the previous year. As was done in previous years, in order to present the performance of the Group's operations more effectively, the data for its core businesses are shown separately from those of its other activities.

Core Businesses (Energy and Corporate)

The higher unit sales of electric power (+14.3%) and natural gas (+13.7%) achieved by the industrial operations of the Group's core businesses produced a net revenue increase of 527 million euros, or 10.3%, compared with 2003.

EBITDA rose to 1,226 million euros, up 139 million euros (+12.8%) from the 1,087 million euros earned in 2003. EBIT increased 34.9%, rising from 439 million euros in 2003 to 592 million euros in 2004.

These gains reflect a strong performance by the industrial operations, which posted sharply higher unit sales of electric power and natural gas.

The Group's core businesses ended 2004 with income before taxes and extraordinary items of 342 million euros, more than double the 167 million euros earned in 2003. These improvements were made possible in part by a reduction in financial expense achieved by reducing indebtedness, improving the debt structure and lowering the cost of money through improved credit ratings. Net income totaled 132 million euros, down from 339 million euros in 2003, when, however, the bottom line had been swollen by nonrecurring extraordinary items (sale of the WDDM gas reserves in Egypt) that contributed a net amount of 320 million euros.

Other Continuing Operations

Engineering

In 2004, the profitability of the engineering operations was roughly in line with the results reported in 2003, even though net revenues and EBIT were down due to the effect of an unfavorable exchange rate for the U.S. dollar. Net revenues totaled 802 million euros (-9.3%) and EBITDA amounted to 24 million euros, or about 4 million euros less than in 2003. On the other hand, the net financial position improved by 55 million euros (+40.4%), rising from 136 million euros at December 31, 2003 to 191 million euros at the end of 2004.

The weakness of the U.S. dollar affected the order portfolio as well, which decreased to 568 million euros at December 31, 2004. However, this amount does not reflect the value of contracts that have already been signed but have not yet gone into effect, such as an order in Yanbu (Saudi Arabia) and the LNG terminal in Brindisi, which have an aggregate value of about 337 million euros.

Water

The water operations ended the year with EBITDA of more than 4 million euros, a marked improvement over the results reported in 2003.

Results of the Group

The Edison Group ended 2004 with **net revenues** of 6,497 million euros, or 3.3%

more than in the previous year. Thanks to a positive performance both by the core operations and the noncore subsidiaries, income before extraordinary items and taxes to 380 million euros (111 million euros in 2003). **EBITDA** grew 13.7%, improving from 1,103 million euros to 1,254 million euros, and **EBIT** rose 48.2%, to 615 million euros (415 million euros in 2003).
EBITDA were equal to 19.3% of net revenues, compared with 17.5% in 2003. The ratio of EBIT to net revenues, improved to 9.5%, up from 6.6% at December 31, 2003.

The Group ended 2004 with **net income** of 155 million euros, compared with 144 million euros at December 31, 2003, when the Group had booked 300 million euros in net extraordinary gains.

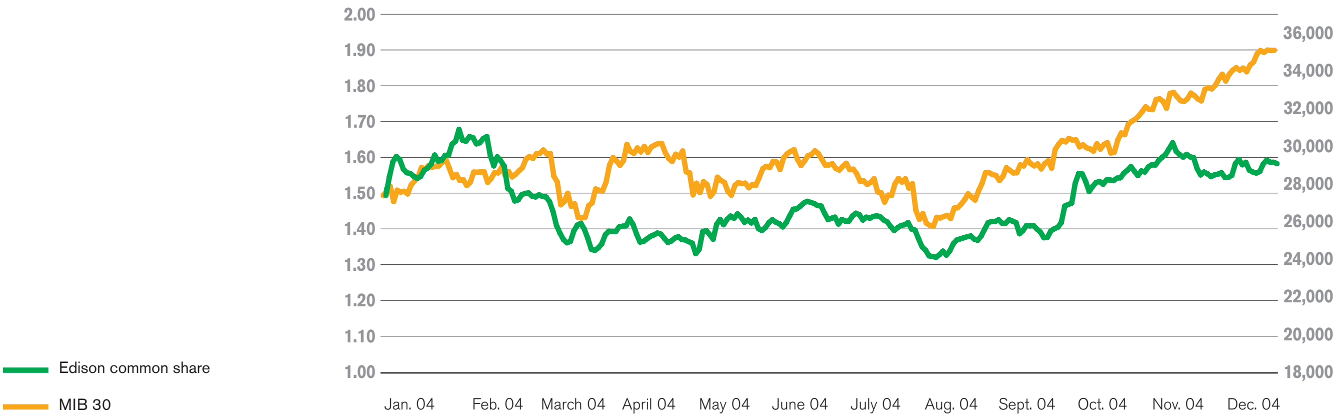
The Group's net indebtedness fell to 3,855 million euros at December 31, 2003, a decrease of 288 million euros from the 4,143 million euros owed at the end of 2003. The cash flow generated by the Group's core businesses, net of capital expenditures and financial expense, is the main reason for the improvement in its net financial position.

Outlook for 2005

The favorable trends prevailing in the Group's target markets, the expected commissioning of new production facilities and the impact of the new international accounting standards (IAS), which will allow a 50% proportional consolidation of Edipower, should enable the Group to report a further improvement in operating results in 2005.

Edison and the Financial Markets

Stock market price of the Edison common share between January 2, 2004 and December 30, 2004



Dividends and Financial Indicators per Share

Edison Spa	2004	2003
Stock market price (in euros) (1):		
- common shares	1.5570	1.4869
- savings shares	1.5091	1.3047
- warrants	0.5530	0.5610
Number of shares (at end of period):		
- common shares	4,148,295,546	4,101,486,841
- savings shares	110,592,420	110,592,420
Total shares	4,258,887,966	4,212,079,261
Total warrants	1,025,610,224	1,072,418,929
Edison Group		
Basic earnings (loss) per share (in euros) (2)	0.0358	0.0396
Diluted earnings (loss) per share (in euros) (2)	0.0287	0.0327
Group interest in stockholders' equity per share (in euros)	1.395	1.238
Price/Earnings (P/E) ratio (3)	43.90	37.42

(1) Simple arithmetic mean of the prices for the last calendar month of the period or fiscal year.
(2) Computed in accordance with IAS 33.
(3) Ratio of price per common share at the end of the period and basic earnings (loss) per share.

Other Financial Indicators

Ratings		2004	2003
Standard & Poor's	Medium/long term rating	BBB+	BBB
	Medium/long term outlook	Stable	Stable
	Short term rating	A-2	A-2
Moody's	Rating	Baa3	Baa3
	Medium/long term outlook	Positive	Negative

Key
Events

Growing Our Business

Tecnimont Is Awarded a New Contract in China (March)

Tecnimont signs a contract covering licensing rights and the provision of engineering and technical support services for the construction of a low density polyethylene (LDPE) plant in Lanzhou (China) with an annual production capacity of about 200,000 tons. Construction of this facility, which will require an investment of about US$100 million, will take two years. The award of this contract strengthens Tecnimont's leadership position in the international market, having built over 100 polyethylene and polypropylene plants worldwide (18 in China). The facilities developed by Tecnimont during the last five years have produced 8 million tons of polymers a year, accounting for about 22% of the world market.

Tecnimont Books a New Contract in Saudi Arabia (March)

In Jeddah, Tecnimont and the National Petrochemical Company of Saudi Arabia sign a turnkey contract for the construction of a polypropylene plant with an annual production capacity of about 420,000 tons. The facility, which will be built in the Yanbu (Saudi Arabia) industrial area, will have a cost of about US$215 million and will require 28 months to complete.

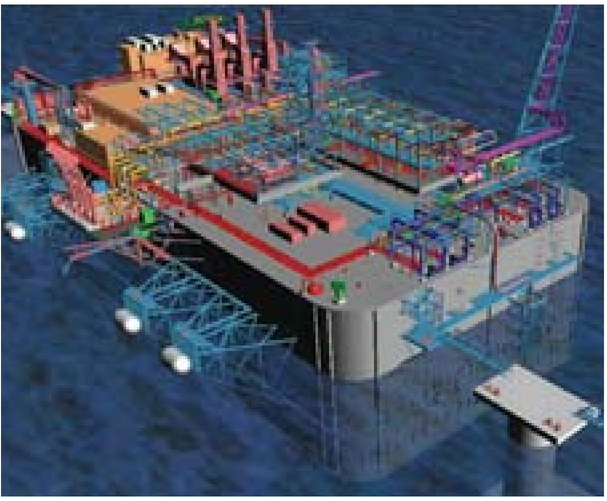
Edison Begins Construction of an 800-MW Power Plant in Simeri Crichi, Calabria (May)

At an event attended by Antonio Marzano, Italy's Minister of Production Activities, Edison opens the construction site for a power plant at Simeri Crichi (CZ). This combined-cycle power plant, which will be fired with natural gas, will be equipped with a desalinization system that will make the plant independent of the scarce local water resources and will enable local farmers to use desalinized sea water for irrigation, thereby helping contain the risk of desertification that is threatening the area along the local coastline.

Opening ceremony at Simeri Crichi building site.

2.800 MW under construction

In addition to Simeri Crichi (800 MW) construction works went on also at the sites of Altomonte (800 MW), Candela (400 MW) and Torviscosa (800 MW) for a total of 2,800 MW under construction.


The Rovigo LNG terminal project.

Tecnimont Affiliate Wins a Contract for an LNG Terminal in France (July)

Gaz de France awards a contract to build an LNG regasification terminal in Fos Cavaou, near Marseille, to a joint venture formed by Sofregaz (Tecnimont), Saipem (Eni) and Technigaz (Eni affiliated). The portion of the contract attributable to Sofregaz (the lead partner in the joint venture) amounts to about 180 million euros.

Rovigo LNG Terminal in the Executive Phase

The project to build an LNG regasification terminal in the Northern Adriatic has received the requisite permits from the relevant authorities and is now in the executive phase. This facility, which will have a production capacity of 8 billion cubic meters of natural gas a year, is a joint venture with ExxonMobil and Qatar Petroleum.

Strengthening of the Financial Position

Edison Reopens the EMTN December 2010 Issue with a 100-Million-Euro Placement (January)

Edison reopens the European Medium Term Notes (EMTN) program it launched in 2003, issuing a second EMTN tranche. This issue, which has a seven-year maturity and carries a 5.125% coupon, was underwritten by institutional investors with a spread that was more than 30 basis points lower than that of the first tranche, which was for 600 million euros.

The Edison 6.375% Bond Due in July 2007 No Longer Carries a Put Option (February)

In response to the confidence shown by the financial markets in the renewed strength of the Group's financial position, the meeting of Edison's bondholders approves a motion amending some of the terms of the indenture of the Edison 6.375% bondes due in July 2007. The amendment calls for the removal of the put option provided under the indenture (one of the clauses added in December 2001) against payment of a lump-sum consideration equal to 0.35% of the par value of each bond and for a partial change in the formula used to compute the coupon interest designed to shield bondholders from the impact of rating improvements (from BBB- to BBB for S&P and from Baa3 to Baa2 for Moody's).

Edison Completes Negotiations for a Five-year, 1.5-billion-euro Line of Credit (April)

Edison completes negotiations for a five-year, senior unsecured line of credit and then launches an additional syndication for a further 250 million euros, bringing the total financing to 1,250 million euros. As proof of the favorable standing that Edison now enjoys in the financial markets, the syndication is increased by an additional 250 million euros in May, bringing the total line of credit to 1.5 billion euros.

S&P and Moody's Boost the Credit Rating of the Edison Group (June)

The top two rating agencies boost the credit rating of the Edison Group, citing the improved operating and financial results achieved in 2003, the Group's enhanced liquidity and the expectation that its main financial ratios will remain stable despite an ambitious capital investment program. More specifically, S&P raises its rating to BBB+, confirming a stable outlook, and Moody's changes the outlook of Edison's Baa3 long-term rating from negative to positive.

The Board Authorizes the Issuance of up to 1 Billion Euros in New Bonds (June)

In view of the recent rating boost provided by the top rating agencies, the Board of Directors approves a plan to issue new debt securities within the framework of the 2-billion-euro EMTN (European Medium Term Notes) program approved on November 11, 2003, which thus far has been tapped for a total of 700 million euros. The plan, which allows for the issuance of up to 1 billion euros, will be implemented in several tranches over the next 12 months.

Edison Completes the Issuance of 500 Million Euros in Debt Securities (July)

Acting in accordance with a resolution approved by the Board of Directors on June 15, 2004, Edison completes the placement of 500 million euros in debt securities. The offering was oversubscribed by more than three times.

The issuance of these seven-year securities, which pay interest quarterly at a variable rate of 60 basis points above the three-month Euribor, produces a further improvement in the Group's liquidity profile (its indebtedness is fully refinanced through 2006), improves the ratio of bonds payable to bank debt (now about 65%-35%) and lengthens the average maturity of its indebtedness (average life extended to about 4 years).

Streamlining the Corporate Organization and Changing Our Businesses Portfolio

Edison Sells a Power Plant in Turkey (February)

Edison sells its 84.78% interest in Turk Edison Enerji A.S., a company that operates a combined-cycle thermoelectric power plant with an installed capacity of about 60 MW in Izmit, near Istanbul, to Entek A.S., a company of the Koç Group, a major diversified Turkish industrial group. This sale, which is consistent with Edison's plan to divest nonstrategic assets outside Italy, was valued at about 53 million euros, but had no material impact on Edison's financial statements.

Edison Acquires Ilva's 25% Interest in ISE (May)

Edison and Ilva reach an agreement whereby Edison purchases Ilva's 25% minority interest in Iniziative Sviluppo Energie Spa (ISE) for a total price of 210 million euros. The price actually paid was 145 million euros, after distribution to Ilva of reserves totaling 65 million euros. The sale closed on July 9, 2004.

The Board of Directors Approves the Purchase of 75% of ISE From Finel (60% Edison, 40% EDF) (June)

At meetings held on June 15, 2004, the Boards of Directors of Edison and Finel, an Edison subsidiary (60%) in which EDF has a 40% interest, approve the transfer to Edison of Finel's 75% interest in ISE at a price of 486 million euros. This transaction, which will lead to the absorption of ISE by Edison and is consistent with the corporate reorganization program that Edison launched last year, closed on December 1, 2004.

IWH Sells Its Scottish Operations (June)

International Water Holding Bv, a 50-50 joint venture of Edison and Bechtel, sells the interests it held indirectly in Scottish companies that provide water management and treatment services in the Highlands and in Tay, Moray and Montrose. The buyer, Infrastructure Investors LP, a fund managed by Barclays and Société Générale, paid a price of 27.1 million British pounds. This transaction did not have a material impact on Edison's financial statements.

The Merger of ISE Into Edison Is Approved (July)

At meetings held on July 28, 2004, Edison's Board of Directors and Ise's Stockholders' Meeting approve the merger by absorption of Ise into Edison.
Edison also agrees to grant EDF the option of requesting the redemption of its investment in Finel (40%) in a manner agreeable to both parties and at a price consis-

tent with the value of Finel's stockholders' equity on the date the request is made. However, this option may not be exercised before June 30, 2005 (unless EDF ceases to be a stockholder of Italenergia Bis and Edison prior to that date) or after December 31, 2006 and may not be transferred to a third party, should EDF decide to sell its 40% interest in Finel.

Edison Sells Its Gas Transmission Network (July)

Edison signs a contract selling its investments in Edison T&S (previously demerged upon the separation of the storage operations) and in its SGM subsidiary to the Clessidra Sgr Italian private equity fund. The assets subject of the sale, which closed on September 7, 2004, include the Cellino network, a 1,300-km high-pressure gas transmission system; the Collalto gas pipeline in the Veneto region; the Garaguso network in the Basilicata region; the Cirò network in the Calabria region; the Comiso network in Sicily; and the SGM network that connects the Latium and Puglia regions. When the deconsolidation of assigned debt is included, this transaction, which closed for a cash price of 169 million euros, improved the Group's net financial position by about 190 million euros.

The Contract Merging Bussi, Caffaro, Savim, Sogetel and Vega Oil into Edison Is Signed (July)

The instrument setting forth the merger of these wholly owned subsidiaries into their parent company, Edison Spa, effective September 1, 2004, is signed. The respective merger proposals had been approved in May.

Edison Sells Its Investment in Açucar Guarani (November)

Edison sells its 35.8% interest in the Brazilian company Açucar Guarani Sa (Sugar Operations) to Tereos at a price of 36 million euros.Tereos is an agribusiness cooperative created through the merger of Béghin-Say and the Origny-Naples Consortium. The sale of Açucar Guarani is the result of agreements signed by Edison and the Origny-Naples Consortium upon the sale of Edison's interest in Béghin-Say in December 2002 and is consistent with the Group's strategy of selling noncore assets to reduce indebtedness. The sale of Açucar Guarani will have no effect on Edison's statement of income, but improves its financial position by 36 million euros.

The Contract Merging ISE into Edison Is Signed (December)

The instrument setting forth the merger of ISE into Edison Spa, effective December 3, 2004, is signed. For tax and reporting purposes, the merger is effective retroactive to January 1, 2004.

Report on Operations

Business Environment

Economic Framework

The early indications of a turnaround in the world economy that appeared in the second half of 2003 gained momentum in 2004. The economic expansion was driven mainly by the continuing recovery in the United States and the high rate of growth in the emerging economies, particularly Russia, China and India. In the euro-zone countries, the economy continued to expand at a modest pace, and Japan's growth rate slowed during the course of the year, showing that the stagnation of its economy is continuing.

In Europe, the new members of the European Union continued to benefit from favorable economic conditions, but the economies of the euro-zone countries, which are driven mainly by exports, were adversely affected by the strong euro, especially in the third quarter.

The emerging countries rebounded from the slowdown caused by the SARS epidemic. Economic growth was especially strong in China and the other emerging economies of East Asia, and business conditions remained healthy in Latin America. China ranked first in the world in terms of direct foreign investments in 2004, followed by the United States.

In 2004, the euro claimed its place among the strong currencies of the global currency market as the portion of international trade that is settled in euros continued to increase. The falling U.S. dollar had a negative impact on exports from euro-zone countries but helped shield Europe from higher raw material prices, especially for oil. The dollar, after falling significantly in value versus the euro in 2003 (the average exchange rate for the year was US$1.13 for one euro), lost another 9.7%, reaching an all-time low of US$1.3666 for one euro on December 28, 2004, and settled at US$1.24 for one euro at the end of the year.

Key economic data	**2004**	2003	% change
Oil price $/bbl	38.2	28.8	32.6%
$/euro exchange rate	1.24	1.13	9.7%
Oil price euro/bbl	30.7	25.5	20.4%

In the benchmark oil market, the price of Brent crude was very high in 2004, peaking at around US$52.20/bbl in October, before retreating to about US$40/bbl early in December. The cumulative average for the year was US$38.20/bbl, or 32.6% more than in 2003 (US$28.80/bbl).

However, the rising euro exchange rate offset part of the increase, limiting it to 5.2 euros/bbl compared with 2003, with the average increasing from 25.5 euros/bbl in 2003 to 30.7 euros/bbl (+20.4%) in 2004.

The rise in the cost of crude oil is the product of several factors affecting both demand and supply. More specifically, the increase in world demand (2.6 million barrels a day, or 3.7% more than in 2003) had been grossly underestimated, particularly for the emerging economies (especially China and India). In addition, the product mix shifted, with demand heavily weighted toward "light" products such as diesel fuel and gasoline.

The spike in demand coincided with a supply that was quite constrained both in terms of crude production and, to an even greater extent, refining capacity. This situation appears to be structural at this point, since it is the result of a long period of insufficient investment along the entire energy chain, from crude production to transportation and refining. The problem is made worse by a steady tightening of quality standards for refined products, which has created further constrained refining capacity.

The consequences of a structurally rigid supply were exacerbated by a series of other events that caused wide swings in oil prices: extraordinary international tensions, especially in the strategic regions of the Middle East following the conflict in Iraq; developments in Russia tied to the Yukos bankruptcy; an unusually active hurricane season in the United States, which forced many refineries to shut down and severely damaged several large refining facilities; and the United States' ongoing effort to refill its strategic oil reserve, which prevented any significant buildup of commercial inventories.

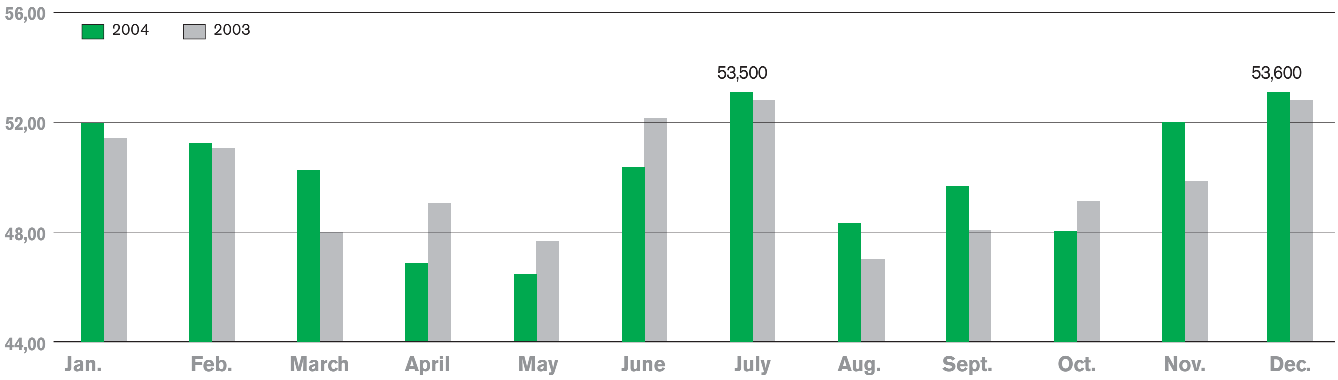
The Italian Energy Market in 2004

Demand for electric power in Italy (TWh)	**2004**	2003	% change
Net production	286.6	279.1	2.7%
Imports	45.6	51.0	(10.6%)
Surges	(10.3)	(10.4)	1.0%
Total demand	**321.9**	**319.7**	**0.7%**

In 2004, demand for electric power from the Italian grid totaled about 322 TWh (TWh = one billion kWh), up slightly (+0.7%) from 2003 (319.7 TWh). Net domestic production (excluding surges) totaled 286.6 TWh, or 2.7% more than in 2003, due primarily to an expansion of thermoelectric generating capacity. Domestic production was sufficient to meet about 86% of demand. Net imports fell by 5.4 TWh to 45.6 TWh. The decrease of more than 10% compared with the previous year shows that the trend that began in the second half of 2003 is continuing.

In July, demand rose to a new summer high for Italy of 53,500 MW, or 400 MW more than the summer high of 2003. The all-time high was reached in December, when the demand for power from the Italian grid rose to 53,600 MW, an increase of 200 MW compared with the record set in December 2003.

Peak Power demand in Italy

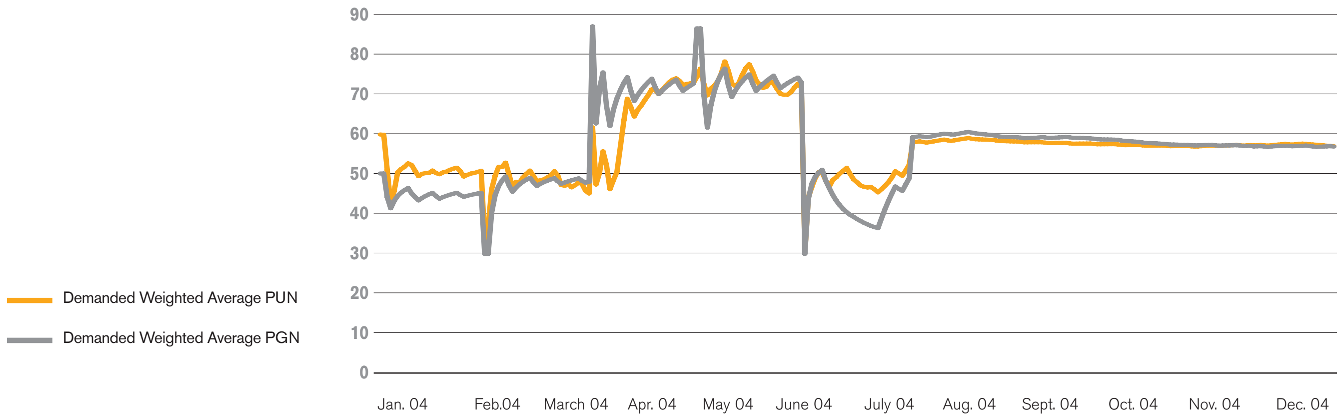


The additional generating capacity that came on stream in 2004 created sufficient redundancy to meet demand even when it reached record levels.

In April 2004, the Electric Power Exchange began operations as follows: its use will not be mandatory; it will use a marginal price system; it will set prices for different areas on the supply side; it will set an average weighted single national price (abbreviated PUN in Italian) on the demand side; the Manager of the Electric Power Market (abbreviated GME in Italian) will manage the energy markets (previous-day market and adjustment market); and the Operator of the National Transmission Grid (abbreviated GRTN in Italian) will manage dispatching services (congestion resolution, balancing and reserves).

The chart below shows the trend of the average PUN through December 2004, compared with that of the old benchmark, the National Power Generation Price (abbreviated PGN in Italian).

Comparison of Average PUN and Average PGN



Even though the Electric Power Exchange started to function effectively only in April, it has quickly demonstrated that it can provide good liquidity, shown by the fact that the quantities of electric power traded on the exchange were equal to 30% of total national consumption.
The price of energy traded on the exchange was roughly in line with what would have been managed wholesale prices. In addition, the Electric Power Exchange helped establish a close correlation between the prices charged at different hours of the day and the corresponding energy values.

Demand for Natural Gas in Italy (in billions of m³)	**2004**	2003	% change
Services and residential customers	28.2	28.6	(1.4%)
Industrial users	18.6	18.2	2.2%
Thermoelectric power plants	32.1	29.4	9.2%
Transportation	0.4	0.4	n.m.
Total demand	**79.3**	**76.6**	**3.5%**

Preliminary year-end figures prepared by the Ministry of Production activities show that total Italian demand for natural gas grew to about 79.3 billion cubic meters, or 3.5% more than in 2003.

The main reason for this substantial increase was higher demand from thermoelectric power plants, which rose 9.2% due to a sharp increase in electric power output. This increase reflects the startup of new combined-cycle power plants that were brought on stream in 2004 to meet the year's sizable increase in demand for electric power and satisfy future needs. Consumption by industrial users grew at a more moderate pace, but the rate of increase (+2.2%) was significantly faster than in previous years.
Demand from the service sector and residential customers was down (-1.4%) due to weather conditions that, on the whole, were less inclement than they were in the previous year.
Consumption of natural gas for transportation applications, which is still marginal, was about the same as in 2003, but is expected to grow in the future.

Regulatory Framework

Electric Power

The most significant legislative measure enacted in 2004 was Law No. 239/04 of August 23, 2004 on the "reorganization of the energy industry and delegation of powers to the government to streamline current energy statutes" (so-called Marzano Law). In particular, this law identified the energy policy objectives that fall within the purview of the government and amended existing legislation (Decree Law No. 79/99 and Decree Law No. 164/00) dealing, respectively, with the electric power and natural gas industries.

Market Rules and Energy Exchange

With regard to the start of the Exchange, the Electric Power and Gas Authority (abbreviated AEEG in Italian), which published dispatching rules in December 2003, issued resolutions on the following topics in 2004:

- Dispatching Rules Based on Economic Considerations for 2004 (Resolutions No. 47/04 and No. 48/04). The demand for energy will be quantified by the GRTN in order to ensure that the national demand for energy is met during the start-up phase, and the criteria for selecting supplier power plants will be defined based on the prices offered by power generators participating in the Electric Power Exchange.

- Remuneration of Generating Capacity in 2004 (Resolution No. 48/04). Establishment of the remuneration level for production capacity made available to the national electric power grid to handle seasonal emergencies.

During the second half of 2004, the Ministry of Production Activities established guidelines for active involvement on the demand side by all parties in Italy, providing for a transitional period from January 1 to March 31, 2005 that would help protect customers in the deregulated market and allow for the learning of rules and systems on the offering side.
The AEEG issued new dispatching rules based on economic considerations for 2005 that take into account the active role played by Exchange-based demand (Resolution No. 253/04) and also took certain other measures that promote competition and efficiency in the supply of electric power and create more stringent rules to control the power of the marketplace (Resolution No. 254/04).

Rate System

The AEEG issued Resolution No. 5/04, which introduced a new structure for the F1, F2, F3 and F4 time-of-use billing periods, as defined in a proposal by the GRTN,

which was based on the load profile clusters projected for 2004.
On July 27, 2004, acting in response to a jurisdictional objection filed by certain operations, the Regional Administrative Court of Lombardy handed down Decision No. 3201/04, voiding the portion of the AEEG Resolution that set, as of July 1, 2004, the new time-of-use billing periods. At the beginning of August, the Decision voiding the Resolution was stayed as a precautionary measure by the Council of State, which then cancelled it in an appeal ruling handed down on December 24, 2004. As a result, AEEG Resolution No. 5/04 is effectively valid and enforceable.
On February 19, 2004, the AEEG issued Resolution No. 20/04, which halved the purchasing cost coverage component (abbreviated CCA in Italian) for the month of March based on the fact that, since the starting date of the offer system (which was expected to bring lower prices) had not yet been set, there was a presumption that the setting of prices for the first two months of the year by means of an administrative decision would disadvantage consumers. Following jurisdictional appeals filed by several operators (including Edison), the resolution was stayed as a precautionary measure at the beginning of April and then voided in a decision handed down on June 22, 2004. On January 4, 2005, the AEEG appealed the decision of the Regional Administrative Court, but no hearing date had been set by the time this Report was being written.

Environment

A decree law enacted to implement the directive on emissions trading (ET), which was published on November 15, 2004 in Issue No. 268 of the Official Gazette of the Italian Republic, instructed all facilities operators to file the requisite application and submit, by December 30, 2004, all necessary information in order to allow the allotment of emissions quotas for the 2005-2007 period. The decree also establishes that the National Allotment Plan filed in Brussels on July 15, 2004 is a valid plan, with the adjustments that will be required following the collection of information about the facilities involved and the changes and additions that the European Commission may request. However, as of the writing of this Report, the Italian regulatory framework had not yet been finalized with regard to the implementation of the ET system, since the ET Directive (2003/87) had not yet been incorporated into Italian law, and the allotment of emissions quotas to the facilities (expected by the end of February 2005), which is a condition for trading on the carbon dioxide market as of January 1, 2005, had not been completed.

Hydrocarbons

The AEEG approved the rates proposed by natural gas distributors who supply end users for the period from 2001 to 2004 (Resolution Nos. 9/04, 42/04, 43/04 and 249/04). In addition, Resolution No. 170/04 approved the distribution rates for the second period under regulation (October 2004 to September 2008). This resolution was challenged before the Regional Administrative Court of Lombardy by the distributors' association (of which Edison is a member through Federestrattiva), which requested that the resolution be voided because the rates allowed would place an excessive burden on distributors. No decision had been handed down as of the date of this Report. With regard to access to local distribution networks, Resolution No. 138/04 of July 30, 2004 set forth the guidelines for the development of Network Codes by the distributors. In December 2004, the AEEG established a work group together with industry representatives to develop a standardized Network Code.

An especially important development was the publication of Resolution No. 284/04 on December 29, 2004. This resolution changes, as of January 1, 2005, the method for adjusting the raw-material component of the rates charged to end users. The operators, including Edison Spa and its subsidiary Edison per Voi Spa, challenged this resolution before the Regional Administrative Court of Lombardy, asking that it be voided. Implementation of the resolution is now suspended, pending a decision by the Regional Administrative Court.

Lastly, the AEEG issued Resolution No. 22/04, starting the process of developing a Natural Gas Exchange. More specifically, it has begun consultations with operators and industry associations for the purpose of defining standard contracts for daily trading in natural gas and revising the existing balancing system.

The Vega platform
in the Mediterranean Sea

Performance of the Group's Businesses

Net Revenues and EBITDA by Type of Business

	2004	2003	% change
Core Businesses			
Electric Power Operations			
Net revenues	4,581	3,889	17.8%
EBITDA	989	826	19.7%
as a % of net revenues	21.6%	21.2%	
Hydrocarbons Operations			
Net revenues	2,291	2,097	9.3%
EBITDA	325	362	(10.2%)
as a % of net revenues	14.2%	17.3%	
Corporate Activities			
Net revenues	77	77	n.m.
EBITDA	(88)	(101)	n.m.
as a % of net revenues	n.m.	n.m.	
Eliminations			
Net revenues	(1,281)	(922)	3.9%
EBITDA	-	-	n.m.
as a % of net revenues	n.m.	n.m.	
Total core businesses			
Net revenues	**5,668**	**5,141**	**10.2%**
EBITDA	**1,226**	**1,087**	**12.8%**
as a % of net revenues	21.6%	21.1%	
Other Operations			
CONTINUING OPERATIONS			
Water			
Net revenues	27	32	(15.6%)
EBITDA	4	3	33.3%
as a % of net revenues	14.8%	9.4%	
Engineering			
Net revenues	802	884	(9.3%)
EBITDA	24	28	(14.3%)
as a % of net revenues	3.0%	3.2%	
DIVESTED OPERATIONS (*)			
Net revenues	-	230	
EBITDA	-	(15)	
as a % of net revenues	-	(6.5%)	
Total other operations			
Net revenues	**829**	**1,146**	**(27.8%)**
EBITDA	**28**	**16**	**75.0%**
as a % of net revenues	3.4%	1.4%	
Edison Group			
Net revenues	**6,497**	**6,287**	**3.3%**
EBITDA	**1,254**	**1,103**	**13.7%**
as a % of net revenues	19.3%	17.5%	

(*) Operations divested in 2003: Antibioticos included for 3 months, EdisonTel included for 6 months.

Edison Group Companies by Type of Business and Country at December 31, 2004

	Italy	Other euro-zone countries	Other EU countries	Rest of Europe	United States	Rest of the world	Total
Subsidiaries and joint ventures							
Energy	32	5	2	1	-	2	42
Corporate	17	4	-	-	-	2	23
Water	-	21	4	2	1	6	34
Engineering	3	10	3	2	-	5	23
	52	**40**	**9**	**5**	**1**	**15**	**122**
Affiliated companies							
Energy	13	2	1	1	-	4	21
Corporate	19	1	-	-	-	1	21
Water	-	-	-	-	-	1	1
Engineering	4	-	-	-	1	-	5
	36	**3**	**1**	**1**	**1**	**6**	**48**
Total number of companies	**88**	**43**	**10**	**6**	**2**	**21**	**170**

Data by Geographic Region

Revenues by Geographic Source	2004	%	2003	%
Italy	6,049	93.1	5,748	91.4
France	85	1.3	45	0.7
Spain	-	-	26	0.5
Other euro-zone countries	12	0.2	1	0.0
Total euro-zone countries	**6,146**	**94.6**	**5,820**	**92.6**
Other EU countries	92	1.5	21	0.3
Eastern Europe	3	0.0	35	0.6
North America	-	-	-	-
Latin America	48	0.7	46	0.7
Africa	168	2.6	334	5.3
Asia	40	0.6	31	0.5
Total	**6,497**	**100.0**	**6,287**	**100.0**

Revenues by Geographic Destination	2004	%	2003	%
Italy	5,596	86.1	5,179	82.4
France	72	1.1	53	0.8
Spain	6	0.1	7	0.1
Other euro-zone countries	70	1.1	192	3.1
Total euro-zone countries	**5,744**	**88.4**	**5,431**	**86.4**
Other EU countries	143	2.2	25	0.4
Eastern Europe	10	0.2	61	1.0
North America	-	-	4	0.1
Latin America	50	0.8	53	0.8
Africa	193	3.0	370	5.9
Asia	357	5.5	343	5.5
Total	**6,497**	**100.0**	**6,287**	**100.0**

Financial Highlights by Type of Business – Data at December 31, 2004

	Electric Power		Hydrocarbons		Corporate, holding cos. and adjustments		Total core businesses	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
Statement of Income Data								
Net revenues	**4,581**	**3,889**	**2,291**	**2,097**	**(1,204)**	**(845)**	**5,668**	**5,141**
EBITDA	**989**	**826**	**325**	**362**	**(88)**	**(101)**	**1,226**	**1,087**
as a % of net revenues	21.6%	21.2%	14.2%	17.3%			21.6%	21.1%
Depreciation, amortization and writedowns [1]	(503)	(517)	(121)	(118)	(11)	(13)	(644)	(648)
EBIT [1]	**486**	**309**	**205**	**244**	**(99)**	**(114)**	**592**	**439**
as a % of net revenues	10.6%	7.9%	8.9%	11.6%		n.m.	10.4%	8.5%
Financial income								
Financial expense								
Interest in the result of companies valued by the equity method and writedowns of equity investments	1	2	5	1	(5)	5	1	8
Other income (expense), net								
Extraordinary income (expense), net								
Income taxes								
Net income (loss)								
Minority interest in net income (loss)								
Group interest in net income (loss)								
Balance Sheet Data								
Assets of the operating businesses	8,787	8,898	1,826	1,009	874	1,238	11,487	11,145
Equity investments valued by the equity method	33	52	26	10	867	855	926	917
Total assets	8,820	8,950	1,852	1,019	1,741	2,093	12,413	12,062
Total liabilities	1,086	871	539	734	914	286	2,552	1,891
Net invested capital [2] [3]	**7,734**	**8,079**	**1,313**	**285**	**814**	**1,807**	**9,861**	**10,171**
Net borrowings [3]							**4,152**	**4,364**
Other Data								
Capital expenditures	381	247	60	79	1	2	442	328
Additions to intangibles [4]	1	3	25	18	4	9	30	30
Additions to financial fixed assets [5]		12		1	2	402	2	415
Total capital investments	**382**	**262**	**85**	**98**	**7**	**413**	**474**	**773**
Research and development	3	5			1	2	4	7
Number of employees [3]	1,317	1,328	416	463	539	551	2,272	2,342
Net borrowings/ Net invested capital							42.1%	42.9%

[1] The depreciation and amortization shown for each type of business includes the share of the amortization of the consolidation difference allocated to that type of business.
[2] The net invested capital shown for each type of business reflects the inclusion of the consolidation difference.
[3] Year-end amounts. The staff numbers for 2003 have been reclassified in accordance with the new organization of the Group.
[4] Includes all intangibles, except for startup and expansion costs, consolidation difference and other intangibles.
[5] Includes purchases of equity investments and the assumption of their debt.

Continuing operations											
Water		Engineering		Divested operations		Adjustments		**Other operations**		**Edison Group**	
2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
27	**32**	**802**	**884**		**230**			**829**	**1,146**	**6,497**	**6,287**
4	**3**	**24**	**28**		**(15)**			**28**	**16**	**1,254**	**1,103**
14.8%	9.4%	3.0%	3.2%		(6.5)%			3.4%	1.4%	19.3%	17.5%
(2)	(3)	(3)	(6)		(31)			(5)	(40)	(639)	(688)
2		**21**	**22**		**(46)**			**23**	**(24)**	**615**	**415**
8.5%		2.6%	2.5%		(20.0)%			2.8%	(2.1)%s	9.5%	6.6%
										142	230
										(390)	(513)
	2						(30)		(28)	1	(20)
										12	3
										4	543
										(151)	(424)
										233	**234**
										78	**90**
										155	**144**
26	24	3,210	2,878			21	14	3,257	2,916	14,744	14,061
	3		1						4	926	921
26	27	3,210	2,879			21	14	3,257	2,920	15,670	14,982
17	16	3,314	2,935			(8)	(16)	3,323	2,935	5,875	4,826
9	**11**	**(104)**	**(56)**			**29**	**30**	**(66)**	**(15)**	**9,795**	**10,156**
(19)	**(10)**	**(191)**	**(136)**			**(87)**	**(75)**	**(297)**	**(221)**	**3,855**	**4,143**
10	4	2	2		18			12	24	454	352
					33				33	30	63
										2	415
10	**4**	**2**	**2**		**51**			**12**	**57**	**486**	**830**
		6	3		3			6	6	10	13
7	18	1,578	1,610					1,585	1,628	3,857	3,970
n.m.	n.m.	n.m.	n.m.		n.m.			n.m.	n.m.	39.4%	40.8%

Electric Power Operations

Quantitative Data

Sources (in GWh) (*)	**2004**	2003	% change
Edison Group Net production	**35,552**	**35,310**	**0.7%**
- Thermoelectric power plants	31,879	31,718	0.5%
- Hydroelectric power plants	3,269	3,267	0.1%
- Wind farms	404	325	24.3%
Edipower	**12,443**	**1,623**	**n.m.**
Imports	**1,111**	**1,184**	**(6.2%)**
Other domestic purchases and swaps [1]	**2,407**	**6,964**	**(65.4%)**
Total sources	**51,513**	**45,081**	**14.3%**

Uses (in GWh) (*)			
CIP-6 dedicated	22,903	22,253	2.9%
Captive and other industrial customers	5,283	5,931	(10.9%)
Deregulated market	23,327	16,897	38.1%
Total uses	**51,513**	**45,081**	**14.3%**

(*) One GWh is equal to one million kWh.
(1) Net of line losses and tolls.

Financial Highlights

	2004	2003	% change
Electric power	3,949	3,418	15.5%
Steam and utilities	127	132	(3.8%)
Other sales and services	171	147	16.3%
Total sales and service revenues	**4,247**	**3,697**	**14.9%**
Other revenues	334	192	74.0%
Net revenues	**4,581**	**3,889**	**17.8%**
EBITDA	989	826	19.7%
as a % of net revenues	21.6%	21.2%	
Capital expenditures	381	247	54.3%
Net invested capital	7,734	8,079	(4.3%)
Number of employees [1] [2]	1,317	1,328	(0.8%)

(1) Year-end amounts.
(2) The number of employees shown for 2003 has been recomputed to reflect changes in the Group's structure.

In 2004, **revenues** totaled 4,581 million euros, or 17.8% more than in 2003. This increase was made possible mainly by a rise in unit sales (+14.3%), by higher average unit sales prices, which reflected an increase in the fuel component, and by successful marketing efforts.

Revenues from the sale of steam and other utilities were down about 5 million euros from 2003, due to a 3.5% decline in unit sales (8,917 kt, compared with 9,238 kt the previous year). Average prices were in line with those charged in 2003.

At December 31, 2004, EBITDA totaled 989 million euros, or about 163 million euros more (+19.7%) than in 2003. An increase in the availability of electric power, which enabled Edison to take full advantage of the opportunities available in the market segments described below, and a more favorable pricing structure account for this improvement.

Sales and Marketing

Sales of electric power totaled 51,513 million kWh in 2004, for an increase of 6,432 million kWh (+14.3%) compared with 2003. The biggest gain occurred in the deregulated market, where unit sales were up 38.1%, thanks to increases in deliveries to noncaptive customers (+5.3%) and the contribution of sales on the Electric Power Exchange and so-called STOVE sales (which totaled 3.4 TWh and 2.1 TWh, respectively), two channels that became available for the first time in 2004.

This positive performance, which strengthened Edison's position as Italy's leading operator in the deregulated market, was also made possible by the additional power provided by Edipower (the tolling agreement became fully operational at the start of 2004) and the success achieved on the Electric Power Exchange.

A breakdown of the types of customers served as of the end of 2004 is as follows:

- **Large users and SME market** (annual consumption of electric power in excess of 1 million kWh): 42 large users (62 locations supplied), 192 individual customers (294 locations) and 69 consortia (2,672 locations).
- **Small users market** (annual consumption of electric power between 100,000 and 1 million kWh): Deregulated on April 29, 2003. As of December 31, 2004, 1,417 companies had signed supply contracts (under the terms of framework agreements) for deliveries at more than 2,300 locations.

- **Wholesalers and comarketers** (intermediaries and companies with marketing or partnership agreements): these two types of customers were not served in 2003. Contracts with 30 operators were signed in 2004.

Production and Procurement

Edison's production of electric power increased slightly (+0.7%) compared with 2003, rising to 35,552 GWh, as the output of its thermoelectric power plants expanded by 0.5% and wind power generation rose by 24.3%, owing in part to the startup of new wind farms. Hydroelectric production was about the same as in the previous year.

Purchases from outside suppliers were down sharply compared with 2003. This decrease is explained by the positive impact of the tolling contract with Edipower, which upon becoming fully operational on January 1, 2004, significantly boosted the Group's supply of electric power and strengthened its position in the electric power market.

Edipower

Financial Highlights	2004	2003	Financial Highlights
Net revenues	986	1,143	(31.1%)
EBITDA	462	326	41.7%
EBIT	126	90	40.0%
Net income	8	2	n.m.
Capital expenditures	292	486	(39.9%)
Net invested capital [1]	4,144	4,151	(0.2%)
Net borrowings [1]	2,160	2,175	(0.7%)
Number of employees [1]	1,350	1,480	(8.8%)

[1] Year-end amounts

Edison has a 40% interest in Edipower, but, as mentioned earlier, the tolling contract gives Edison control of 50% of Edipower's production capacity. Because the implementation of the tolling contract caused a significant change in the structure of Edipower's business, the 2004 financial data are not comparable with those of the previous year. Edipower had net revenues of 986 million euros in 2004, including 67 million euros in revenues from the sale of fuel inventories to tollers, executed upon the implementation of the tolling agreement. EBITDA totaled 462 million euros, an amount equal to 46.9% of net revenues.

The energy made available to tollers during 2004 amounted to 25.0 TWh, an increase of about 4 TWh (+19.2%) compared with the previous year. This increase reflects the commercial startup of the repowered Sermide and Chivasso power plants. An additional 0.4 TWh were sold directly to the GRTN. The hydroelectric power plants accounted for 8.8% of total production, up from 8.5% in 2003.

Capital expenditures totaled about 292 million euros in 2004. They were used for the repowering of the Chivasso, Sermide and Piacenza power plants (work in Piacenza is still in progress) and for environmental compliance work at Units 3 and 4 of the Brindisi power plant.
More specifically:

- Sermide – The repowered Unit 3 (capacity of 380 MW) began commercial operation during the first six months of 2004, and Unit 4 (capacity of 760 MW) went on stream in the second half of the year, after completing the preliminary tests needed for plant certification.
- Chivasso – The production capacity of this facility became available to tollers with the commercial startup of Unit 2 (capacity of 380 MW). Unit 1 (capacity of 760 MW) became available in December.
- Brindisi – The environmental compliance work for Units 3 and 4 was completed in the fourth quarter of 2004 with the installation of catalytic denitrification equipment and of the related ammonia production system.
- Piacenza – Construction of a new, 800-MW, combined-cycle facility has reached an advanced stage.

Indebtedness totaled 2,160 million euros at December 31, 2004, or 15 million euros less than at the beginning of the year. The cash flow from operations that remained after financing the year's capital investments accounts for this improvement.

At December 31, 2004, Edipower had 1,350 employees on its payroll, 130 less than at the end of 2003.

Hydrocarbons Operations

Quantitative Data

Sources (in millions of m^3 of natural gas)	**2004**	2003	Variazioni %
Total net production:	**1,309**	**1,512**	(13.4%)
- Production in Italy	1,027	1,137	(9.7%)
- Production outside Italy	282	375	(24.8%)
Pipeline imports	**6,710**	**5,481**	22,4%
LNG imports	**18**	**400**	(95.5%)
Domestic and other purchases [1]	**3,421**	**2,681**	27.6%
Total supply sources	**11,458**	**10,074**	13.7%
Direct purchases to fuel power plants	1,989	2,277	(12.6%)
Total supply	13,447	12,351	8.9%

Uses (in millions of m^3 of natural gas)	**2004**	**2003**	**Variazioni %**
Residential use (consumers)	328	308	6.5%
Residential use (distributors)	2,858	2,333	22.5%
Industrial use	1,653	1,552	6.5%
Thermoelectric fuel use	6,156	5,506	11.8%
Export sales	282	375	(24.8%)
Other sales	181	-	n.a.
Total uses	**11,458**	**10,074**	**13.7%**

[1] Includes inventory changes and pipeline leaks.

Financial Highlights

	2004	2003	Variazioni %
Natural gas sales [*]	2,115	1,894	11.7%
Sales of oil and other products	65	63	3.2%
Total sales revenues	**2,180**	**1,957**	11.4%
Other revenues (including excise taxes)	111	140	(20.7%)
Net revenues	**2,291**	**2,097**	9.3%
EBITDA	325	362	(10.2%)
as a % of net revenues	14.2%	17.3%	
Capital expenditures	60	79	(24.1%)
Investments in exploration	25	17	47.1%
Net invested capital [1]	1,313	285	n.m.
Number of employees [1] [2]	416	463	(10.2%)

(*) Includes the value of intra-Group sales.
[1] Year-end amounts.
[2] The number of employees shown for 2003 has been restated to reflect changes in the Group's structure.

In 2004, net revenues totaled 2,291 million euros, or 9.3% more than in 2003. The reason for this increase is a 13.7% rise in unit sales, offset in part by the impact of a decrease in the average price at which natural gas was sold, the sale of the natural gas distribution network in July 2004 and a reduction in foreign production following the sale of the WDDM reserves located in Egypt in June 2003.
Sales prices were slightly lower than in 2003 because there is a lag of a few months before prices can catch up with a rise in the cost of benchmark fuels. As a result, the former could not fully reflect the spike that occurred in the latter, especially in the second half of 2004.

Stated in euros, the price of blended oil held relatively steady at 16.9 euros per barrel, compared with 17.0 euros per barrel in 2003. The price of pure (non-fluxed) oil decreased slightly, falling from 15.5 euros per barrel to 14.8 euros per barrel.

Despite an improvement in the second half of the year, EBITDA declined to 325 million euros in 2004, or 10.2% less than in 2003. This decrease in operating profitability, which occurred despite a gain in unit sales, was caused by the contraction in the average price charged for natural gas that resulted from the indexing mechanism mentioned above, the sale of the natural gas distribution network in July 2004 and a reduction in foreign production following the sale of the WDDM reserves in June 2003.

Sales and Marketing

Sales of natural gas totaled 11,458 million cubic meters in 2004, an increase of 13.7% compared with the 10,074 million cubic meters sold in 2003.

Thanks to successful marketing programs, unit sales to residential customers and industrial users grew by 21% and 6.5%, respectively, compared with 2003.

Deliveries to thermoelectric generators were up 11.8%, as Edison and Edipower power plants stepped up purchases of natural gas to support an increase in their output.

The portfolio of residential end users continued to expand. In 2004, Edison Per Voi, the Group company that serves the residential markets, signed up 11,000 new cus-

tomers, and the acquisition of ASEP Gas brought another 8,700 indirect customers. At the end of 2004, Edison Per Voi had 154,000 direct customers.

In 2004, marketing activities directed at wholesalers and distributors continued to yield renewals of existing contracts and helped add a significant number of new customers. Commercial activities carried out through alliances (the four natural gas distributors formed by Edison in partnership with former municipal utilities) continued to serve an expanding pool of customers, contributing in excess of 2 billion cubic meters to total natural gas sales.

Other sales of 181 million cubic meters represent gas sold to other wholesalers.

Production and Procurement

Net production decreased compared with 2003, due to the normal depletion of existing deposits in Italy and the absence of a contribution from the WDDM offshore field in Egypt, since these reserves were sold in June 2003. Net production of natural gas totaled 1,309 million cubic meters (1,027 million cubic meters produced in Italy), or about 13.4% less than in 2003.

At 2,424,000 barrels, production of crude oil was only slightly lower than in 2003, as the fields continued to produce at a good rate.

The operations responsible for natural gas procurement increased imports via pipeline from different sources, under short- and long-term contracts, in Russia, Northern Europe and North Africa (+22.4%).
In October 2004, Edison began importing Libyan gas, following the start of production at the Wafa onshore field by Eni North Africa and the inauguration of the Greenstream pipeline, which links Mellitah, on the Libyan coast, with Gela in Sicily.

A significant development affecting imports of LNG was the accident that occurred in January 2004 at the Skikda liquefaction facility in Algeria. This caused a sharp reduction in the supply of Algerian LNG to the Mediterranean market, which reduced the availability of LNG in the spot market for Edison as well.

Imports of natural gas totaled 6,728 million cubic meters in 2004 (5,881 million cubic meters imported in 2003), accounting for about 60% of the natural gas Edison sold in Italy.

The rise in domestic purchases compared with the previous year is due primarily to gas supplied by Eni that was used to fuel thermoelectric power plants.

In 2004, as part of the strategy to help the Group support the growth in demand in the domestic market, work continued on a project to build an LNG regasification terminal in the Northern Adriatic (in partnership with ExxonMobil and Qatar Petroleum) that will give Edison access to long-term imports from Qatar.
In addition, Edison was engaged in studying and completing the paperwork for a terminal in Rosignano Marittimo (in partnership with Solvay and BP) and for a new Algeria-Sardinia-Italy pipeline (in partnership with Enelpower Spa, Sonatrach Spa and Winthershall AG).

Corporate Activities

Highlights	2004	2003 (*)	% change
Net revenues	77	77	n.m.
EBITDA	(88)	(101)	12.9%
as a % of net revenues	n.m.	n.m.	
Capital expenditures	1	2	n.m.
Net invested capital (1)	1,910	2,236	(14.6%)
Number of employees (1)(2)	239	551	(2.2%)

(1) Year-end amounts.
(2) The number of employees shown for 2003 has been recomputed to reflect changes in the Group's structure.
(*) Pro forma amounts that include Selm Holding, Finel and Stirpex, which were previously classified among the holding companies of the Energy operations.

Corporate Activities, which consist primarily of those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature and of certain holding companies and real estate companies, had revenues of 77 million euros, about the same as in 2003.

EBITDA were negative by 88 million euros, but the loss was 12.9% better than the 101 million euros lost in 2003, thanks to a reduction in overhead and the improvements brought about by a restructured and streamlined corporate organization.

In 2004, as required under the agreement signed last year with Eni and Enichem to settle all of the disputes submitted to arbitration in 1992 in connection with the Enichem and Enimont joint ventures, Edison Spa paid both the second and third annual installments, earning a discount on the accrued interest.

Also in 2004, as part of the corporate restructuring process that got under way in 2003, Edison Spa absorbed Bussi, Caffaro, Savim, Sogetel, Vega Oil and ISE.

Capital Increases

Capital increases amounting to 46.8 million euros were carried out in 2004 to accommodate the conversion of outstanding warrants, which can be exercised on an ongoing basis until December 31, 2007. A total of 1,025,610,284 warrants were outstanding at December 31, 2004.

Financial Transactions

As was mentioned in the Key Events section of this Report, the Group continued to work on lowering its cost of funds, lengthening the maturity of its indebtedness and, consistent with the goals of the Industrial Plan, consolidating its debt within the medium-term bracket, while at the same time bringing the terms under which it borrows in line with those offered by the market to other top industrial enterprises.

These transactions improved the structure of the Group's debt, bringing the ratio of bond and bank debt to 65%-35% and lengthening the average maturity by four years. As a result of these efforts, the credit rating agencies upgraded the Company credit standing, with Standard & Poor's boosting its rating to BBB+ and Moody's revising its outlook from negative to positive.

Real Estate Companies

In 2004, the Group continued to divest nonstrategic real estate assets, which were valued at 76 million euros at December 31, 2004, 22 million euros less than at the beginning of the year, reflecting the disposal of the following properties, which were sold at prices roughly equal to their carrying values:

- a building on Via Amba Alagi, in Genoa;
- a building on Via dell'Ambrosiana, in Milan;
- a building on Via Sud Africa in Rome;
- a building on Piazza Piccapietra in Genoa;
- land located in Tor Tre Teste, in Rome.

The corporate restructuring process continued in this area as well, resulting in the transfer of most of the Group's real estate assets (other than those owned by Edison Spa) to the Come Iniziative Immobiliari Srl subsidiary, which absorbed ICI, ACTA, Cersam and Immobiliare Assago.

During 2004, acting in response to reports by export appraisers, the Group set aside reserves totaling 13 million euros in the financial statements of Edison Spa and Come Iniziative Immobiliari Srl to align the carrying values of certain properties with their market value.

Other Continuing Operations

Water Distribution and Treatment (IWH)

Highlights	2004	2003 (*)	% change
Net revenues	27	32	(15.6%)
EBITDA	4	3	33.3%
as a % of net revenues	14.8%	9.4%	
Capital expenditures	10	4	n.m.
Net invested capital (1)	9	11	(18.2%)
Number of employees (1)	7	18	(61.1%)

(1) Year-end amounts.
Note: The data reflect the 50% interest held by the Group in these operations, which are consolidated by the proportional method.

Revenues, which were generated by operations carried out in Guayaquil under license, totaled about 27 million euros in 2004. Operating expenses for the period came to about 23 million euros, of which about 20 million euros are attributable to the Guayaquil license and about 3 million euros constitute overhead, which includes the cost of downsizing incentives (the payroll decreased by 11 employees compared with December 31, 2003). EBITDA were positive and higher than in 2003.

IWH BV sold the interests it had held indirectly in Scottish companies that provide water management and treatment services in the Highlands and in Tay, Moray and Montrose to Infrastructure Investors LP, a fund managed by Barclays and Société Générale. As a result, IWH BV now operates only in South America.

The polyethylene plant in Ruwais (Abu Dhabi) built by Tecnimont.

Engineering (Tecnimont)

Highlights	2004	2003 (*)	% change
Net revenues	802	884	(9.3%)
EBITDA	24	28	(10.7%)
as a % of net revenues	3.0%	3.2%	
Capital expenditures	2	2	-
Order portfolio	568	955	(40.5%)
Net invested capital (1)	(104)	(56)	85.7%
Number of employees (1)	1,578	1,610	(2.0%)

(1) Year-end amounts.

In 2004, market indicators confirmed that the upturn in capital spending appears to be gaining momentum, even though contract award processes remained lengthy and economic and financial disturbances are causing spikes in raw material prices and major swings in the euro/U.S. dollar exchange rate. Against this background, Tecnimont was able to maintain the operating margins it achieved last year (about 3.0% of revenues). Thanks to a positive cash flow from several large contracts, the net financial position improved by about 55 million euros (+40.4%), with the positive balance rising from 136 million euros at the end of 2003 to 191 million euros at December 31, 2004.

The order portfolio, which totaled 568 million euros at December 31, 2004, was adversely affected by the decline in value of the U.S. dollar. As mentioned earlier in this Report, the current backlog does not reflect the value of contracts that have already been signed but have not yet gone into effect, such as an order in Yanbu (Saudi Arabia) and the LNG terminal in Brindisi, which have an aggregate value of about 337 million euros.

Orders booked by Tecnimont in 2004 included: about 200 million euros for a polypropylene plant in Yanbu (Saudi Arabia); about 10 million euros for a low-density polyethylene factory in the Lanzhou Petrochemical District in China; 180 million euros (interest attributable to the Sofregaz subsidiary) to build, on a turn-key basis, an LNG terminal in Fos Cavaou, near Marseille, France; and 145 million euros (interest attributable to Tecnimont) to build an LNG regasification terminal in Brindisi.

A breakdown of the order backlog by geographic region and product at December 31, 2004 is as follows:

Geographic Breakdown		Product Breakdown	
Europe	59%	Oil and Gas	48%
China	19%	Polymers	45%
Middle East	14%	Chemicals/Fertilizers	5%
Africa	4%	Energy	2%
Italy	4%		

Capital Expenditures

Electric Power

In 2004, the Electric Power operations made capital expenditures totaling about 381 million euros (+134 million euros compared with 2003), broken down as follows: 341 million euros to increase generating capacity, 32 million euros for rationalization and improvement programs and 8 million euros for safety.

The Hydroelectric Division, in addition to its usual incremental maintenance activity, launched and completed several major projects. The capacity added by these projects qualifies as new renewable energy, as defined in the Bersani Decree, and, consequently, will earn the Group the applicable green certificates.

Noteworthy hydroelectric projects included the completion of the Marlengo power plant renovation, installation of automation and remote control systems at the Sonico facility and replacement of the turbine and alternator unit at the Colle power plant.

The capital expenditures of the Thermoelectric Division were used to:

- Continue the construction of two 800-MW thermoelectric power plants in Torviscosa (UD) and Altomonte (CS) and a 400-MW thermoelectric facility in Candela (FG). At the Altomonte power plant, all of the mechanical equipment has been installed and the commissioning process is 70% complete, while in Torviscosa the main components of the gas turbines are already in place and all of the mechanical equipment has been installed in Candela.
- Complete the expansion of the Sarmato power plant, which will increase available power by 28 MW.
- Complete a project that will double the capacity of a 55-MW, cogenerating, combined-cycle power plant in Sesto San Giovanni.
- Begin the construction of an 800-MW power plant in Simeri Crichi (CZ).

Capital expenditures in the area of wind power were used mainly to develop facilities and upgrade those already in operation, adding a total of about 40 MW in generating capacity. The main facilities involved were those in Faeto-Castiglion Messer Marino (CH) and San Bartolomeo-Volturino (FG).

Hydrocarbons

Capital expenditures totaled 60 million euros in 2004, compared with 79 million euros in the previous year. The main projects are reviewed below:

- Activities **in Italy**, included workover of the Regina gas field and development of the Montegranaro gas field and of the Rospo oil field. In the Adriatic, construction of the offshore Naide platform resumed in the second half of the year, with the start of production scheduled for the first quarter of 2005. Also in Italy, gas storage projects included the expansion of the Collalto (UD) field, where work got under way in the first quarter of 2004. In the area of distribution, capital expenditures were used mainly for new hookups, pipe stock and decompression stations.
- **In Egypt,** the main project included installation of the gas compressors needed to support production from the Rashid-1 field in the Rosetta concession (Edison 20%) and construction of a second platform in the Rosetta field, which is expected to begin producing in the spring of 2005.

During the first six months of 2004, **investments in exploration** totaled 25 million euros, 19 million euros of which were used for projects outside Italy.

In Italy, the drilling of two wells – the Monteguzzo-1, which produced natural gas, and the Tresauro-1, which yielded oil – was completed successfully. At the same time, the Group began to assess the feasibility of new projects in the Padanian Plain and in Sicily.

Outside Italy:

- In Egypt, Edison made significant progress toward obtaining an exploration permit in West Wadi El Rayan, with work scheduled to start in the first half of 2005;
- In Algeria, 3-D seismic mapping of the Reggane block has been completed, with the drilling of the first exploratory well now under way, and Edison was awarded a new exploratory block called Akabli;
- In Croatia, completion of the seismic maps of the Izabela and Iris/Iva concessions was followed by the drilling of an exploratory well, which yielded significant quantities of natural gas;
- In Iran, two exploratory wells were drilled unsuccessfully in the Munir block.

New projects include the award of two new permits in Senegal and the Ivory Coast. 3-D seismic mapping of these blocks is already under way.

With regard to the start of the Rovigo LNG terminal project, in 2004, the Italian Ministry of Production Activities issued a decree allowing an 80% expansion of the terminal's regasification capacity for 25 years, granted the marine permit needed to increase capacity and issued a decree committing the funds needed to provide the statutory subsidy. In addition, the competitive bidding for the contracts to build the reinforced concrete structure and the tanks has been completed and the contracts for the construction of the regasification facilities have been put out to bid.

Innovation and Development

In 2004, the Group focused its research and development efforts on projects involving superconductivity, distributed power generation, hydrogen and fuel cells and launched a new project in the field of concentrated solar energy for electric power generation.

The Research Center in Trofarello (TO).

Superconductivity

The projects financed by MIUR and CNR, which deal with the development of two different processes for producing superconducting tape (a chemical process that uses electrodeposition and a physical process that uses evaporation under vacuum), were completed in 2004. System research activities carried out in 2004 on behalf of CESI included the start of procurement activities for and electromagnetic characterization of superconductors that are being evaluated for use in current limiters. Significant progress was also made in the area of magnesium boride superconductors, as Edison continues to develop a proprietary reactive infiltration technology.

Distributed Generation of Electric Power

The experimental phase of a project carried out in cooperation with the Fiat Research Center that involves the evaluation of the technology needed to build networks to control a large number of small co- and tri-generating (electric power, heating and cooling) units was completed in May.

Concentrated Solar Energy

An outdoor station for latest-generation photovoltaic cells has been built at the Edison Research Center. The station can also be used to test prototypes of cells that use different technologies, including those developed jointly by Edison and university work groups.

Hydrogen and Fuel Cells

Laboratory work began in September on the testing of cells and systems that use a polymer electrolyte and high-temperature cells of the solid oxide type. These projects are financed under an agreement with the Region of Piedmont and the Italian Ministry of the Environment.

In 2004, Edison launched several projects that, in keeping with its stated environmental and safety policy, pursue compliance with statutory requirements, stimulate technological innovation, enhance global competitiveness and improve relationships with the community.

The environmental policy of the Edison Group is consistent with sustainable development models. It places environmental issues at the center of the Group's strategies and defines principles and guidelines that serve as reference points for all Group companies.

The main achievements of 2004 in this area are reviewed below:

- award of EMAS registration to the organization and the power plants of Thermoelectric Division 1 and of BSI OHSAS 18001 occupational safety and health certification to the Bussi, Marghera Azotati, Marghera Levante and Spinetta Marengo power plants, and for the organization and operating units of Edison Rete;

- award of EMAS registration to the Cologno Monzese and Celano power plants of Thermoelectric Division 2 and to Serene's power plant in Melfi;
- implementation of an ISO 14001 BSI OHSAS 18001 integrated environmental and safety management system at the Vega and Rospo offshore oil fields;
- completion of a quality management system that will be used by the Purchasing Department to check and evaluate the performance of suppliers;
- completion of a quality management system for an SAT research project on "superconduting tape at high critical temperature" and start by the Trofarello Research and Development Department of the verification process needed to obtain SINAL accreditation from the Electric Measurements Laboratory in accordance with UNI CEI ISO/IEC 17025/2000;
- start of the process needed to secure EMAS for the Eastern and Western Regions of the Hydroelectric Division, for the Nera Monitoro and Porcari power plants of Thermoelectric Division 2 and for Serene's power plants in Rivalta and Cassino;
- start of a project to implement an ISO 14001 and BSI OHSAS 18001 integrated environmental and safety management system in the Caffaro district, which includes the Caffaro and Meduno hydroelectric facilities.

In order to accelerate the downward trend in job-related accidents and in light of the significant increase in the number of at-risk locations inherent in the construction of new power plants, the Group launched the following projects in 2004:
- training for middle managers, which included accident analysis courses that were attended by all managers who deal with safety issues;
- development of a new, computer-based method of assessing risk in order to address the need for new operating tools as a result of the implementation of safety management systems.

Human Resources and Industrial Relations

Human Resources

At December 31, 2004, the Edison Group had 3,857 employees (including the staff of companies consolidated by the proportional method), compared with 3,970 at the end of 2003. Efficiency gains by the core businesses and by the corporate staff functions account for the decrease of 113 employees.

The corporate restructuring program, which in 2004 led to the merger by absorption into Edison Spa of certain operating subsidiaries, affected about 310 employees. At the same time, the Group's core businesses were able to lower their overall labor costs by about 6% compared with 2003.

The table below provides a breakdown of the Group's payroll by type of business at December 31, 2004 and shows the changes that have occurred since December 31

Number of Employees by Type of Business

	2004	2003	Change
Electric Power Operations	1,317	1,328	(0.8%)
Hydrocarbons Operations	416	463	(10.2%)
Corporate Activities	539	551	(2.2%)
Core Businesses [1]	**2,272**	**2,342**	**(3.0%)**
Water	7	18	(61.1%)
Engineering	1,578	1,610	(2.0%)
Divested operations	-	-	
Edison Group	**3,857**	**3,970**	**(2.8%)**

[1] The number of employees shown for 2003 has been recomputed to reflect changes in the Group's structure.

Industrial Relations

The main developments that occurred in 2004 are reviewed below:

- in April and May 2004, as part of the reorganization and corporate restructuring process, signing of agreements with the unions to provide long-term unemployment benefits to employees of the Thermoelectric and Hydroelectric Divisions in the provinces of Venice, Rovigo, Trento, Bolzano and Sondrio. These agreements provided retirement incentives for about 60 employees;
- start of negotiations with the national unions in connection with Level Two collective bargaining for all Group companies that are covered by the national collective bargaining agreement for electrical workers;

- definition of new employment contracts for the employees of companies that were merged into Edison Spa as part of the simplification and streamlining of the Group's corporate structure;
- signing of a memorandum of agreement with the Managers' Union regarding the dissolution of the FIPDAM (a supplemental pension plan for managers of Montedison companies) and proposal to switch to the Previndai as the reference retirement fund for this class of employees;
- signing of a new company agreement by the engineering operations (Tecnimont) covering the profit-sharing bonus from 2004 to 2008 and flexibility in weekly work schedules.

Organization and Training

The adoption of a new developmental organizational model by the Group's core energy businesses, which were structured into Business Units in December 2003, required that the detailed organizational structure of the Departments involved and the management of certain central staff functions also be redesigned and made consistent. The new model also created the need to reorganize such basic processes as Strategic and Operational Planning and Business Development and to establish a new organization and new policies and procedures in the area of risk management.

In addition, the Group established two new Central Departments designed to provide more efficient management and strategic oversight of regulatory and legal issues, while also handling relations with the public administration, developing a corporate communication strategy and managing media relations.

Another project completed during the first half of the year involved mapping all corporate activities and processes in order to update the existing organizational, management and control model and make it consistent with the new law on the administrative liability of legal entities (Legislative Decree No. 231/01).

Consistent with the guidelines in the Group's Code of Ethics, Edison

Spa approved in July 2004 an organizational and management model specifically designed to shield the Company from administrative liability. Full implementation of the model began immediately.

In addition, the Group took the necessary steps to upgrade its organization and management system, making it consistent with new regulations designed to protect personal data (Legislative Decree No. 196 of June 30, 2003 – Personal Data Law).

The Group increased training for its management personnel, launching a program specifically designed for executives, and developed new programs that address changes in market environment (start of the Energy Exchange) and regulatory framework (introduction of Model L. 231 and reform of the tax law). Another important project involved the creation of professional training paths for the operators of the new Altomonte and Candela power plants.

Additional training was provided in the areas of safety, quality and environmental protection, with the goal of preventing occupational accidents and supporting the implementation of quality management systems at all Company locations. Overall, the Group's core businesses spent more than 1.5 million euros for training-related outside services.

Edison's System of Corporate Governance

The system of corporate governance (i.e., the set of standards and behavior guidelines) adopted by the Company to ensure the efficient and transparent functioning of its corporate governance and internal control systems complies with the recommendations and standards of the Code of Conduct published by Borsa Italiana and is consistent with international best practice.

The Bylaws adopted by Edison have been amended to comply with the provisions of Legislative Decree No. 58/98 with regard to the information that must be provided to the Board of Statutory Auditors and nonexecutive Directors and include provisions concerning the rights of minority stockholders to representation on the Board of Statutory Auditors. The Bylaws were again amended on the occasion of the Stockholders' Meeting of April 28, 2004 to make them consistent with new statutory provisions enacted with Legislative Decree No. 6/2003. More specifically, the provisions governing the Board of Directors were amended to give it jurisdiction over certain issues previously reserved for the Stockholders' Meeting, and the rules for convening and attending stockholders' meetings were simplified. The Bylaws are available at the Company website: www.edison.it.

Consistent with its status as a company under Italian law with shares traded on a stock exchange that follows the guidelines of the abovementioned Code of Conduct, Edison has adopted a multi-tier system of corporate governance that comprises: the Board of Directors (supported by an Audit Committee, a Compensation Committee and a Strategy Committee), the Chairman of the Board of Directors, the Chief Executive Officer and the Board of Statutory Auditors.

The Company's corporate governance structure also includes procedures for allocating and delegating authority, a system of internal controls and the Company's Code of Ethics. The Code of Ethics defines the fundamental principles and values that must guide the behavior of all members of the corporate organization, including Directors, Statutory Auditors, employees and business partners. The Code of Ethics is also available at the Company website: www.edison.it.

Stockholders' Meeting

The Stockholders' Meeting is the means by which stockholders, through their vote on resolutions, express their will. Resolutions adopted pursuant to law and the Company's Bylaws are binding on all stockholders, including absent or dissenting stockholders. However, when permitted, dissenting stockholders have the right to demand redemption of their shares.

The Stockholders' Meeting is convened to adopt resolutions on issues that the law reserves for its jurisdiction in accordance with the laws and regulations that apply to publicly traded companies.

The Company has not adopted specific regulations for the conduct of its Stockholders' Meetings because it believes that the powers granted to the Chairman of the Meeting under the Bylaws, which include moderating discussions and determining voting order and procedures, are sufficient to ensure that the Meeting progresses in an orderly fashion and that these general powers avoid the risks and inconveniences that could arise should the Meeting fail to comply with the provisions of specific regulations.

Stockholder Base and Stockholder Agreements

The structure of Edison's capital and stockholder base are summarized below.

On March 16, 2005, Edison's capital stock totaled 4,265,541,651.00 euros, divided into 4,154,949,231 common shares and 110,592,420 savings shares. Since there are 1,018,956,539 warrants outstanding that can be exercised at any time until December 31, 2007 to acquire through subscription an equal number of common shares at a price of 1 euro per share, the capital stock can change from one month to the next until the expiration of the warrant exercise deadline.

The table below, which is based on the data in the Stockholder Register and reflects communications received pursuant to law and other information available as of March 16, 2005, lists the stockholders who hold, directly or indirectly (including through third parties, nominees and subsidiaries), an interest greater than 2% of the voting stock:

Stockholder	Number of common shares	Percentage of the voting common shares
Italenergia Bis Spa		
- directly	2,631,976,000	63.346 %
- through Tecnimont Spa	321,963	0.008%
Total	**2,632,297,963**	**63.354%**
Carlo Tassara Finanziaria Spa		
- directly	637,361,269	15.340 %
- through Fincamuna Spa	22,265,167	0.536%
Total	**659,626,436**	**15.876%**
EDF Electricitè de France Service National	**96,796,470**	**2.330%**

The Company is controlled by Italenergia Bis, which is not controlled by any individual or legal entity. No person or entity has management or coordinating authority over Edison.

As required under Article 2497 *bis* of the Italian Civil Code, the Company's direct and indirect subsidiaries, except in certain special cases, have identified Edison Spa as the entity that exercises oversight or coordinating authority over their operations.

On August 3, 2003, a summary of stockholder agreements involving shares of Edison Spa that were executed on July 25, 2003 was published in the newspaper *La Repubblica*. These agreements, which qualify as significant pursuant to Article 122 of Legislative Decree No. 58/1998, define the method for joint exercise of the rights and obligations of Banca Intesa Spa, Capitalia Spa and Imi Investimenti Spa (the Parties) under the agreements they executed with Eletricitè de France (EDF) on December 11, 2002. Among other provisions, these agreements attribute to each party an option to sell Edison shares to EDF. The Parties have agreed that, should any one of them so desire, they will exercise jointly and in full the option to sell that is available to each of them under the abovementioned agreements with EDF (involving a total of 123,366,768 shares). The Parties have also mutually agreed to: (i) faithfully perform their contractual obligations toward EDF; and (ii) coordinate their dealings with EDF in connection with the implementation of the abovementioned agreements.
Another stockholder agreement executed by Banca Intesa Spa, Capitalia Spa and Imi Investimenti Spa (the Parties) on July 25, 2003 that dealt with shares of Italenergia-Bis (IEB) was published in the same newspaper on the same date. This agreement, which qualifies as significant pursuant to Article 122 of Legislative Decree No. 58/1998, includes the following:

- an agreement to hold consultations (i) before any Stockholders' Meeting of IEB; (ii) before any meeting of IEB's Board of Directors for which the Agenda includes an item that, pursuant to IEB's Bylaws, requires a qualified quorum; and (iii) whenever any of the Parties deems it necessary;
- a coordination agreement that defines the method for the joint exercise of the rights and obligations of the Parties under the contracts that each Party executed on September 16, 2002 with EDF (EDF Contracts) and Fiat Energia (FE Contracts) with regard to the IEB shares and warrants. Among other provisions, the EDF Contracts attribute to each party an option to sell IEB shares and warrants to EDF as follows: for Capitalia, 86,545,408 IEB shares and 32,454,528 IEB warrants; for Intesa 54,329,682 IEB shares and 20,373,631 IEB warrants; for IMI Investimenti 70,855,888 IEB shares and 26,570,958 IEB warrants. Among other provisions, the FE Contracts attribute to each party the right to divest their remaining IEB shares and warrants, and involve the following: for Capitalia 42,309,120 IEB shares and 15,865,920 IEB warrants; for Intesa 42,309,120 IEB shares and 15,865,920 IEB warrants; for IMI Investimenti 42,309,120 shares and 15,865,920 IEB warrants (collectively referred to as the Financial Instruments Subject of the FE Contracts). In view of the fact that Fiat Energia, by virtue of a contract it executed with EDF on September 16, 2002, is the owner of an option to sell to EDF, the FE Contracts specifically provide that each of the Parties has the right to ask FE to exercise its option and that, in such a case, FE will have the option of either exercising the option, which will give each of the Parties the right to sell to EDF the Financial Instruments Subject of the FE Contracts, or not exercising the option, in which

case FE and Sicind Spa (a company of the Fiat Group) will be obliged to purchase from the Parties the Financial Instruments Subject of the FE Contracts. The Parties have agreed that, should any one of them so desire, they will exercise jointly and in full (i) the option to sell that is available to each of them under the EDF Contracts; and (ii) the right to ask FE to exercise the FE option. The parties have further agreed to (i) faithfully perform their contractual obligations toward EDF and EF under the FE Contacts; and (ii) coordinate their dealings with EDF, FE and Sicind in connection with the implementation of the EDF Contracts and FE Contracts.

The abovementioned Agreements have a duration of three years from the date of signing and, therefore, expire on July 25, 2006.

Board of Directors

Role and Functions

The Board of Directors enjoys the most ample powers over the Company's business. Consequently, it can carry out all actions, including acts of disposition, that it may deem useful for the furtherance of the corporate purpose, the sole exception being those that the law expressly reserves for the Stockholders' Meeting.

The Board of Directors has sole jurisdiction over the transactions listed below, provided they have a material impact on the Company's operations, balance sheet and financial position, and over those that require the Board's prior approval, unless they have been included in a budget approved by the Board of Directors:

- investments in and disposals of buildings that are not used for the Company's operations, and investments in real estate ventures (in an amount greater than 50,000,000 euros);
- investments, divestitures, acquisitions and sales of businesses, company operations and controlling and non-controlling equity interests in operating companies (in an amount greater than 200,000,000 euros);
- multiyear collaboration and/or service or supply contracts and agreements (in an amount greater than 200,000,000 euros);
- purchases or sales of other assets, and other transactions that entail major outlays, burdens or commitments for the Company (in an amount greater than 200,000,000 euros);
- acceptance of loans and posting of guarantees (in an amount greater than 300,000,000 euros).

The abovementioned floors are reduced by half in the case of intra-Group transactions and transactions with related parties.

The Board of Directors also reviews and approves, on an annual basis, the Strategic Plan, the Multiyear Industrial and Financial Plan and the Budget for the following year, and verifies the adequacy of the organizational structure of the Company and the Group.

Pursuant to a power of attorney provided by the Stockholders' Meeting held on June 28, 2002, the Board of Directors is authorized to issue, until June 28, 2007, up to 20,948,327 shares earmarked for the Group's stock option plans and reserved for the exercise of these options by the employees, within the limits of the applicable statutes. On November 11, 2003 and December 3, 2004, acting pursuant to the abovementioned power of attorney, the Board of Directors authorized the issuance of up to 4,200,000 shares and 3,619,269 shares, respectively, reserved for the exercise of options to subscribe Edison shares awarded during the corresponding fiscal year to Group executives in accordance with a Stock Option Plan approved in February 2003, which is described in greater detail later in this Report. The exercise price of the options is 1.36 euros per share for the first option award and 1.58 euros per share for the second option award.

In 2004, the Board of Directors approved the issuance of up to 1 billion euros in debt securities (500 million euros have been issued and subscribed) to be carried out within the framework of an EMTN (Euro Medium Term Notes) program that was approved in November 2003 for a maximum amount of 2 billion euros. Overall, taking into account the securities issued by absorbed companies, the Board has issued debt securities totaling 2,629.64 million euros. An overview of the outstanding debt issues and the respective maturities is provided in the Notes to the Financial Statements.

Appointments and Compositions

In view of the current structure of the Company's stockholder base, there appears to be no need for an Appointments Committee.

The current Board of Directors, which was elected at the Stockholders' Meeting of October 10, 2002, has 12 members (the Bylaws call for a minimum of seven and a maximum of 15). The current members of the Board of Directors are: Umberto Quadrino (Chairman), Umberto Tracanella (Deputy Chairman), Giulio Del Ninno (Chief Executive Officer), Mario Cocchi, Michel Cremieux, Paolo Iovenitti, Gaetano Micciché, Piergiorgio Peluso, Sergio Pininfarina, Eugenio Razelli, Dario Velo (elected by the Stockholders' Meeting on April 28, 2004 to replace Massimo Mattera, who resigned) and Romain Zaleski (who was coopted by the Board of Directors on September 11, 2003 and was then elected by the same Stockholders' Meeting on April 28, 2004).

The Chairman of the Board of Directors submitted to the Stockholders' Meeting the nominations of candidates for the Board of Directors that were put forth during the year, and the curricula vitae of the candidates were filed at the Company's registered office on the day of the Stockholders' Meeting. Other nominations of candidates for the Board of Directors and the respective documentation were not filed at the Company's registered office because the nominations were put forth before the Company's shares were accepted for listing. In any event, the curriculum vitae of each Director is available at the Company website (www.edison.it).

The term of office of the current Board of Directors expires upon the convening of a Stockholders' Meeting to approve the 2004 financial statements. The names and curricula vitae of the new Directors will be filed at the Company's registered office 10 days prior to the Stockholders' Meeting.

The table below lists the Company's Directors in office at December 31, 2004 and the posts they hold at publicly traded companies and in financial, banking and insurance companies of significant size.

Director	Posts held at other companies
Umberto Quadrino	Director of Edipower Spa
	Director of Italenergia Bis Spa
	Director of Rcs Mediagroup Spa
	Director of Tecnimont Spa
Giulio Del Ninno	Director of Aem Spa
	CEO of Edipower Spa
	Chairman of Finel Spa
Umberto Tracanella	Chairman of the Board of Statutory Auditors of Davide Campari Spa
	Director of IPI Spa
	Director of Lucchini Spa
	Deputy Chairman of Risanamento Spa
	Director of Tecnimont Spa
Mario Cocchi	CEO of Carlo Tassara Finanziaria Spa
	Director of Carlo Tassara International Sa
	Chairman of Fincamuna Spa
	CEO of Metalcam Spa
Michel Cremieux	Director of EDEV Innovation
	Chairman of EDF Energy
	Chairman of EDF Energy (UK) Ltd
	Chairman of EDF Energy Group Holdings plc
	Director of FENICE
	Chairman of EDF PI
	Chairman of Hispaelec Energia
	Director of Italenergia Bis Spa
Paolo Iovenitti	Chairman of the Board of Statutory Auditors of Siemens Spa
	Statutory Auditor of Siemens Mobile Comunications Spa
Gaetano Micciché	Director of Banca Caboto Spa
	Director of Italenergia Bis Spa
	Director of Piaggio & C. Spa
	Chairman of Private Equity International - Gruppo Banca Intesa
	Director of Synesis Finanziaria Spa
	Director of Ventuno Investimenti Spa
Piergiorgio Peluso	Director of Italenergia-bis spa
Sergio Pininfarina	Chairman of Editrice La Stampa Spa
	Director of Ferrari Spa
	Chairman of Fidia Spa - Fondo Interbancario d'investimento azionario
	Chairman of Pininfarina Spa
Eugenio Razelli	Director of Cnh Global Nv
	Director of Ferrari Spa
	Director of Iveco Spa
	Director of Fiat Auto Holding Spa
	Director of Italenergia Bis Spa
Dario Velo	Director of Italgas Spa
Romain Camille Zaleski	Director of Banca Lombarda e Piemontese Spa
	CEO of Carlo Tassara Spa
	Chairman of Carlo Tassara Finanziaria Spa
	Director of Duomo Previdenza Spa
	Chairman of Italenergia Bis Spa
	Director of Maaldrift B.V. (Netherlands)
	Chairman of Metalcam Spa

Directors with Executive Powers

Unless preempted by the Stockholders' Meeting, the Board of Directors has the right to select its Chairman and, if necessary, one or more Deputy Chairmen and one or more Chief Executive Officers, determining the powers of these officers. It can also appoint an Executive Committee and other committees with specific functions, defining their tasks, powers and rules of operation.

Under the Bylaws, the Chairman and the Chief Executive Officer represent the Company vis-à-vis third parties and in judicial proceedings. Under the Bylaws, the Chairman also has the power to call meetings of the Board of Directors, set the agenda for each meeting, chair meetings and coordinate the Board's activities.

There are two Directors with executive powers: the Chairman, Umberto Quadrino, and the Chief Executive Officer, Giulio Del Ninno. Both have received from the Board of Directors the most ample powers to manage the Company. Consequently, acting jointly or severally, they can carry out any actions that are consistent with the corporate purpose (it being understood that the powers granted to the Chief Executive Officer apply solely to the Group's energy and water operations), subject to statutory limitations and excluding those transactions that, as indicated above, the Board of Directors has placed under its sole jurisdiction. The power of the Deputy Chairman of the Board of Directors is limited to exercising the functions assigned to the Chairman, when the Deputy Chairman is acting in the Chairman's stead.

The Bylaws require that Directors with executive powers report to the Board of Directors and the Board of Statutory Auditors on at least a quarterly basis to explain the work performed in the exercise of their powers and inform the Boards of the principal transactions carried out by the Company and its subsidiaries for which the prior approval of the Board is not required.

Independent Directors

The Board of Directors uses the guidelines provided in the Code of Conduct of Borsa Italiana to determine whether the Board includes a sufficient number of independent Directors and to assess their independence.
Directors declare their eligibility to qualify as independent Directors when they are nominated, and their credentials are verified by the Board of Directors at the first meeting held after their nomination.

Currently, the Board has the following four independent Directors: Paolo Iovenitti, Sergio Pininfarina, Umberto Tracanella and Dario Velo.

Meetings of the Board of Directors

As a rule, Directors and Statutory Auditors must be provided with notices of meetings and documents explaining the items on the Agenda on a timely basis, except in urgent cases and in instances when there is a particular need for confidentiality. In such cases, however, there must be an exhaustive discussion of the items on the Agenda. Directors must also receive information on important legislative and regulatory developments that affect the Company and its corporate governance bodies.

In 2004, the Board of Directors met 12 times. The average attendance of Directors at Board meetings was 84.40%. The average attendance of Statutory Auditors at Board meetings was 86.11%.

A calendar of meetings of the Board of Directors to be held the following year to review annual and interim results is communicated annually to Borsa Italiana in December of each year and posted on the Company website (www.edison.it).

Compensation of Directors

The compensation of the Directors that are currently in office and Committee members was determined by the abovementioned Stockholders' Meeting of October 10, 2002. The compensation of Directors that perform special functions was determined by the Board of Directors, upon a proposal by the Compensation Committee, in the manner required by Article 2389, Section 3, of the Italian Civil Code. Upon a proposal by the Compensation Committee, the Chairman and Chief Executive officer have been awarded compensation consisting of a fixed portion and a variable portion tied to the achievement of objectives set by the Board of Directors.
The compensation of these two Directors is listed in the table provided in the section of this Report entitled Compensation Received by Directors and Statutory Auditors.

Committees: Establishment, Powers and Frequency of Meetings

In 2002, upon becoming eligible to list its shares, the Company established an Audit Committee and a Compensation Committee within its Board of Directors. A Strategy Committee followed in 2003.

Audit Committee

The Audit Committee comprises three nonexecutive Directors. Its current members are: Paolo Iovenitti (Chairman), Michel Cremieux and Umberto Tracanella.

This Committee makes proposals and provides advice on internal control matters. More specifically:

- it helps the Board of Directors discharge its duties with regard to the system of internal controls;
- it evaluates the work programs prepared for internal audits and checks on the progress made;
- it evaluates the organizational prowess and independence of the Internal Auditing Department;
- in conjunction with Company accounting executives and the Statutory Auditors, it assesses the effectiveness of the Group's accounting principles and their consistency as they are applied to the preparation of the consolidated financial statements;

- it evaluates the bids submitted by Independent Auditors seeking auditing assignments and the work programs for the proposed audits; it reviews the findings of audit reports and the suggestions contained in the cover letters;
- it reports to the Board of Directors at least semiannually (when the Annual Report and the Semiannual Report are approved) on the work it has performed and on the effectiveness of the Company's system of internal controls;
- it carries out all other tasks assigned to it by the Board of Directors, particularly with regard to matters involving the relationship with the Independent Auditors.

The Chairman of the Board of Statutory Auditors, a representative of the Independent Auditors, the Internal Control Officer, the heads of the Administration Panning and Control Department and Personnel and Organization Department and the Company's General Counsel are permanently invited to attend the meetings of the Audit Committee. The Chairman of the Board of Directors, the Chief Executive officer and external consultants may attend the meetings of the Committee when invited.

In 2004, the Committee met six times to do the following: assess the progress made in implementing the transition to the new IFRS accounting principles; review the process of preparing the 2003 annual financial statements and the semiannual report on operations, and the accounting principles used; review the internal auditing work plan; assess the progress made in implementing this plan and review the results achieved; assess the progress made in implementing the organization and management model required pursuant to Legislative Decree No. 231/2001; review the findings of the independent auditors; review the results of a project to manage corporate risk; assess the progress made in implementing the organization and management model for the protection of personal information; and review the results of the activities carried out by the Environmental Protection, Quality and Safety Department.

This Committee reported twice to the Board of Directors about the work it performed and the adequacy and functionality of the system of internal controls.

Compensation Committee

The Compensation Committee comprises four nonexecutive Directors, including one independent Director who serves as Chairman. The current members of the Compensation Committee are: Sergio Pininfarina (Chairman), Michel Cremieux, Eugenio Razelli and Romain Zaleski. The Compensation Committee submits proposals concerning the compensation of Directors who perform special functions and the compensation policies applicable to senior executives. As part of the tasks assigned to it by the Board of Directors and consistent with its general advisory nature, the Compensation Committee: reviews and checks the competitiveness of the Company's executive compensation system on an annual basis by making comparisons with market conditions, particularly as they may apply to top managers and other key executives of the Group; defines and proposes guidelines and benchmarks for the development of an annual management compensation policy, which may contain both fixed and variable components; defines the Group's stock option plan and the regulations governing it; determines and proposes the fixed and variable compensation of Directors who perform special tasks; if appropriate, develops and proposes incentive and long-term retention tools for top management and/or special-purpose annual initiatives.

If invited, the Chairman, Chief Executive Officer, Statutory Auditors and Head of the Personnel and Organization Department may attend meetings of the Compensation Committee. However, the Chairman and the Chief Executive Officer may not attend Committee meetings in which their compensation is discussed. In 2004, the Committee met three times.

Strategy Committee

The Strategy Committee has six members. The current members of the Committee are: Umberto Quadrino (Chairman), Giulio Del Ninno, Mario Cocchi, Michel Cremieux, Piergiorgio Peluso and Eugenio Razelli. The Strategy Committee provides support to the Board of Directors, the Chairman and the Chief Executive Officer on decisions concerning the strategy of the Company, major industrial and commercial issues, and matters that could have an impact on the Company's competitiveness (acquisitions, divestitures, alliances, joint ventures and long-term commitments). The Committee also reviews the Company's Strategic Plan, Operating Plan and Budget before they are submitted for the review of the Board of Directors.
The Strategy Committee has no operational authority and communicates its suggestions, which are not binding, to the Board of Directors.

The Strategy Committee meets on a regular basis, typically in advance of meetings of the Board of Directors for which it is required to provide preparatory work in its areas of expertise. In 2004, the Committee met five times.

System of Internal Controls

Edison's system of internal controls is a comprehensive and organic system of activities, procedures, rules of conduct, service orders and organizational structures that affects every aspect of the Company and involves various members of the organization.
The main purpose of the Company's system of internal controls is to guarantee with reasonable certainty the achievement of the Company's operational, informational and compliance objectives.

- The operational objective of the system of internal controls is pursued by ensuring that the Company uses its resources effectively and efficiently, that it is shielded from losses and that its corporate assets are protected. With regard to these issues, the system of internal controls is designed to ensure that employees throughout the organization work in pursuit of the Company's objectives and that they not put other interests ahead of those of the Company.
- The informational objective is pursued by preparing timely and reliable reports to facilitate the decision-making process within the organization and by meeting the need to provide reliable documents that can be disseminated outside the Company while protecting the confidentiality of the Company's proprietary information.

- The compliance objective is pursued by ensuring that all transactions are carried out in compliance with all laws and regulations and the applicable internal procedures.

The system of internal controls affects every aspect of the Company's operations by separating operational duties from oversight obligations and providing reasonable solutions for conflict-of-interest situations.
Responsibility for the effectiveness of the system of internal controls rests with the Board of Directors, which sets the system's guidelines and checks periodically on its effectiveness and operating performance, relying, if appropriate, on the input of its Audit Committee and that of the Directors with executive powers.

Responsibility for the correct functioning of the system of internal controls rests with each organizational structure for the process over which it has management authority. Consequently, the responsibility rests with all Group employees, within the purview of the functions each performs.
The Internal Control Officer is responsible for checking and assessing with reasonable certainty that the Company's internal controls are operating properly. The Internal Control Officer reports to the Directors with executive authority, the Audit Committee and the Board of Statutory Auditors.
The Board has appointed the System of Internal Control Manager to the post of Internal Control Officer. His task is to oversee the internal auditing work carried out to assess the overall adequacy of the system of internal controls. This work is carried out by an organization that is separate from the operational personnel, performing activities designed to monitor risk and the effectiveness of controls at the line level and in general. These activities cover all processes and areas of the Company and include the monitoring both of financial and operational risks.

In July 2004, Edison Spa approved the organization and management model required pursuant to Legislative Decree No. 231/2001, the purpose of which is to prevent the occurrence of the significant violations referred to in the Decree. The Decree establishes the administrative liability of companies if employees or contractors commit certain types of crimes for the benefit of the Company. The adoption of this model is part of a broader strategy pursued by Edison to increase the awareness of its employees, contractors and commercial partners of the need to follow transparent and fair management practices and comply with the laws currently in force and the fundamental principles of business ethics when pursuing the Company's objectives. With this in mind, in September 2003, Edison's Board of Directors approved a Code of Ethics that is in line with the most stringent international standards and is an integral part of the Company's organization and management model.

This model, which was developed from a detailed analysis of the Company's operations to identify areas of potential risk, comprises a series of general principles, rules of conduct, control tools, organizational procedures, training and information activities, and a penalty system designed to prevent, to the extent possible, the commission of crimes.

In July 2004, in compliance with the requirements of the abovementioned Decree, the Board of Directors established an Oversight Board, which is responsible for overseeing the proper implementation of the model and ensuring that it is properly updated. The Oversight Board comprises two independent Directors who sit on the Audit Committee (Umberto Tracanella, Chairman, and Paolo Iovenitti) and a third independent Director (Dario Velo). A representative of the Board of Statutory Auditors attends the meetings of the Oversight Board. The Oversight Board relies on the support of the Company's Departments, chief among them the System of Internal Control Department, and has a separate expense budget.
The Oversight Board reports semiannually to the Board of Directors and the Board of Statutory Auditors on the progress made in implementing the model and presents its plans for the following six months.
The Oversight Board met four times between its founding in July and the end of the year.

A project is currently being developed to help the Group's subsidiaries implement an organization and management model that has similar objectives and is set up along the same lines as those of the Edison model. The subsidiaries are expected to adopt this model early in 2005.

Organization of the Company and Delegation of Powers

The organization of the Company is set down in service orders issued by the Directors with executive powers, who select the executives in charge of the different departments and business units.

The Directors with executive powers regularly inform the Board of Directors of any changes in the organization of the Company and its subsidiaries. Edison executives sit on the Boards of Directors of the main Group subsidiaries and joint ventures.

Executives in charge of the various departments enjoy broad powers that are commensurate with their management responsibilities. As a rule, the execution of financial transactions requires the signatures of two executives.

The compensation payable to Company executives contains a variable portion that is tied in part to the achievement of annual performance targets. In November 2003 and December 2004, the Board of Directors, acting upon a proposal of the Compensation Committee with regard to variable compensation, awarded options to purchase Edison shares in accordance with a new stock option plan that the Board of Directors approved in February 2003, together with the relevant implementation regulations. These options are valid for the purchase through subscription of Edison common shares at a predetermined price during predetermined periods. As was the case in the past, the number of options awarded to each executive will be determined by using a multiplier of the variable compensation earned by each executive in a given year. The multiplier will be set each year and will apply to all beneficiaries. The number of outstanding options and their exercises prices are listed in the Stock Option Plans section of this Report.

Transactions with Related Parties

The Group has established a procedure for the treatment of transactions between Edison and related parties that is consistent with the principles of objectivity, transparency and truthfulness. This procedure specifically defines the criteria for identifying transactions with related parties, the general principles and rules of conduct that should be followed, the rules for approving such transactions and the obligations with regard to reporting these transactions to Edison's Board of Directors. The general principle is that all transactions with related parties, including those carried out through subsidiaries, must comply with the criteria of substantive and procedural fairness.
Transactions with related parties that are not material do not require the prior approval of the Board of Directors. Transactions of this type include typical or customary transactions (i.e., transactions the purpose, nature, characteristics or terms of which are consistent with business normally transacted by the Company, and transactions that do not present unusual problems in terms of their characteristics or risks related to the nature of the counterpart in the transaction or the time of execution) and transactions that are executed on standard terms (i.e., transactions executed on market terms or terms that are comparable to those that would have been applied to similar transactions with non-related parties). Transactions with related parties that are not material but are executed within the scope of delegations of powers must be reported to the Board of Directors on a regular basis.

Material transactions with related parties (i.e., transactions other than those described above) require the prior approval of the Board of Directors. Material transactions are transactions that, because of their purpose, the consideration involved or the method or timing of their implementation, could have an impact on the safety of the Company's assets or on the fairness and completeness of accounting or other information. In any case, material transactions are those transactions that, either alone or in conjunction with each other, involve amounts equal to or greater than those listed above in the "Role and Functions" section of this Chapter.

When the nature, amount or other characteristic of a transaction require it, the Board of Directors, in order to prevent the transaction from being executed on terms that are not consistent with those that in all likelihood would have been negotiated by parties that were not related, can ask that the transaction be executed with the assistance of one or more experts, who will be asked to render an opinion on the financial terms and/or the method of implementation and/or its fairness.

Individual Directors can ask the Audit Committee to provide a preliminary and nonbinding opinion on individual transactions with related parties.

Any Director who has a direct, indirect or contingent interest in a transaction is required to inform the Board of Directors promptly and exhaustively about the existence of such interest and the circumstances thereof. If a Director has a direct, indirect or contingent interest in a transaction that requires the prior approval of the

Board of Directors, the Director affected by such interest must provide the Board with timely and exhaustive information prior to the adoption of the relevant resolutions. If a transaction does not require the prior approval of the Board of Directors and falls within an area covered by powers that have been delegated to the affected Director, the Director must abstain from becoming involved in the transaction, which, in any case, will require the prior approval of the Board of Directors. In such cases, the relevant resolution of the Board of Directors must contain an adequate explanation of the reasons for and advisability of the transaction.

An analysis of intra-Group transactions and transactions with related parties is provided in a separate section of this Report.

Handling of Confidential Information

The Group has published directives on the handling and dissemination of confidential information and price-sensitive news. These directives state that:

- The persons responsible for handling confidential information and disseminating price-sensitive news are designated on each occasion or, for more general issues, through a special organizational communication.
- Employees of Edison and its subsidiaries who in the course of their work become aware of any confidential information are required to refrain from communicating it to others, except for work-related or professional reasons. In their communications with outsiders, they must indicate that the information is confidential and that the outsiders are also bound by a confidentiality obligation.
- The circulation within the Company and the transmission to outsiders of documents containing confidential information must be the subject of special care in order to avoid damaging the Group and prevent leaks. In particularly sensitive cases, the person responsible for handling the information may demand that the documents be identified with the stamp “Confidential” and that the copies of each document be numbered. The electronic transmission of documents must be protected with appropriate access codes that should be communicated only to individuals who have work-related reasons for accessing the information and whose names are included on a special list.
- The Directors and Statutory Auditors of Edison and its subsidiaries are also bound by confidentiality with regard to the information and documents to which they have access as part of their functions.
- The disclosure of confidential information can be authorized only by the person responsible for the information. If it is reasonable to assume that the disclosure of confidential information would constitute price-sensitive news, the communication to the public must be given in accordance with the laws and regulations that govern the disclosure of relevant facts, i.e., using the NIS system developed by Borsa Italiana, in accordance with applicable Company procedures.
- Once the disclosure of confidential information is authorized, the resulting price-sensitive news must be disseminated promptly, providing complete and adequate disclosure

so as to avoid the uneven circulation of information. Group subsidiaries are required to inform the Parent Company of any transaction that may give rise to price-sensitive news, and the Parent Company must approve all pertinent press releases prior to their publication. No personal communication or interview may be given or published prior to (or, possibly, immediately before or concurrently with) the communication of price-sensitive news to the financial markets and the media in the manner required under current laws. Once a communication is released to the public, it must be made available to all interested parties through the communications channels normally used by the Company (communication to institutional investors, posting to the Company website, etc.).

Internal Dealing

On December 11, 2002, as required under specific regulations issued by Borsa Italiana, Edison's Board of Directors approved a Code of Conduct for internal dealing that sets forth the disclosure requirements and behaviors that must be adopted when transactions involving Edison financial instruments in excess of a specified amount are carried out by individuals who, as a result of the key positions they occupy because of their jobs, may have knowledge of certain facts that may have a material impact on the operating and financial outlook of the Company or the Group and that, if made public, could have a significant impact on publicly traded financial instruments issued by the Company.

The purpose of the Code of Conduct is to ensure the transparent and consistent disclosure to the financial markets of information regarding transactions involving shares, convertible bonds, options, warrants or derivatives carried out by the individuals described in the preceding paragraph. The Code of Conduct became effective and binding on January 1, 2003.

The Board of Directors set at 50,000 euros the threshold for material transactions that must be communicated quarterly to the financial markets and at 250,000 euros the threshold for those that must be communicated immediately after their execution. The Board of Directors chose not to institute blackout periods, i.e., periods during which it would be generally prohibited to execute transactions involving financial instruments issued by Edison.

No transactions that would be relevant with regard to the implementation of the above regulations were disclosed in 2004.

Communications with Stockholders and Institutional Investors

The Chairman and Chief Executive Officer, while complying with the procedure that governs the disclosure of documents and information concerning the Company, will strive to establish a dialog with stockholders and institutional investors. The Company's staff includes a manager who is responsible for relations with institutional investors and another who is in charge of relations with stockholders. Each heads a separate corporate organization.

Edison engages in an ongoing dialog with the financial markets with the specific goal of complying with the laws and rules requiring that all investors and potential investors be provided with the same information, so that they may make sound investment decisions. More specifically, on the occasion of the release of preliminary annual or semiannual data or quarterly data, the Company organizes conference calls with institutional investors and financial analysts. In addition, the Company promptly informs its stockholders and potential stockholders of any action or decision that could have a material impact on their investment. In addition, it makes available on its website (www.edison.it) press releases, paid notices published by the Company in the press with regard to rights inherent in the securities it has issued, accounting reports that it publishes on a regular basis, and information and documents concerning Stockholders' and Bondholders' Meetings. In particular, it promptly and voluntarily provides stockholders with copies of the documents it has filed concerning items on the Agenda on which the stockholders will be asked to cast their vote. The Company also encourages journalists and qualified professionals to attend its Stockholders' Meetings.

Board of Statutory Auditors

The Board of Statutory Auditors monitors the Company's compliance with the applicable statues and its Bylaws and has a supervisory function with regard to the actions of management. Pursuant to law, it is not responsible for accounting oversight, which is entrusted to independent auditors selected by the Stockholders' Meeting from those listed in a special register maintained by the Consob.

Under the current Bylaws, the Company's Board of Statutory Auditors must comprise three permanent Auditors and three alternates, who are elected from slates of candidates submitted by stockholders who, either alone or in combination with other stockholders, represent at least 3% of the shares entitled to vote at the Ordinary Stockholders' Meeting. The proposed slates must be filed at least 10 days prior to the Meeting, together with the résumés of the individual candidates, affidavits attesting that there are no impediments to the candidates' electability and evidence that the candidates possess the qualifications required pursuant to law and the Bylaws. In no case may individuals who fail to meet the requirements of independence, integrity and professionalism established in the pertinent law, or who serve as Statutory Auditors in more than five other publicly traded Italian companies, excluding publicly traded Edison subsidiaries, be elected to the Board of Statutory Auditors. It should be noted that, as required under the regulations set forth in a Decree issued by the Ministry of Justice on March 30, 2000, the professional requirements of Statutory Auditors are also listed in the Company Bylaws.

The current Board of Statutory Auditors was elected at the Stockholders' Meeting of October 10, 2002 and assumed its duties on the effective date of the merger by absorption of the Edison subsidiary (December 1, 2002). Because the nominations were put forth at a time when the Company was owned by a single stockholder and was still

privately held, none of the members of the Board of Statutory Auditors was elected by minority stockholders.
The current Board of Statutory Auditors will remain in office until the approval of the financial statements for the year ended December 31, 2004. Consequently, any documents required for the nomination of Statutory Auditors by qualified stockholders must reach the Company no later than April 8, 2005.

In 2004, the Board of Statutory Auditors met six times.

The table below shows the posts held by the Company's Statutory Auditors in other publicly traded companies:

Sergio Pivato	Chair. Board of Statutory Auditors	Banca Lombarda e Piemontese Spa
	Chair. Board of Statutory Auditors	Reno De Medici Spa
Salvatore Spinello	Director	Fondiaria Sai Assicurazioni Spa
	Chair. Board of Statutory Auditors	Immobiliare Lombarda Spa
	Statutory Auditor	Telecom Italia Spa
	Statutory Auditor	Telecom Italia Media Spa
Ferdinando Superti Furga	Statutory Auditor	Arnoldo Mondadori Editore Spa
	Director	Ipi Spa
	Director	Risanamento Spa
	Chair. Board of Statutory Auditors	Telecom Italia Spa

Independent Auditors

Group Audit Plan

The Company and its principal subsidiaries have retained independent auditors, chosen from those listed in a special register maintained by the Consob, to audit their financial statements and check that their accounting records are maintained in accordance with the provisions of Legislative Decree No. 58/1998. The scope of these audits also includes compliance with the requirements of the Italian Civil Code, as amended by Legislative Decree No. 6/2003 on accounting oversight. Major foreign subsidiaries have also retained independent auditors as required under the Group's general audit plan. In principle, the purpose of this plan is to ensure that the financial statements of all Group companies, rather than just those that meet the Consob's "materiality" requirements, are audited. With some exceptions, companies that are either dormant or in liquidation are exempt from this requirement.
It is important to keep in mind that in the remaining cases, where only a Board of Statutory Auditors has been appointed, the Bylaws require that the audit be carried out by the Board of Statutory Auditors.

Edison and its principal subsidiaries have also asked their independent auditors to audit their semiannual and quarterly financial statements and the separate financial statements that are prepared annually for the Electric Power and Hydrocarbons operations.

Compensation

PriceWaterhouseCoopers Spa (PWC) has been retained to audit the statutory and consolidated financial statements in accordance with the assignment it received from the Stockholders' Meeting on June 28, 2002, as later amended to take into account the subsequent absorption of Edison (formerly Montedison), which, in turn, absorbed the subsidiaries Edison Sondel and Fiat Energia, and the implementation of a corporate restructuring program that resulted in the merger of various subsidiaries into Edison.

These changes required an adjustment to the audit fee due to the additional work needed to audit the additional operations transferred to Edison Spa and the need to perform certain review activities related to the audit assignment granted by Edison Spa.

The total cost of the Group audit for 2004 amounts to 1,544,000 euros, about the same as in the previous year. A breakdown is as follows:

Description	Main Auditors PWC		Other Auditors		Total\	
	Hours	Fee	Hours	Fee	Hours	Fee
Audit of the statutory financial statements	4,398	267,950			4,398	267,950
Audit of the consolidated financial statements	783	47,239			783	47,239
Limited Review of the Semiannual Report	1,233	76,152			1,233	76,152
Agreed upon procedures of the Quarterly Reports	332	20,432			332	20,432
Audit of gas and electricity sectors (unbundling)	582	37,321			582	37,321
Additional review activities	2,393	163,482			2,393	163,482
Total Edison Spa	**9,721**	**612,576**			**9,721**	**612,576**
Italian subsidiaries	**11,246**	**679,185**			**11,246**	**679,185**
Foreign subsidiaries	**1,452**	**120,370**	**2,389**	**131,830**	**3,841**	**252,200**
Total Edison Group	**22,419**	**1,412,131**	**2,389**	**131,830**	**24,808**	**1,543,961**

Treasury Stock

At December 31, 2004, the Company held 454,820 treasury shares through the subsidiary Tecnimont Spa. All of the shares are held by Spafid Spa as nominee. A total of 132,857 shares are earmarked for the exercise of Edison stock options awarded to employees in accordance with the plans described below.

Stock Option Plans

Core Businesses

As explained in Annual Reports issued by the absorbed companies Edison and Sondel in 1998 and 2000, respectively, these two companies established stock option plans for their executives that involved, respectively, the purchase of Edison and Sondel shares at predetermined prices and during predetermined periods.

On May 1, 2002, these two companies were absorbed by Montedison, which, in turn, was absorbed by Edison (formerly Italenergia), effective December 1, 2002. As a result, the "new" Edison took over the obligations of the absorbed companies with regard to the stock option plans and the options to buy shares of Montedison, later Italenergia, which then changed its name to Edison.

As mentioned earlier in this Report, additional options to buy Edison shares at a predetermined price during predetermined periods were awarded to Edison executives in 2004 in accordance with regulations approved by the Board of Directors in 2003.

The table below shows the number of Edison stock options outstanding at the beginning and at the end of 2004, taking into account the changes that occurred during the year. The number of shares allotted to executives of the absorbed companies Edison and Sondel and the respective exercise prices were recomputed based on the share exchange ratios used for the mergers by absorption of Edison and Sondel into Montedison and of Montedison into Italenergia (now Edison).

	2004	
	No. of shares	Average exercise price
Options outstanding at January 1	5,362,032	1.487
Options expired/returned during the year	(377,634)	1.503
New options awarded during the year	3,619,269	1.580
Options outstanding at December 31	**8,603,667**	**1.533**

The following changes occurred between January 1, 2004 and December 31, 2004:

- no options were exercised;
- the options held by five executives were cancelled upon termination
- new options were awarded to 44 beneficiaries, including the Chief Executive Officer;
- unused options awarded in 1998 expired.

At December 31, 2004, a total of 51 executives, including the Company's Chief Executive Officer, Giulio Del Ninno, held the stock options listed in the table below:

Name	Number of shares that can be bought/ subscribed	Exercise price per share	Exercise period	No. of shares bought/ subscribed
Giulio Del Ninno				
2000	332,981	2.107	8/1/02-7/31/06	-
2003	598,103	1.360	11/1/06-10/31/10	-
2004	500,114	1.580	12/1/07-11/30/11	-
Subtotal	1,431,198			
Other executives				
1999	87,671	1.792	8/1/01-7/31/05	-
2000	531,313	2.107	8/1/02-7/31/06	-
2001	324,247	1.400	1/1/04-1/1/07	-
2003	3,110,083	1.360	1/11/06-10/31/10	-
2004	3,119,155	1.580	12/1/07-11/30/11	-
Subtotal	7,172,469			
Total	**8,603,667**			

Since the Montedison treasury shares earmarked for the exercise of the stock options issued by the absorbed companies Edison and Sondel were canceled and not exchanged, as allowed under Article 2404-*Ter* of the Italian Civil Code, the Regular Stockholders' Meeting held on June 28, 2002 authorized the Board of Directors to purchase, if the law allows it, treasury shares that will be earmarked for the exercise of existing and future stock options. The Extraordinary Stockholders' Meeting that was also held on June 28, 2002 authorized the issuance of capital increases earmarked for the exercise of options, as allowed under Article 2443 of the Italian Civil Code. The abovementioned authorization was used for the options awarded in 2003 and 2004. On February 21, 2003, the Board of Directors authorized the issuance of up to 4,200,000 shares earmarked for the exercise of stock options awarded in 2003. On December 3, 2004, it authorized the issuance of not more than 3,619,269 additional shares earmarked for the exercise of stock options awarded in 2004.

Other Operations – Engineering

In 1998, the Tecnimont subsidiary established a stock option plan giving its executives the right to buy Montedison shares at predetermined prices and during predetermined periods. With the absorption of Montedison by Edison (formerly Italenergia), the options to buy Montedison shares became options to buy Italenergia shares, renamed Edison shares, and the Montedison shares purchased by Tecnimont for the exercise of stock options were exchanged for Italenergia shares, renamed Edison shares, on the basis of the exchange ratio used for the Montedison/Edison (formerly Italenergia) merger.

The table below shows the number of Edison stock options awarded by Tecnimont that were outstanding at the beginning of 2004, taking into account the changes that occurred during the year. The number of shares allotted was recomputed based on the share exchange ratio used for the merger by absorption of Montedison into Edison (formerly Italenergia).

	2004	
	No. of shares	Exercise price
Options outstanding at January 1	132,857	1.210
Options expired/returned during the year	-	-
Options exercised during the year	-	-
Options outstanding at December 31	**132,857**	**1.210**

No changes occurred between January 1, 2004 and December 31, 2004.

At December 31, 2004, two executives held the stock options listed in the table below:

Year of award	Number of shares that can be bought	Exercise price per share	Exercise period	N° of shares bought
2000	132,857	1.210	8/1/02-7/31/06	-
Total	**132,857**			**-**

Stock Options Held by Directors

The Edison stock options awarded to Mr. Del Ninno, who is the only Director who is a beneficiary of the stock option plan, are shown above. These options refer in part to shares of the absorbed company Edison (absorbed by Montedison, which, in turn, was absorbed by Italenergia, now Edison) and in part to shares of the current Edison Spa. They were awarded to Mr. Del Ninno as a result of his employment relationship with and not because he served as a Director.

Equity investments of Directors and Statutory Auditors

The equity investments held in Edison Spa and its subsidiaries at December 31, 2004 by Directors and Statutory Auditors, including those who ceased to be in office during the year, as well as by spouses from whom they are not legally separated and minor children, either directly or through subsidiaries, fiduciary companies or nominees, for the period from December 31, 2003 to December 31, 2004, are presented in the table below. This information is based on the entries in the Stockholders' register, communications received and other data.

Reference Period: January 1, 2004 to December 31, 2004

Name and surname	Investee company	Number of shares held at 12/31/01	Number of shares bought	Number of shares sold	Number of shares held at 12/31/04
Directors in office					
Umberto Quadrino					
Giulio Del Ninno	Edison Spa - common shares	99,860	-	-	99,860
Umberto Tracanella					
Mario Cocchi					
Michel Cremieux					
Paolo Iovenitti					
Gaetano Micciché					
Piergiorgio Peluso					
Sergio Pininfarina					
Eugenio Razelli					
Dario Velo					
Romain Camille Zaleski	Edison Spa - common shares	174,850 (*)	-	-	174,850
	Edison Spa - savings shares	3,430 (*)	-	-	3,430
Directors out of office					
Massimo Mattera					
Statutory Auditors in office					
Sergio Pivato					
Salvatore Spiniello					
Ferdinando Superti Furga					

(*) Held through his spouse.

Compensation Received by Directors and Statutory Auditors

The table below shows all compensation that Directors and Statutory Auditors, including those who ceased to be in office during the year, received for any reason from the Company or its subsidiaries at December 31, 2004. Non-monetary benefits are shown at their taxable value. Variable compensation packages are listed under Bonuses and other incentives. When the compensation consists of wages, the taxable amount is shown.

Reference Period: January 1, 2004 to December 31, 2004

(in thousands of euros)

Beneficiaries	Description of Post Held			Compensation		Breakdown			
First and last name A	Post held B	Period during which the post was held C	End of term of office D	Collected by employer	Collected by payee	Compensation for post held at the company preparing the Annual Report 1	Non-monetary benefits 2	Bonuses and other incentives 3	Other compen-sation 4
Directors in office									
Umberto Quadrino	Board Chairman (c)	1/1/04-12/31/04	12/31/04	2,682 (*)		1,234 (**)		1,437(**)	11
Umberto Tracanella	Deputy Chairman (a) (d)	1/1/04-12/31/04	12/31/04		184	166			18
Giulio Del Ninno	CEO (c)	1/1/04-12/31/04	12/31/04	3,710 (*)		706 (**)	4	2,998(**)	2
Mario Cocchi	Director (c)	1/1/04-12/31/04	12/31/04		84	84			
Michel Cremieux	Director (a) (b) (c)	1/1/04-12/31/04	12/31/04	98		98			
Paolo Iovenitti	Director (a) (d)	1/1/04-12/31/04	12/31/04		152	152			
Gaetano Micciché	Director	1/1/04-12/31/04	12/31/04	60		60			
Piergiorgio Peluso	Director (c)	1/1/04-12/31/04	12/31/04	72		72			
Sergio Pininfarina	Director (b)	1/1/04-12/31/04	12/31/04		130	130			
Eugenio Razelli	Director (b) (c)	1/1/04-12/31/04	12/31/04	90		90			
Dario Velo (***)	Director (d)	4/28/04-12/31/04	12/31/04		56	56			
Romain Zaleski	Director (b)	1/1/04-12/31/04	12/31/04		78	78			
Directors out of office									
Massimo Mattera	Director	1/1/04-3/9/04	--	11		11			
Total				**6,723**	**684**	**2,937**	**4**	**4,435**	**31**
Statutory Auditors									
Sergio Pivato	Chair. Board Stat. Aud.	1/1/04-12/31/04	12/31/04		60	60			
Salvatore Spiniello	Statutory Auditor	1/1/04-12/31/04	12/31/04		40	40			
Ferdinando Superti Furga	Statutory Auditor	1/1/04-12/31/04	12/31/04		40	40			
Total				**6,723**	**824**	**3,077**	**4**	**4,435**	**31**

(*) The compensation is paid to the beneficiary by the company that employs him. The company rebills the cost to Edison.
(**) The amount is net of pensions and severance benefits.
(**) Elected by the Stockholders' meeting of April 28, 2004.

Post held, column B: The members of the Audit Committee are identified with the letter (a). The members of the Compensation Committee are identified with the letter (b). The members of the Strategic Committee are identified with letter (c). The members of the Oversight Board are identified with letter (d).
The non-monetary benefits listed in column 2 include insurance policies taken out by the Company on behalf of the beneficiary.
The bonuses and other incentives listed in column 3 include the variable portion of the compensation package.
Other compensation (column 4) includes fees for service on the corporate governance bodies of subsidiaries at December 31, 2004.

Transactions Among Group Companies and with Related Parties

Transactions between Edison Spa and its subsidiaries, affiliated companies and parent company are discussed in the relevant notes to the financial statements. They 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).

The table below provides a summary of intra-Group transactions.

Balance Sheet – Assets	Subsidiaries	Affiliated companies	Controlling companies	**Total**
B. FINANCIAL FIXED ASSETS				
2. Long-term loans	25	-	-	25
C. Current assets				
I.) Accounts receivable	153	55	-	208
III.) Financial assets (not held as fixed assets)	238	21	-	259
D. Financial accrued income and prepaid expenses	-	-	-	-
	416	**76**	**-**	**492**
Balance sheet – Liabilities				
D. Liabilities	1,011	1	4	1,016
E. Accrued expenses and deferred income	-	-	-	
	1,011	**1**	**4**	**1,016**
Statement of Income				
A. Production value				
1. Sales and service revenues	857	186	-	1,043
5. Other revenues and income	11	3	-	14
	868	**189**		**1,057**
B. Cost of production				
6. Raw materials, auxiliaries, supplies and merchandise	(44)	(8)	-	(52)
7. Outside services	(30)	-	-	(30)
8. Use of property not owned	(7)	-	-	(7)
14. Miscellaneous operating costs	(10)	-	(5)	(15)
	(91)	**(8)**	**(5)**	**(104)**
C. Financial income and expense				
15. Income from equity investments	358	7	-	365
16. Other financial income	16	3		19
17. Interest and other financial expense	(14)	-	-	(14)
	360	**10**	**-**	**370**
E. Extraordinary income and expense				
20. Other extraordinary income	1	-	-	1
21. Other extraordinary expense	-	-	-	-
	1	**-**	**-**	**1**

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.

Transactions with controlling companies include the amounts rebilled by Italenergia Bis Spa for seconded employees and interest on balances in intra-Group current accounts.

In addition to the transactions summarized in the table on the previous page, 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. Another significant development was the execution of a tolling contract by Edipower and Edison Trading. Under this eight-year contract, which became effective on January 1, 2004, Edipower will make available to Edison Trading 50% of its thermoelectric and hydroelectric capacity against a guaranteed monthly tolling fee payable irrespective of the actual production schedule.

In 2003, **Tecnimont**, acting through a temporary business combination with Maire Engineering Spa (formerly Fiat Engineering Spa), was awarded by Edison Spa a contract valued at 170 million euros (Tecnimont's share is 60 million euros). This contract, which is currently being implemented, is for the construction in Altomonte (CS) of a cogenerating, combined-cycle power plant with a capacity of about 760 MW.
Tecnimont Spa is also carrying out three contracts with Edison Spa valued at 3 million euros, 3 million euros and 4 million euros, respectively, to supply engineering services in connection with the construction of three combined-cycle thermoelectric power plants, in Candela (FG), Torviscosa (UD) and Simeri Crichi, with installed capacities of 380 MW, 760 MW and 800 MW, respectively.

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. At December 31, 2004, the Group had a VAT credit of 69 million euros.

Intra-Group Assignment of Tax Credits – In 2004, 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 (IRPEG), Edison Spa transferred to several Group subsidiaries the surplus IRPEG credit generated in the 2003 fiscal year, which became available as of January 1, 2004. The credit totaled 349 million euros, almost all of which was collected during the year.

Transactions with Related Parties

In 2004, Edison Spa and its subsidiaries engaged in a number of commercial and financial transactions with some of its current stockholders 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:

Commercial Transactions

Electric Power Operations – In 2004, the electric power operations supplied 1,123 GWh of electric power, corresponding to revenues of 89 million euros, to the following companies of the Fiat Group: CNH Italia Spa, Comau Spa, Centro Ricerche Fiat Scpa, Elasis Spa, Ferrari Spa, Fiat Auto Spa, Fiat Avio Spa, Fiat Kobelco Spa, FMA Srl, Global Value Services Spa, Isvor Fiat Spa, Iveco Fiat Spa, Magneti Marelli Powertrain Spa, FIAT – GM Powertrain Italia Srl, Sata Spa, Sevel Spa, Seima Italiana Spa, Sistemi Sospensioni Spa, Teksid Aluminium Srl, Teksid Spa and Maserati Spa.

The **electric power operations** executed the following additional transactions with the EDF Group:

- A contract for the supply of electric power in France, under which EDF purchased electric power worth about 31 million euros in 2004;
- operation and maintenance contracts with Fenice Spa (EDF Group) for the Rivalta, Cassino, Sulmona, Termoli, Melfi and Pomigliano D'Arco thermoelectric power plants;
- the EDF Group provides technical, engineering and management services at power plants in Taranto and Piombino, and at the Milan headquarters;
- the Flandres Energie Snc joint venture (50% Edison Group) sells electric power it produces at its Lille, France, power plant to EDF. In 2004, a total of about 201 GWh were sold to EDF at a price of about 14 million euros. In February 2005, Edison France sold to Dalkia (EDF Group) its 50% interest in Flandres Energie Snc;
- Edison Trading bought energy for resale from EDF Energia Italia Srl valued at about 1 million euros and sold energy valued at 9 million euros. It also sold electric power, valued at about 15 million euros, to ENBW (EDF Group).

Hydrocarbons Operations – Revenues from the sale of industrial steam totaled about 4 million euros.

The Hydrocarbons Operations also sold 90 million cubic meters of natural gas to Fiat - GM Powertrain Italia, Sata Spa and Sevel Spa in 2004, generating about 17 million euros in revenues.

An additional 107 million cubic meters of natural gas, valued at about 22 million euros, were sold to Fenice Spa (EDF Group). The Hydrocarbons Operations also purchased about 45 million cubic meters of natural gas from ENBW Trading GmbH (EDF Group) at a cost of 7 million euros.
Corporate Activities – Edison Spa purchased goods and services from and incurred other costs in transactions with Fiat Group companies (Savarent, Trantor, Global Value, Ingest Facility, Sirio, Orione, the Fiat Research Center, H.R. Human Resources, Fiat Gesco and Fast Buyer Spa) totaling 7.3 million euros.

Financial Transactions

The main financial transactions executed by Edison Spa in 2004 in which its stockholder banks played a significant role are reviewed below:
- Banca Intesa served as mandated lead arranger in the syndication of a five-year loan of 1.5 billion euros;
- Caboto (Banca Intesa Group) served as joint bookrunner in connection with the floatation of 500 million euros in bonds maturing in 2011;
- Banca Intesa is providing advisory financial services in matters related to the Italy-Greece Interconnection (IGI) project;
- SanpaoloIMI Spa provided targeted financing for the Altomonte and Candela power plants by disbursing an advance of future funding from the European Investment Bank for a total amount of 120 million euros. At the option of the lender bank, the loan is repayable on the following three maturities: on June 15, 2009; on June 15, 2014; and in 2019;
- SanpaoloIMI acted as an advisor in connection with the sale of the natural gas transmission network of Edison T&S Spa.

The total fees paid amounted to about 2 million euros.

Status of the Main Legal and Tax Disputes

The current status of the main legal disputes is reviewed below:

Stava Dam Disaster

On March 5, 2004, the Autonomous Province of Trento accepted a settlement proposal that apportioned responsibility among the parties. The proposal was put forth by Edison, Snam (now Eni, Gas & Power Division), Finimeg and Prealpi Mineraria (declared bankrupt), all of whom had been found jointly liable for the damage caused by the collapse of the Prestavel reservoirs in 1985. Under the settlement, Edison has agreed to pay 17.2 million euros (10.8 million euros were paid on July 30, 2004 and the balance of 6.4 million euros is payable by July 30, 2005) to settle any and all claims by the Autonomous Province and the Italian government, with which the Autonomous Province signed a separate settlement agreement. The settlement has been joined by the other liable parties.

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

Various proceedings pending before the courts for damages caused by the operation of certain facilities prior to their transfer to the Enimont joint venture continued in 2004. The status of pending lawsuits is as follows:

- the action brought by the Ministry of the Environment against Montecatini (now Edison) and EniChem Polimeri before the Court of Brescia for environmental damages caused by the operation of a factory in Mantua is still in the discovery phase;
- the suit filed before 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;
- lastly, the appeal filed by BASF Italia against the partial decision handed down by the Court of Milan in October 2000 dismissing the claims against Montecatini (now Edison) for damages incurred as a result of the sale of a separate portion of the Cesano Maderno industrial facility ended with Edison incurring no charges.

Porto Marghera Petrochemical Facility – Criminal Proceedings for Injuries Caused by Exposure to Monovinyl Chloride and for Damages to the Environment

The appeal in the criminal proceedings for injuries caused by exposure to monovinyl chloride and for damages to the environment ended on December 15, 2004. The Court of Appeals of Venice confirmed the trial court decision with regard to the environmental issues but reversed the trial court's decision in other areas, finding five former Montedison Directors and executives guilty of involuntary manslaughter in the death of an employee, who died of liver sarcoma in 1999. As a result, the defendants were ordered, 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 judge has not yet filed a detailed written decision.

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

On May 4, 2004, the Office of the Public Prosecutor of the Court of Brindisi asked that the case against certain defendants, who had served as Directors and managers of Montedison be dropped. Some of the plaintiffs have filed briefs opposing this request.

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.

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

Two proceedings that arose from the deaths or illnesses of employees that were allegedly caused by exposure to asbestos in different forms at facilities owned by Montedison (now Edison) are continuing.
The proceedings pending before the Court of Brindisi in connection with the death of two employees and the illness of a third employee is in the investigative phase. The proceedings pending before the Court of Novara in connection with the death of an employee is in the preliminary phase.
The investigation of events that occurred at the plant in Verbania ended with the indictment of certain former Directors and executives of Montefibre (formerly a company of the Montedison Group). In these proceedings, in response to challenges raised by the defendants' lawyers, a new judge has been appointed for the preliminary hearing.

Farmoplant – 1988 Accident at the Massa Facility

The civil action for damages filed by the Province of Massa-Carrara and the Municipalities of Massa and Carrara as a result of an accident that occurred at Farmoplant's Massa facility in 1988 was moved to the Court of Genoa, which has jurisdiction as the venue for public finance issues. The proceedings had been interrupted to allow various pending lawsuits to be joined and include the Ministry of the Environment in the debate. The case is now in the investigative phase.

Pizzo Sella Real Estate Development and Seizure of Assets in Sicily

The negative assessment action filed by Finimeg, parent company of Poggio Mondello, 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 houses 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 property, the Court of Palermo handed down an additional decision at the first level of jurisdiction confirming its position that a seizure for criminal violations cannot be enforced against bona fide third-party buyers who have registered their ownership title prior to the recording of any administrative penalty measure. The two decisions of the trial court judge affirming this principle have been appealed by several parties, including the Municipality of Palermo and Poggio Mondello.
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. The shares and assets of the Finsavi and Generale Impianti affiliates and of the Calcestruzzi Palermo, Frigotecnica and Poggio Mondello subsidiaries have been seized as a result of the abovementioned order of attachment.

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 stockholders 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.

Edison – Ferrocemento Arbitration

The arbitration proceedings initiated to resolve certain disputes that arose with regard to the sale of the entire capital stock of Gambogi Costruzioni by Calcemento (now Edison) and the performance of certain contractual guarantees on the basis of which the buyer (Ferrocemento) is asking for the reimbursement of charges incurred for prior-period expenses continued, with the Board of Arbitrators ordering a technical report by a consultant.

Montedison Finance Europe – Bankruptcy of Domp BV

The appeal against a decision 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

With a final award handed down on May 31, 2004, the Board of Arbitrators ordered Immobiliare Assago to pay Nepa the amount of 1.25 million euros for damages incurred, while it continues to investigate the issue of lost profits. The Board of Arbitrators has asked a consultant to prepare a technical report on this issue.

Montedison (now Edison) – Finanziaria Agroindustriale Merger

In the matter of the appeal against the decision handed down in December 2000 by the Court of Genoa in the lawsuit filed by Mittel Investimenti Finanziari and other stockholders of Finanziaria Agroindustriale, Edison reached a settlement with Mittel Investimenti Finanziari whereby both parties agreed to waive their right to appeal and accepted the decision of the trial court, pursuant to which Montedison (now Edison) paid Mittel Investimenti Finanziari the amount of 4,235 million lire. A decision on the remaining disputes with other parties is pending.

Cereol Holding – Oleina Arbitration

On October 6, 2004 and January 17, 2005, a Swiss Federal Court rejected the challenges filed by Cereol Holding BV, respectively, against an arbitration award handed down on April 1, 2004, which valued the disputed equity investment at US$73.1 million, and an addendum to the abovementioned award issued on July 27, 2004, with which the Board of Arbitrators recomputed the value of shares representing 49% of Oleina's capital stock at US$107.5 million. The dispute concerns two separate arbitration proceedings started by Ildom against Cereol Holding BV following Ildom's purchase in February 2002 of shares representing 49% of Oleina's capital stock. On November 30, 2004, Ildom petitioned the Court of Rotterdam for enforcement of the award and addendum. Cereol Holding BV opposed this petition. The Court of Rotterdam, while recognizing that both the arbitration award and addendum present numerous flaws, felt that these flaws were not enough to prevent the implementation of the award and addendum in accordance with the New York agreement and ordered their enforcement.
Cereol is currently evaluating the possibility of appealing this decision and other available alternatives.
The possible consequences of these two arbitration awards are covered by a contractual guarantee provided to Bunge upon its purchase of Edison's equity investment in Cereol, with a specific deductible of US$39 million. In all likelihood, the two arbitration proceedings in question, which had been halted pending the decision by the Swiss federal Court, will resume in 2005. In keeping with its conservative policy, the Company set aside an additional 15 million euros in 2004.

Sale of Tecnimont: Edison/Falck Arbitration

The arbitration proceedings in the matter of the dispute that arose when Falck failed to perform the contract it signed in May 2002 for the purchase of Tecnimont are continuing.

Val Martello Flood

On August 6, 2004, Edison and the Autonomous Province of Bolzano signed a settlement ending all pending lawsuits in connection with the Val Martello flood. The settlement also applied to other plaintiffs in the same proceedings, in addition to the Autonomous Province of Bolzano, and to all parties who suffered damages. In consideration of the decision by the injured parties to waive their damage claims in the abovementioned proceedings, Edison agreed to pay the Autonomous Province of Bolzano and other injured parties an amount totaling 18 million euros. On February 27, 2004, Edison settled a dispute with the insurance company that was supposed to shoulder any liability arising from the abovementioned lawsuits. Edison was paid the amount of 6.7 million euros in settlement of any and all insurance claims arising from the disputed accident. This amount was in addition to the approximately 4 million euros that the insurance company had already paid directly to the injured parties.

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, the Court of Milan handed down a decision ordering MEMC to pay Edison the amount of Edison's counterclaim, i.e., 3.2 million euros. The other proceedings, which are pending before the Court of Venice, are currently in the phase of verifying the conclusions of a report prepared by a technical consultant, who found that Edison did physically deliver electric power to MEMC. These two disputes deal, respectively, with the refunding to MEMC of a pro rata share of the fees payable for electric power hookups and the right to purchase electric power on the deregulated market.

Disputes Concerning the Supply of Electric Power

As a result of business transactions involving the sale and supply of electric power, Edison became the target of two major lawsuits for damages filed by former customers. In one lawsuit, the plaintiff alleges that repeated interruptions in the supply of electric power caused extensive damage to its production system. In the other, the plaintiff alleges incorrect billing for its pro rata share of power transmission charges. The first lawsuit, which is pending before the Court of Rome, is now on hold, awaiting the delivery of a report by a technical consultant. The other, which had been filed before the Court of Milan, has been settled with the plaintiff waiving all claims for damages and acknowledging that Edison is due most of the pro rata share of the transmission charges that were the subject of Edison's counterclaim.

Caffaro Energia – Caffaro

The dispute that arose between Caffaro Energia and Caffaro in connection with pollution discovered at the Torviscosa facility following the discovery of relevant facts in a related criminal case, which was pending before the Court of Milan, has been settled with the award to Edison (which in the meantime had absorbed Caffaro Energia) of the environmental remediation costs and the additional costs needed to complete the Torviscosa power plant (totaling 2.1 million euros). Any prior-period costs had been guaranteed by Snia under the settlement reached in September 2002 by which Edison purchased a further 50% interest in the capital stock of Caffaro Energia.

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

In a matter concerning Sarmato Energia and Consorzio Sarmato, joint ventures established to produce electric power, which are owned by Edison as the controlling stockholder and certain municipal electric utilities as minority stockholders, the Court is expected to hand down a decision in a lawsuit filed by a stockholder challenging a resolution in which the Regular Stockholder'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 stockholder, who is challenging the resolutions of the Stockholders' 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.

The Holders of Edison Savings Shares Challenge the Resolution Approving the Merger of Edison into Italenergia

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

The civil lawsuit filed by the Joint Representative of the savings stockholders, who challenged the resolution approving the merger of Edison into Italenergia, and the lawsuit filed by UBS Warburg demanding compensation for the damages that it alleges to have suffered as a result of the merger of Edison into Italenergia, have been joined, and the Court has requested a report from a technical consultant on the fairness of the share exchange ratio used for the abovementioned merger. This report is currently being prepared. Edison and Italenergia are among several plaintiffs named in this lawsuit.

Edipower – Preliminary Investigation by the Office of the Public Prosecutor of Brindisi

The preliminary inquiry involving three executives of the Edipower affiliate and other defendants (in connection with which, in November 2003, the Office of the Public Prosecutor of the Court of Brindisi had informed the Company that it was also a target of the investigation) ended with the separation of the trial of the three abovementioned executives from the main proceedings, and the charges were later dropped.

Termica Milazzo – EniPower Lawsuit

EniPower Spa, a minority stockholder of the Termica Milazzo subsidiary, filed suit to challenge a resolution adopted by the Stockholders' Meeting on April 9, 2004, alleging that the resolution violated a provision of the Bylaws insofar as it decided to distribute only a portion of the distributable earnings, and asking the Court to order the distribution of the remaining earnings.
Termica Milazzo responded to the lawsuit by contesting the foundation of EniPower's claim.

This lawsuit, which is pending before the Court of Milan, is currently in the introductory phase.

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).
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 status of the main **tax disputes** is reviewed below:

Former Edison Spa – Direct Taxes for the 1993 to 1999 Fiscal Years

In 2000, following a general audit of Edison Spa for the period from 1993 to 1999, the Italian Revenue Police issued notices of assessment for the fiscal years from 1993 to 1998, which the Company is disputing before the appropriate Tax Commissions.
The Provincial Tax Commission canceled the assessment for 1993, and this favorable decision has become final.
The assessments for 1994, 1995 and 1996 were also 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 the settlement is currently being finalized. On the other hand, the appeal filed against the assessment for 1997 is still pending, since reaching a settlement pursuant to the abovementioned Article 16 did not seem advisable in this case.

Edison Spa Tax Audit for the 2002 Fiscal Year

In November 2004, the Regional Revenue Office of Lombardy began a general tax audit of Edison Spa for the 2002 fiscal year.
The audit ended in February 2005 with an Audit Report that assessed additional corporate income tax (IRPEG) of about 17 million euros in connection with certain expenses that were found not to be applicable to the year in question or not deductible. However, because of the unused tax loss carryforward, the assessment required no additional tax payments.
The findings of the Regional Revenue Office are not final and, under the current tax law, can be reviewed by the Revenue Agency with jurisdiction over such reviews. The Company believes that it can obtain a reversal of a significant portion of the assessment for inapplicable costs either in the abovementioned venue or, if it chooses to dispute the assessment, in higher venues.

Transition to the International Accounting Principles

Regulatory Framework

EC Regulation No. 1606/2002 on the implementation of international accounting principles requires the issuers of securities that trade in a regulated market in any of the member countries to prepare their consolidated financial statements in accordance with the international accounting principles adopted by the European Union, starting with the fiscal year beginning on January 1, 2005, or on a later date. The member countries can extend the use of these accounting principles to the statutory financial statements and to the consolidated and/or statutory financial statements of companies whose securities are not publicly traded. In this area, on February 25, 2005, the Italian government approved a draft legislative decree by which Italy would make the adoption of the international accounting principles for publicly traded companies voluntary in 2005 and mandatory in 2006. Starting in 2006, companies whose securities are not publicly traded, except those who prepared abbreviated financial statements, will have the option of preparing their statutory or consolidated financial statements using the international accounting principles.

Choices of the Edison Group and First Implementation of the IAS/IFRS Accounting Principles

For the past several years, the Edison Group has already been using the international accounting principles in preparing the consolidated financial statements, when they did not conflict with Italian law. A full transition to the IAS/IFRS principles will take place in the preparation of the 2005 consolidated financial statements of the Group. Starting in 2006, the statutory financial statements of Edison Spa will also be prepared in accordance with international accounting principles. In addition, the use of these principles will be extended to the financial statements of the individual subsidiaries included in the scope of consolidation, when allowed under local laws.

In 2004, in pursuit of this objective, the Group launched a project for a full transition to the IAS/IFRS principles. This project, which involved the entire Edison Group, was handled by a special team that combines resources from the various corporate departments and the main Group companies. The team was charged with identifying the areas and corporate processes that would be affected by the introduction of the new principles and developing suitable accounting software.

To facilitate the transition to the international accounting standards, the International Accounting Standards Board® (IASB) published IFRS 1, "First Adoption of the International Financial Reporting Standards (IFRS)." Normally, the IAS/IFRS call for a retroactive implementation of the standards and interpretations in order to allow comparison between current data and prior-period data. As an exception to this rule, IFRS 1 allows limited exemptions from this requirement in special cases justified by practical reasons, or when the cost of compliance would be greater than the benefits to the users of the financial statements, or when compliance would require a subjective evaluation by management of past conditions after the outcome of specific transactions has already become known. During the transition period, the offsets of the restatements arising from the adoption of the international accounting principles must be recognized in the Stockholders' Equity section of the Balance Sheet and not in the Statement of Income.

The main choices and options selected by the Group in connection with the transition to the IAS/IFRS principles had to do with the following issues:

- use of fair value instead of cost in the initial valuation of virtually all property, plant and equipment, including construction in progress and investment property. The cost model will be used for subsequent valuations;
- forward-looking implementation, as of January 1, 2004, of IFRS 3 (formerly IAS 22) for the valuation of business combinations, i.e., transactions involving acquisitions, mergers and similar transactions;
- full recognition of actuarial gains and losses in the valuation of employee severance benefit obligations;
- cancellation of cumulative currency conversion differences;
- forward-looking implementation, as of January 1, 2005, of IAS 32, IAS 39 and IFRS 2 for the valuation of financial instruments.

The impact of the choices outlined above, compared with data prepared in accordance with the regulations currently in force, is shown in the opening balance sheet at January 1, 2004. The Company has requested a special audit of this balance sheet, which is currently under way. However, because the applicable regulatory framework has not been completely finalized and the IAS/IFRS standards and their interpretations (IFRIC) are still evolving, a consolidated practice has not yet been established in this area and certain data can still undergo changes, which, however, would not be material.

Reclassified Transition Balance Sheet at January 1, 2004 (First Time Adoption)

	Balance sheet at 12/31/03	First time adoption 1/1/04
A. Fixed assets		
Intangibles	4,017	4,140
Property, plant and equipment	5,555	8,734
Financial fixed assets	1,235	403
	10,807	**13,277**
B. Net working capital		
Inventories	2,770	2,707
Trade accounts receivable	1,096	1,352
Other assets	1,226	1,218
Trade accounts payable and advances on contract work in process (-)	(3,524)	(3,751)
Reserves for risks and charges (-)	(1,374)	(2,461)
Other liabilities (-)	(783)	(971)
	(589)	**(1,906)**
C. Invested capital, net of operating liabilities (A+B)	**10,218**	**11,371**
D. Reserve for employee severance indemnities (-)	**(62)**	**(76)**
E. Net invested capital (C-D)	**10,156**	**11,295**
Covered by:		
F. Stockholders' equity	**6,013**	**6,000**
Broken down as follows:		
Group interest in stockholders' equity	5,213	5,320
Minority interest in stockholders' equity	800	680
G. Net borrowings		
Long-term debt	3,091	4,425
Long-term loans receivable (-)	(9)	(9)
Short-term debt	1,649	1,653
Liquid assets and short-term loans receivable (-)	(588)	(774)
	4,143	**5,295**
H. Total coverage sources	**10,156**	**11,295**

The items that had the greatest impact on the balance sheet were:

- the consolidation by the proportional method of the 50% interest in the Edipower joint venture, due to the nature of Edipower's activity, the guarantee of its borrowings and the existence of put and call options. In this case, the consolidation resulted in a significant increase both in the Group's property, plant and equipment and indebtedness;

- an increase in the value of fixed assets, due mainly to the valuation of assets at fair value for transition purposes. However, the impact of this change was limited because the Edison Group, upon the acquisition of Italenergia in 2001, had adjusted the value of its assets to their fair value, as required by the preexisting standard IAS 22. This choice required the computation and recognition of the deferred tax effect in accordance with IAS 12. The resulting effect was reflected in the Reserve for Risks and Charges;
- the consolidation of a securitization company and of its separate assets, which increased net indebtedness by a modest amount;
- other less significant impacts derived from changes in the scope of consolidation caused by the simultaneous effect of IAS 27, IAS 28 and IAS 31.

As a result of the items discussed above, while total Stockholders' Equity was little changed compared with December 31, 2003, the Group's interest in stockholders' equity increased by about 100 million euros and Goodwill was virtually unchanged. Starting in 2005, goodwill will no longer be amortizable, but will be subject to an impairment test in accordance with IAS 36.

Operating Performance and Financial Position of the Group

Statement of Income

	2004	2003
A. Net revenues	**6,497**	**6,287**
Change in inventory of work in progress, semifinished goods and finished goods	41	(12)
Increase in company-produced additions to fixed assets	18	9
B. Production value	**6,556**	**6,284**
Raw materials and outside services (-)	(5,054)	(4,896)
C. Value added	**1,502**	**1,388**
Labor costs (-)	(248)	(285)
D. EBITDA	**1,254**	**1,103**
Depreciation, amortization and writedowns (-)	(639)	(688)
E EBIT	**615**	**415**
Net financial expense	(248)	(283)
Interest in the result of companies valued by the equity method, dividends and write-downs of companies valued at cost	1	(20)
Other income (expense), net	12	3
F Income (loss) before extraordinary items and taxes	**380**	**115**
Extraordinary income (expense)	4	543
G. Income before taxes and minority interest	**384**	**658**
Income taxes	(151)	(424)
H Net income:		
Minority interest in net income	78	90
Group interest in net income	155	144
Earnings per share (in euros):		
Basic	**0.0351**	**0.0396**
Diluted	**0.0281**	**0.0327**

Balance Sheet

	12/31/04	12/31/03
A. Fixed assets		
Intangibles	3,725	4,017
Property, plant and equipment	5,339	5,555
Financial fixed assets	1,192	1,235
	10,256	**10,807**
B. Net working capital		
Inventories	3,296	2,770
Trade accounts receivable	1,183	1,096
Other assets	935	1,226
Trade accounts payable and advances on contract work in process (-)	(4,103)	(3,524)
Reserves for risks and charges (-)	(1,221)	(1,374)
Other liabilities (-)	(487)	(783)
	(397)	**(589)**
C. Invested capital, net of operating liabilities (A+B)	**9,859**	**10,218**
D. Reserve for employee severance indemnities (-)	**(64)**	**(62)**
E. Net invested capital (C-D)	**9,795**	**10,156**
Covered by:		
F. Stockholders' equity (before minority interest)	**5,940**	**6,013**
G. Net borrowings		
Long-term debt	3,347	3,091
Long-term loans receivable (-)		(9)
Short-term borrowings	812	1,649
Liquid assets and short-term loans receivable (-)	(304)	(588)
	3,855	**4,143**
H. Total coverage sources (F+G)	**9,795**	**10,156**

Statement of Changes in Net Financial Position

	2004	2003
A. Net borrowings at beginning of period	**(4,143)**	**(6,461)**
EBITDA	1,254	1,103
Change in operating working capital [1]	(16)	138
Taxes paid (-)	(20)	(32)
Change in other assets (liabilities)	(288)	(384)
B. Cash flow – Operating activities	**930**	**825**
Investments in intangibles, property, plant and equipment, and financial fixed assets (-)	(690)	(939)
Proceeds from the sale of intangibles, property, plant and equipment, and financial fixed assets	242	1,901
Dividends received	14	17
C. Free cash flow	**496**	**1,804**
Net financial expense	(248)	(283)
Contributions of capital stock and reserves	52	614
Dividends declared (-)	(82)	(26)
D. Cash flow – Financing activities	**218**	**2,109**
Change in the scope of consolidation	70	237
Net currency conversion differences	-	(28)
E. Net cash-flow for the period	**288**	**2,318**
F. Net borrowings at end of period (A+E)	**(3,855)**	**(4,143)**

[1] Inventories + trade accounts receivable - trade accounts payable.

Operating Performance and Financial Position of Discontinuing Operations in Accordance with IFRS 5

A pro-forma Statement of Income, Balance Sheet and Statement of Changes in Net Financial Position for the Edison Group, reclassified in accordance with IFRS 5 to show a breakdown of the Group's core businesses (Electric Power, Hydrocarbons and Corporate) and other activities earmarked for divestiture, are provided on the following pages. Other activities include the Water and Engineering operations and minority interests held in certain publicly traded companies, which, according to resolutions approved by the Board of Directors in 2003, are no longer strategic and are available for sale.

Statement of income in accordance with IFRS 5	2004			2003		
	Core businesses	Other operations	Total	Core businesses	Other operations	Total
A. Net revenues	**5,668**	**829**	**6,497**	**5,141**	**1,146**	**6,287**
Change in inventory of work in progress, semifinished goods and finished goods	41		41	(14)	2	(12)
Increase in Company-produced additions to fixed assets	18		18	9		9
B. Production value	**5,727**	**829**	**6,556**	**5,136**	**1,148**	**6,284**
Raw materials and outside services (-)	(4,345)	(709)	(5,054)	(3,883)	(1,013)	(4,896)
C. Value added	**1,382**	**120**	**1,502**	**1,253**	**135**	**1,388**
Labor costs (-)	(156)	(92)	(248)	(166)	(119)	(285)
D. EBITDA	**1,226**	**28**	**1,254**	**1,087**	**16**	**1,103**
Depreciation, amortization and writedowns (-)	(634)	(5)	(639)	(648)	(40)	(688)
E. EBIT	**592**	**23**	**615**	**439**	**(24)**	**415**
Net financial expense	(251)	3	(248)	(283)	(4)	(287)
Interest in the results of companies valued by the equity method and dividends from companies valued at cost	1		1	8	(28)	(20)
Other income (expense), net		12	12	3		3
F. Income before extraordinary items and taxes	**342**	**38**	**380**	**167**	**(56)**	**111**
Net extraordinary income (expense)	(23)	(2)	(25)	117	(74)	43
G. Income before taxes, minority interest and divestiture of assets	**319**	**36**	**355**	**284**	**(130)**	**154**
Income taxes	(134)	(17)	(151)	(177)	(15)	(192)
H. Net income (loss) excluding the impact of the divestiture of significant operations (gains, tax effect, incidental charges):						
Minority interest	**80**	**(2)**	**78**	**90**		**90**
Group interest	**105**	**21**	**126**	**17**	**(145)**	**(128)**
I. Impact of divestitures						
Gains on divestitures	49	7	56	580	(35)	545
Divestiture-related costs	(4)		(4)	(26)	(11)	(37)
Provision for risks on equity investments	(18)	(5)	(23)		(4)	(4)
Divestiture-related income taxes				(232)		(232)
Total divestitures	**27**	**2**	**29**	**322**	**(50)**	**272**
L. Net income:						
Minority interest in net income	**80**	**(2)**	**78**	**90**		**90**
Group interest in net income	**132**	**23**	**155**	**339**	**(195)**	**144**

Balance Sheet in accordance with IFRS 5	2004 Core businesses	2004 Other operations	2004 Total	2003 Core businesses	2003 Other operations	2003 Total
A. Fixed assets						
Intangibles	3,722	3	3,725	4,010	7	4,017
Property, plant and equipment	5,323	16	5,339	5,541	14	5,555
Financial fixed assets	1,172	20	1,192	1,230	5	1,235
	10,217	**39**	**10,256**	**10,781**	**26**	**10,807**
B. Net working capital						
Inventories	367	2,929	3,296	296	2,474	2,770
Trade accounts receivable	1,009	174	1,183	808	288	1,096
Other assets	821	114	935	1,095	131	1,226
Trade accounts payable and advances on contract work in process (-)	(871)	(3,232)	(4,103)	(689)	(2,835)	(3,524)
Reserves for risks and charges (-)	(1,208)	(13)	(1,221)	(1,368)	(6)	(1,374)
Other liabilities (-)	(426)	(61)	(487)	(704)	(79)	(783)
	(308)	**(89)**	**(397)**	**(562)**	**(27)**	**(589)**
C. Invested capital, net of operating liabilities (a+b)	**9,909**	**(50)**	**9,859**	**10,219**	**(1)**	**10,218**
D. Reserve for employee severance indemnities (-)	**(48)**	**(16)**	**(64)**	**(48)**	**(14)**	**(62)**
E. Net invested capital (c-d)	**9,861**	**(66)**	**9,795**	**10,171**	**(15)**	**10,156**
Covered by:						
F. Stockholders' equity	**5,709**	**231**	**5,940**	**5,807**	**206**	**6,013**
Broken down as follows:						
Group interest in stockholders' equity	5,186	226	5,412	5,014	199	5,213
Minority interest in stockholders' equity	523	5	528	793	7	800
G. Net borrowings						
Long-term debt	3,347		3,347	3,091		3,091
Long-term loans receivable (-)				(3)	(6)	(9)
Short-term debt	881	(69)	812	1,639	10	1,649
Liquid assets and short-term loans receivable (-)	(76)	(228)	(304)	(363)	(225)	(588)
	4,152	**(297)**	**3,855**	**4,364**	**(221)**	**4,143**
H. Total coverage sources	**9,861**	**(66)**	**9,795**	**10,171**	**(15)**	**10,156**

Statement of Changes in Net Financial Position in Accordance with IFRS 5	12/31/04			12/31/03		
	Core businesses	Other operations	Total	Core businesses	Other operations	Total
A. Net (borrowings) financial assets at beginning of period	**(4,364)**	**221**	**(4,143)**	**(6,220)**	**(241)**	**(6,461)**
EBITDA	1,226	28	1,254	1,087	16	1,103
Change in operating working capital	(72)	56	(16)	109	29	138
Taxes paid (-)	(16)	(4)	(20)	(30)	(2)	(32)
Change in other assets (liabilities)	(290)	2	(288)	(594)	214	(380)
B. Cash flow – Operating activities	**848**	**82**	**930**	**572**	**257**	**829**
Investments in intangibles, property, plant and equipment and financial fixed assets (-) (*)	(660)	(30)	(690)	(880)	(59)	(939)
Proceeds from the sale of intangibles, property, plant and equipment and financial fixed assets	228	14	242	1,849	52	1,901
Dividends received	14		14	15	2	17
C. Free cash flow	**430**	**66**	**496**	**1,556**	**252**	**1,808**
Net financial income (expense)	(251)	3	(248)	(283)	(4)	(287)
Contributions of capital stock and reserves	52		52	614		614
Distributions of capital stock and reserves (-)						
Dividends paid (-)	(82)		(82)	(26)		(26)
D. Cash flow – Financing activities	**149**	**69**	**218**	**1,861**	**248**	**2,109**
Change in the scope of consolidation	63	7	70	23	214	237
Net currency conversion differences				(28)		(28)
E. Net cash flow for the period	**212**	**76**	**288**	**1,856**	**462**	**2,318**
F. Net (borrowings) financial assets at end of period (A+E)	**(4,152)**	**297**	**(3,855)**	**(4,364)**	**221**	**(4,143)**

Operating Performance and Financial Position of Edison Spa

Reclassified Statement of Income

	2004	2003
A. Sales revenues	**3,303**	**2,827**
Other revenues and income	81	104
Net revenues	**3,384**	**2,931**
Change in inventory of work in progress, semifinished goods and finished goods	48	(14)
Increase in Company-produced additions to fixed assets	16	7
B. Production value	**3,448**	**2,924**
Raw materials and outside services (-)	(2,611)	(2,389)
C. Value added	**837**	**535**
Labor costs (-)	(118)	(109)
D. EBITDA	**719**	**426**
Depreciation, amortization and writedowns (-)	(403)	(418)
E. EBIT	**316**	**8**
Net financial income (expense)	(211)	(248)
Dividends	374	966
Upward adjustments (Writedowns) of financial assets	(216)	(449)
F. Income (Loss) before extraordinary items and taxes	**263**	**227**
Extraordinary income (expense)	56	(31)
G. Income (Loss) before taxes and minority interest	**319**	**246**
Income taxes	(7)	(102)
H. Net income (loss)	**312**	**144**

Reclassified Balance Sheet

	12/31/04	12/31/03
A. Fixed assets		
Intangibles	3,017	2,908
Property, plant and equipment	2,932	1,751
Financial fixed assets	2,887	3,530
	8,836	**8,189**
B. Net working capital		
Inventories	212	397
Trade accounts receivable	615	171
Other assets	733	1,571
Trade accounts payable (-)	(595)	(170)
Other liabilities (-)	(329)	(505)
Reserves for risks and charges (-)	(963)	(1,069)
	(327)	**395**
C. Invested capital, net of operating liabilities (A+B)	**8,509**	**8,584**
D. Reserve for employee severance indemnities (-)	**(37)**	**(31)**
E. Net invested capital (C+D)	**8,472**	**8,553**
Covered by:		
F. Stockholders' equity	**4,221**	**3,861**
G. Net (borrowings) financial assets		
Long-term debt	3,021	3,862
Long-term loans receivable	(269)	-
	2,752	**3,862**
Short-term borrowings	1,531	1,389
Liquid assets and short-term loans receivable (-)	(32)	(559)
	1,499	**830**
Total net (borrowings) financial assets	**4,251**	**4,692**
H. Total coverage sources (F+G)	**8,472**	**8,553**

Statement of Changes in Net Financial Position

	2004	2003
A. Net borrowings at beginning of period	**(4,691)**	**(5,287)**
EBITDA	719	426
Change in operating working capital [1]	(15)	(338)
Income taxes paid (-)	(5)	(119)
Change in other assets (liabilities)	707	656
B. Cash flow – Operating activities	**1,406**	**625**
Investments in intangibles, prop., plant and equipment, and fin. fixed assets (-)	(1,061)	(781)
Proceeds from the sale of intangibles, prop., plant and equip., and fin. fixed assets	173	171
Dividends received	369	214
C. Free cash flow	**887**	**229**
Financial income (expense), net	(214)	(248)
Contributions of capital stock and reserves	48	614
Distributions of capital stock and reserves (-)	-	-
Dividends declared (-)	(281)	-
D. Net cash flow for the period	**440**	**595**
E. Net borrowings at end of period (A+E)	**(4,251)**	**(4,692)**

[1] Inventories + trade accounts receivable - trade accounts payable.

Industrial Operations

After a series of mergers that started in 2003, Edison Spa, the Group's Parent Company, now engages directly in the generation of electric power from thermoelectric and hydroelectric power plants and in businesses involving hydrocarbons. In order to provide a better understanding of the Company's operating results, the industrial performance of these two areas of operation is reviewed separately below.

Electric Power

A breakdown of revenues from the sale of electric power is as follows:

		2004		2003	
		Quantity	Millions of euros	Quantity	Millions of euros
- Industrial customers	(GWh)	3,628	216	31	2
- GRTN	(GWh)	15,862	1,260	8,182	546
- Edison Energia	(GWh)	-	-	7,059	303
- Edison Trading	(GWh)	7,047	328		
Total sales (electric power)	**26,537**	**26,537**	**1,804**	**15,272**	**851**

Note: One GWh is equal to one million KWh.

The net hydroelectric production available to Edison Spa totaled 3,265 million kWh, or about 500 million kWh more than in 2003, due mainly to the merger with Caffaro. Sales of electric power increased to 26,537 million kWh, a gain of about 11,265 million kWh compared with 2003 (+235.6%). The reason for the increase is the mergers of ISE Srl, Bussi Termoelettrica Spa and Sogetel Spa into Edison Spa, which added 10,888 million kWh in available thermoelectric generating capacity.

In 2004, the electric power operations of Edison Spa made capital expenditures totaling about 355 million euros – 321 million euros to increase generating capacity, 26 million euros for rationalization and improvement programs, and 8 million euros for safety.

The hydroelectric division, in addition to its usual incremental maintenance activity, completed the upgrade of the Malengo power plant, which enabled the Company to receive green certificates for an additional 37 GWh. In addition, it completed the installation of automation and remote control systems at the Sonico facility and started the replacement of the turbine-alternator unit at the Colle power plant.

The capital expenditures of the Thermoelectric Division were used to:

- continue the construction of 800-MW thermoelectric power plants in Altomonte (CS) and Torviscosa (UD) and of a 400-MW facility in Candela (FG);
- begin the construction of an 800-MW power plant in Simeri Crichi (CZ);

- complete a project that will double the capacity of a 55-MW, cogenerating, combined-cycle power plant in Sesto San Giovanni. This facility will sell electric power in the deregulated market and steam to an urban district heating system;
- expand existing power plants.

Hydrocarbons

In 2004, unit sales of natural gas totaled 9,608 million standard cubic meters, compared with 9,699 million standard cubic meters the previous year. In 2004, however, sales of natural gas to Edipower (1,536 million standard cubic meters) were handled through Edison Trading, as required under the tolling contract. In 2003, these sales were credited to Edison Spa (area supply).

Sales of natural gas to residential users in the Italian deregulated market grew 20.6% compared with 2003, while deliveries to industrial users were up 6.5%.

Imports increased to 6,728 million standard cubic meters, or 14.4% more than in 2003, despite a sharp contraction in the availability on the spot market of LNG from the Skikda (Algeria) liquefaction facility following an accident at the end of January 2004.

Capital expenditures totaled about 28 million euros in 2004. They were used primarily for the workover of the Regina field, to develop the Naide and Candela fields, to drill the S Maddalena-1 well and to upgrade the systems of the Rospo-Mare platform.

Components of the Statement of Income

The main changes in the statement of income compared with 2003 reflect a change in the scope of operations following the absorption of several companies (ISE, Bussi Termoelettrica, Caffaro Energia, Sogetel, Savim and Vega Oil). As a result of these mergers, Edison Spa exercises direct control over thermoelectric and hydroelectric businesses conveyed by the absorbed companies.
An analysis of the main components of net income is provided below.
Net revenues totaled 3,384 million euros, or 453 million euros more than in 2004.

EBITDA were positive by 719 million euros (426 million euros in 2003). EBIT also improved, rising to 316 million euros (8 million euros in 2003). The latter amount is net of 2,603 million euros paid for raw materials and outside services, 118 million euros in personnel costs and 403 million euros in depreciation, amortization and writedowns.

Net financial income of 163 million euros (718 million euros in 2003) is the net result of 374 million euros in dividend income, less 211 million euros in financial expense. The decrease compared with the previous year is mainly the result of a reduction in dividend income, offset in part by a drop in the cost of money made possible by reductions both in net borrowings and the interest rates paid.

Writedowns of financial assets totaled 216 million euros (449 million euros in 2003). They were booked to recognize persistent losses in the value of equity investments and align their carrying values with the value of the underlying stockholders' equity or their estimated realizable value.

Net extraordinary income increased to 56 million euros (31 million expense in 2003). The main components of extraordinary income, which amounted to 355 million euros, include utilizations of reserves for risks, out-of-period income from the derecognition of expense items booked exclusively for tax purposes and gains on the sale of equity investments. Extraordinary expense of 279 million euros includes the environmental remediation work at the Venice Porto Marghera complex, the amount due for the final settlement of the Val di Stava and Val Martello disputes; the extraordinary provisions booked in connection with the sale of equity investments, the deferred taxes arising from the derecognition of items booked solely for tax purposes and extraordinary writedowns of intangibles and property, plant and equipment.

Because the corporate income tax liability was offset by the Company's tax loss carryforward, the only tax charge shown in the statement of income is 30 million euros for local taxes (IRAP). Deferred taxes of 23 million euros refer to the future tax savings that the Company expects to realize by using its tax loss carryforward (5 million euros) and its expectations with regard to the utilization of taxable reserves for risk within the context of the industrial plan approved by the Company's corporate governance bodies (18 million euros).

Components of the Balance Sheet

Net invested capital amounted to 8,472 million euros, down 81 million euros from December 31, 2003. The main changes concern an increase of property, plant and equipment and financial assets, that, due to the above mentioned mergers, have decreased.

The net financial position showed a negative balance of 4,251 million euros, an amount lower by 441 million euros than the negative balance at December 31, 2003. An analysis of the main changes in net financial position is provided in the Statement of Changes in Net Financial Position.

Significant Events Occurring after December 31, 2004

European Commission – Antitrust Proceedings Against Ausimont

On January 28, 2005, the Commission of the European Union informed Edison that it had begun proceedings 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. The unlawful conduct is alleged to have occurred between January 31, 1994 and June 30, 2001. Edison, to whom the complaint was addressed since it controlled 100% of Ausimont at the time of the alleged violations, is reviewing the complaint to determine the available avenues of objections and defense.

Edison France – Sale of 40 MW of Thermoelectric plant

On February 7, 2005 Dalkia Investissment acquired Edison France, holding of 50% of Flanders Energies, the owner of a 40 MW Thermoelectric plant.
The financial effect of the operation is 18 million of euros, but there will be no relevant effect on Edison's Financial Statements.

Edison Signs a Letter of Intent to Import Natural Gas from Algeria

On March 7, 2005, Edison and Sonatrach (the Algerian state oil company) signed a letter of intent covering the supply of up to 4 billion cubic meters of Algerian natural gas a year. The gas will be imported through the new Galsi pipeline that will link Algeria and the Italian mainland, via Sardinia.

Edison Trading and Edipower – Carbonyl Issues in Brindisi

The Office of the Public Prosecutor of the Court of Brindisi began criminal proceedings against more than 40 individuals (including a Director of Edison Trading Spa and an executive of Edipower Spa) in connection with the unloading, transportation and storage of coal imported by ship for use as fuel in Edipower's Brindisi North power plant and the Enel Federico II power plant. The preliminary investigation is focusing on the release and dispersal of coal dust and the resulting consequences for human health and the environment.
On March 3, 2005, in the course of these proceedings, the court ordered the preventive seizure of the coal storage area and of the material stored in that area, the equipment used to handle and move the abovementioned material and the docks of the Port of Brindisi used by coal ships. This forced the Brindisi North power plant to shut down on March 4, 2005.
Edipower and Edison Trading immediately took action to defend their rights, providing legal and general interest reasons and putting forth proposals of technical solutions that could be implemented immediately, over the short-term and over the intermediate-term to support petitions in which it requested that the court authorize the restart of the Brindisi North power plant and void the preventive seizure. In response to these requests, the Office of the Public Prosecutor ordered that certain

technical studies be carried out (these studies got under way on March 8, 2005) and reserved its right to address the abovementioned petitions.

Taking into account the discipline of the tolling contracts effective from January, 2004, the above mentioned proceedings should not compel the tollers to pay Edipower an availability fee for the Brindisi plant.

Milan, March 16, 2005

The Board of Director
The Chairman
Umberto Quadrino

Unbundling – Financial Statements and Notes of Edison Spa

As required under Decree No. 79/99 (the so-called Bersani Decree), the Italian Electric Power and Natural Gas Authority (abbreviated AEEG in Italian), in Resolutions No. 61/99 of May 14, 1999 and No. 310/01 of March 11, 2002, set forth the rules that electric power companies must follow in effecting the accounting and administrative separation of their operations.

Specifically, Resolutions 61/99 and 310/01 require that the Balance Sheet and Statement of Income be prepared in accordance with the requirements of Articles 2424 and 2425 of the Italian Civil Code, providing a breakdown of different activities, areas of business, common services and shared departments, according to the format provided in the applicable statute. These financial statements and their notes must be included in the Report on Operations (Annex 1) and forwarded to AEEG (Annexes 2 and 3).

Identification of Activities, Areas of Business and Common Services

The first step is to identify the "activities," "areas of business" and "common services," as required under Articles 4, 5 and 7 of Resolution No. 310/01, which should be consulted for more detailed information.

For unbundling purposes, Edison constitutes a multiactivity industrial company with the following structure:

Activity	Area of Business
Production	ii.) Cogenerating power plants
	iii) Facility using renewable energy sources
Natural gas operations	
Other operations	
Common services and shared operational departments	

More specifically:

- the **production activity** includes all property, plant and equipment and intangibles, revenues and expenses and other items related primarily to the operation of hydroelectric and cogeneration facilities;
- as explained in Article 4.9 of Resolution No. 310/01, the **natural gas activity** includes all of the operations listed in Article 4, Section 4.1, Letters a), b), and c), but excluding Items i and iv, of Resolution No. 311/01;
- the **common services** include all of the activities listed in the abovementioned Resolution, except for telecommunications services (j), which are not operated by Edison Spa.

The Resolution requires that balance sheet items be allocated to the different activities, except for the following items, which must be listed in the *Non-attributable* column:

- **receivables from stockholders;**
- the components of **stockholders' equity**;
- **items of a financial nature and those related to equity investments listed among the assets**, respectively, under B.III.1/3/4 and C.III) and C.IV). By way of analogy, the financial items listed under B.III.2) that refer to the management of equity investments are also listed;
- items related to **borrowings** listed among the liabilities under "D";
- only the financial components of **accruals and deferrals** (listed under item "D" on the asset side and under "E" on the liabilities side);
- all of the items that appear in the Statement of Income after Net production value.

Identification and Allocation of Costs to Common Services and Shared Operational Departments

The remaining costs that cannot be analytically allocated to individual activities or cannot be listed as Non-attributable are allocated to common services and shared operational departments.

The costs allocated to common services under the two groupings (a-d; e-k) provided in Annex 1 are determined analytically because they represent the aggregate costs of several cost centers. However, when a cost center is shared by several services, the allocation of costs to the individual services is made by prorating the item in question in accordance with drivers defined specifically for each type of activity.

* * *

The balance sheet and statement of income that must be included in Annex 1 pursuant to Resolution No. 61/99, as amended, appear on the following pages. They have been prepared in accordance with the explanations provided above.

Edison Spa – Unbundling

Balance Sheet – Assets

	Production	Natural gas operations	Other oper-ations	Common services (A-D)	Common services (E-K)	Total	Non-attributable	To be attributed	Total for the company
B. Fixed assets									
I. Intangibles									
1) Start-up and expansion costs	887	-	-	-	-	887	5,145	-	6,032
2) Research and development costs and advertising expenses	3,396	-	-	-	-	3,396	-	-	3,396
4) Permits, licenses, trademarks and similar rights	1,150	237,386	82	-	-	238,618	6,849	-	245,467
5) Goodwill	754,826	66,358	-	-	-	821,184	1,903,610	-	2,724,794
6) Work in progress and advances	775	314	-	-	-	1,089	7,095	-	8,184
7) Other intangibles	25,786	3,487	-	-	-	29,273	-	-	29,273
Total intangibles	**786,820**	**307,545**	**82**	**-**	**-**	**1,094,447**	**1,922,699**	**-**	**3,017,146**
II. Property, plant and equipment									
1) Land and buildings	266,420	1,658	10,000	-	-	278,078	-	-	278,078
2) Plant and machinery	1,897,404	151,960	858	-	-	2,050,222	-	-	2,050,222
3) Manufacturing and distribution equip.	6,670	25	571	-	-	7,266	-	-	7,266
4) Other assets	2,447	647	686	-	-	3,780	-	-	3,780
5) Construction in progress and advances	553,511	39,085	-	-	-	592,596	-	-	592,596
Total property, plant and equipment	**2,726,452**	**193,375**	**12,115**	**-**	**-**	**2,931,942**	**-**	**-**	**2,931,942**
III. Financial fixed assets									
1) Equity investments in:									
a) Subsidiaries	-	-	-	-	-	-	1,715,457	-	1,715,457
b) Affiliated companies	-	-	-	-	-	-	931,564	-	931,564
c) Other companies	-	-	-	-	-	-	160,865	-	160,865
Total equity investments	**-**	**-**	**-**	**-**	**-**	**-**	**2,807,886**	**-**	**2,807,886**
2) Long-term loans to:									
a) Subsidiaries	-	-	-	-	-	-	24,908	-	24,908
b) Affiliated companies	-	-	-	-	-	-	4	-	4
d) Other companies	-	-	-	-	-	-	52,294	-	52,294
Total long-term loans	**-**	**-**	**-**	**-**	**-**	**-**	**77,206**	**-**	**77,206**
3) Other securities	-	-	-	-	-	-	1,923	-	1,923
Total financial fixed assets	**-**	**-**	**-**	**-**	**-**	**-**	**2,887,015**	**-**	**2,887,015**
Total fixed assets	**3,513,272**	**500,920**	**12,197**	**-**	**-**	**4,026,389**	**4,809,714**	**-**	**8,836,103**

Edison Spa – Unbundling

Balance Sheet – Assets (continued)

	Production	Natural gas operations	Other oper-ations	Common services (A-D)	Common services (E-K)	Total	Non-attributable	To be attributed	Total for the company
C. Current assets									
I. Inventories									
1) Raw materials, auxiliaries and supplies	27,250	3,878	-	-	27	31,155	-	-	31,155
3) Contract work in process	-	7,948	-	-	-	7,948	-	-	7,948
4) Finished goods and merchandise	-	133,754	39,242	-	-	172,996	-	-	172,996
5) Advances	2	-	-	-	130	132	80	-	212
Total inventories	**27,252**	**145,580**	**39,242**	**-**	**157**	**212,231**	**80**	**-**	**212,311**
II. Accounts receivable									
1) Trade accounts receivable	256,533	187,111	361	-	155	444,160	-	-	444,160
2) Accounts receivable from subsidiaries	57,429	68,074	22,482	-	-	147,985	5,252	-	153,237
3) Accounts receivable from affiliated companies	994	50,473	3,702	-	-	55,169	-	-	55,169
4) Accounts receivable from controlling companies	-	-	31	-	-	31	-	-	31
4 - *bis*) Due from the tax authorities	(464)	10,507	-	-	-	10,043	506,122	-	516,165
4 - *ter*) Deferred-tax assets	-	-	-	-	-	-	24,000	-	24,000
5) Accounts receivable from outsiders	25,580	37,347	1,056	-	-	63,983	22,465	-	86,448
Total accounts receivable	**340,072**	**353,512**	**27,632**	**0**	**155**	**721,371**	**557,839**	**-**	**1,279,210**
III. Financial assets not held as fixed assets									
4) Other equity investments	-	-	-	-	-	-	29,360	-	29,360
7) Loans receivable	-	-	-	-	-	-	259,592	-	259,592
Total financial assets not held as fixed assets	**-**	**-**	**-**	**-**	**-**	**-**	**288,952**		**288,952**
IV. Liquid assets	-	-	-	-	-	-	9,245	-	9,245
Total current assets	**367,324**	**499,092**	**66,874**	**0**	**312**	**933,602**	**856,116**	**-**	**1,789,718**
D. Accrued income and prepaid expenses	**14,878**	**6,776**	**-**	**-**	**1,728**	**23,382**	**31,991**	**-**	**55,373**
TOTAL ASSETS	**3,895,474**	**1,006,788**	**79,071**	**0**	**2,040**	**4,983,373**	**5,697,821**	**-**	**10,681,194**

Edison Spa – Unbundling

Balance Sheet – Liabilities and Stockholders' Equity

	Production	Natural gas operations	Other oper-ations	Common services (A-D)	Common services (E-K)	Total	Non-attributable	To be attributed	Total for the company
A. Stockholders' equity									
I. Capital stock	-	-	-	-	-	-	4,258,888	-	4,258,888
II. Additional paid-in capital	-	-	-	-	-	-	-	-	-
VII. Other reserves	-	-	-	-	-	-	20,334	-	20,334
VIII. Retained earnings (Loss carryforward)	-	-	-	-	-	-	(370,674)	-	(370,674)
IX. Net income (loss) for the year	729,339	(268,444)	3,227	(63,496)	(78,137)	322,489	(10,613)	-	311,876
Total stockholders' equity	**729,339**	**(268,444)**	**3,227**	**(63,496)**	**(78,137)**	**322,489**	**3,897,935**	**-**	**4,220,424**
B. Reserves for risks and charges									
2) Reserve for taxes	2,023	497	-	-	-	2,520	57,790	-	60,310
3) Other reserves	24,654	115,944	-	-	-	140,598	778,051	-	918,649
Total reserves for risks and charges	**26,677**	**116,441**	**-**	**-**	**-**	**143,118**	**835,841**	**-**	**978,959**
C. Reserve for employee severance indemnities	**19,676**	**4,369**	**6**	**1,708**	**11,564**	**37,323**	**-**	**-**	**37,323**
D. Liabilities									
1) Bonds	-	-	-	-	-	-	2,629,639	-	2,629,639
3) Loans payable to stockholders	-	-	-	-	-	-	881	-	881
4) Due to banks	-	-	-	-	-	-	899,607	-	899,607
5) Due to other lenders	-	-	-	-	-	-	6,660	-	6,660
6) Advances	113	-	-	-	16,141	16,254	-	-	16,254
7) Trade accounts payable	315,860	221,126	12,545	2,238	4,209	555,978	-	-	555,978
9) Accounts payable to subsidiaries	25,102	5,495	-	-	9,745	40,342	971,510	-	1,011,852
10) Accounts payable to affiliated companies	404	356			198	958	178	-	1,136
11) Accounts payable to controlling companies	-	-	-	4,421	-	4,421	-	-	4,421
12) Taxes payable	1,401	875	-	-	-	2,276	23,845	-	26,121
13) Contributions to pension and social security institutions	3,078	1,107	-	769	3,447	8,401	-	-	8,401
14) Other liabilities	73,072	30,652	-	-	86,765	190,489	542	-	191,031
Total liabilities	**419,030**	**259,611**	**12,545**	**7,428**	**120,505**	**819,119**	**4,532,862**	**-**	**5,351,981**
E. Accrued expenses and deferred income	**305**	**6,958**	**-**	**-**	**438**	**7,701**	**84,806**	**-**	**92,507**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**1,195,027**	**118,935**	**15,778**	**(54,360)**	**54,370**	**1,329,750**	**9,351,444**	**-**	**10,681,194**

Edison Spa – Unbundling

Statement of Income

	Production	Natural gas operations	Other oper-ations	Common services (A-D)	Common services (E-K)	Total	Non-attributable	To be attributed	Total for the company
A. Production value									
1) Sales and service revenues	1,922,922	1,358,044	21,600	-	-	3,302,566	-	-	3,302,566
2) Work in progress and semifinished goods	-	41,022	-	-	-	41,022	-	-	41,022
3) Contract work in process	(764)	7,948	-	-	-	7,184	-	-	7,184
4) Incr. in company-produced add. to fixed assets	15,555	662	-	-	27	16,244	-	-	16,244
5) Other revenues and income	26,306	33,610	14,355	-	-	74,271	6,285	-	80,556
Total production value	**1,964,019**	**1,441,286**	**35,955**	**-**	**27**	**3,441,287**	**6,285**	**-**	**3,447,572**
B. Cost of production									
6) Raw materials, auxiliaries and merchandise	661,754	1,337,631	4,126	707	-	2,004,218	628	-	2,004,846
7) Outside services	117,659	281,626	12,216	23,019	33,716	468,236	1,173	-	469,409
8) Use of property not owned	26,953	7,870	11,464	-	-	46,287	7	-	46,294
9) Personnel:									
a) wages and salaries	32,930	4,296	852	19,168	22,576	79,822	4,215	-	84,037
b) social security contributions	10,316	1,478	264	5,937	6,993	24,988	1,145	-	26,133
c) provision for employee severance indemnities	2,502	273	59	1,331	1,568	5,733	486	-	6,219
d) provision for pension and similar obligations	-	-	-	-	-	-	-	-	-
e) other personnel costs	412	77	13	290	342	1,134	1	-	1,135
Total personnel costs	**46,160**	**6,124**	**1,188**	**26,726**	**31,479**	**111,677**	**5,847**	**-**	**117,524**
10) Depreciation, amortization and writedowns	338,564	61,567	1,107	-	440	401,678	1,476	-	403,154
11) Change in inv. of raw mat., auxil. and supplies	(1,100)	76	2,509	-	77	1,562	-	-	1,562
12) Provisions for risks	10,448	10,090	-	-	-	20,538	-	-	20,538
14) Miscellaneous operating costs	34,112	4,746	118	13,044	12,452	64,472	4,186	-	68,658
Total cost of production	**1,234,550**	**1,709,730**	**32,728**	**63,496**	**78,164**	**3,118,668**	**13,317**	**-**	**3,131,985**
Net production value (A-B)	**729,469**	**(268,444)**	**3,227**	**(63,496)**	**(78,137)**	**322,619**	**(7,032)**	**-**	**315,587**
C. Financial income and expense									
15) Income from equity investments	-	-	-	-	-	-	374,310	-	374,310
16) Other financial income	-	-	-	-	-	-	133,257	-	133,257
17) Interest and other financial expense	-	-	-	-	-	-	342,096	-	342,096
17 *bis*) Currency conversion gains (losses)	-	-	-	-	-	-	1,801		1,801
Total financial income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**163,670**	**-**	**163,670**
Value adjustments on financial assets									
18) Upward adjustments	-	-	-	-	-	-	9,740		9,740
19) Writedowns	-	-	-	-	-	-	226,158	-	226,158
Total value adjustments on financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**(216,418)**	**-**	**(216,418)**
Extraordinary income and expense									
20) Extraordinary income	-	-	-	-	-	-	334,640	-	334,640
21) Extraordinary expense	-	-	-	-	-	-	278,641	-	278,641
Total extraordinary items	**-**	**-**	**-**	**-**	**-**	**-**	**55,999**	**-**	**55,999**
Income before taxes	**729,469**	**(268,444)**	**3,227**	**(63,496)**	**(78,137)**	**322,619**	**(3,781)**	**-**	**318,838**
22) Income taxes	**130**			**-**	**-**	**130**	**6,832**	**-**	**6,962**
26) Net income (loss)	**729,339**	**(268,444)**	**3,227**	**(63,496)**	**(78,137)**	**322,489**	**(10,613)**	**-**	**311,876**

Motions of the Board of Directors

Dear Stockholders:
Your Company's financial statements at December 31, 2004 show net income of 311,876,413.38 euros, rounded to 311,876,413 euros.
If you concur with the criteria used to prepare the financial statements and with the accounting principles and methods applied, we propose that you adopt the following resolution:

The Stockholders' Meeting,

- having reviewed the statutory and consolidated financial statements at December 31, 2004 and the Report on Operations submitted by the Board of Directors;
- being cognizant of the Report of the Statutory Auditors required under Article 153 of Legislative Decree No. 58/1998;
- being cognizant of the Reports of the Independent Auditors on the statutory and consolidated financial statements at December 31, 2004;

resolves to:
- approve the Report on Operations submitted by the Board of Directors;
- approve the statutory financial statements for the year ended December 31, 2004, and the individual items contained therein;
- appropriate the net income of 311,876,413 euros earned in the fiscal year ended December 31, 2004, as it appears in the balance sheet and statement of income, in the following manner: use the entire amount of 311,876,413 euros to reduce the loss brought forward of 370,674,041 euros by an equal amount;
- use the merger surplus reserve of 571,069 euros to reduce the loss brought forward by an equal amount of 571,069 euros, thereby leaving a remaining loss brought forward of 58,226,559 euros.

Milan, March 16, 2005

The Board of Directors
by *the Chairman*
Umberto Quadrino

Report of the Board of Statutory Auditors

Dear Stockholders:

The Board of Statutory Auditors carried out its work in accordance with those provisions of the Uniform Code of Financial Intermediation, as set forth in Legislative Decree No. 58 of February 24, 1998, that govern the activities of Boards of Statutory Auditors. We also took into account the guidelines of the Code of Conduct for Boards of Statutory Auditors of Publicly Traded Companies published by the Italian Board of Certified Public Accountants and Bookkeepers.

This Board of Statutory Auditors attended the meetings of the Board of Directors. At least once every quarter, the Board of Statutory Auditors received from the Directors information on the work they had performed, with special emphasis on transactions that had a material impact on the Company's operations, financial performance and asset base, and those involving potential conflicts of interest. We ascertained that all actions that were approved and implemented complied with current law and the Company's Bylaws.

The draft statutory and consolidated financial statements at December 31, 2004, accompanied by the Report on Operations, were approved within the statutory deadline. The Board of Statutory Auditors ascertained that the provisions of the statutes governing the preparation and presentation of financial statements had been complied with and that the financial statements truthfully and fairly present the operating performance and financial position of the Company and the Group.

In performing its work, the Board of Statutory Auditors found no significant events that would require notification of the supervisory authorities or disclosure in this Report.

The balance of this Report has been prepared in accordance with the recommendations provided by the Consob in Communications No. DAC/RM/97001574 of February 20, 1997, No. DEM/102565 of April 6, 2001 and No. DEM/3021582 of April 4, 2003.

The following noteworthy events occurred during the year:

- In January 2004, Edison issued a 100-million-euro tranche of seven-year debt securities with annual coupon interest of 5.125%. These securities were issued under the program originally used in 2003 for an initial placement of 600 million euros. In July 2004, Edison floated an additional 500 million euros in seven-year debt securities that pay interest quarterly at a variable rate of 60 basis points above the three-month Euribor. These two transactions were carried out within the framework of the 2-billion-euro EMTN (European Medium Term Notes) program approved in November 2003, which thus far has been tapped for a total of 1.2 billion euros.

  Edison currently has four issues of debt securities outstanding, for a total of 2,630 million euros. A breakdown by maturity is as follows: 1,430 million euros in 2007, 700 million euros in 2010 and 500 million euros in 2011.
- In response to the confidence shown by the financial markets in the renewed strength of the Group's financial position, the Meeting of Edison's bondholders approved a motion amending some of the terms of the indenture of the Edison 6.375% bonds due in July 2007. The amendment calls for the removal of the put option provided under the indenture (one of the clauses added in December 2001) against pay-

ment of a lump-sum consideration equal to 0.35% of the par value of each bond and for a partial change in the formula used to compute the coupon interest that is designed to shield bondholders from the impact of rating improvements (from BBB- to BBB for S&P and from Baa3 to Baa2 for Moody's).

- The Group's net indebtedness fell to 3,855 million euros at December 31, 2004, a decrease of 288 million euros from the 4,143 million euros owed at the end of 2003. The cash flow generated by the Group's core businesses is the main reason for the improvement in its net financial position. In 2004, in response to Edison's reduced level of indebtedness and improved operating performance, the two top international rating agencies upgraded the Company's credit standing, with Standard & Poor's boosting its medium- and long-term rating from BBB to BBB+ and Moody's revising the outlook on its Baa3 rating from negative to positive.
- Ilva Spa sold Edison Spa its 25% minority interest in Iniziative Sviluppo Energie Spa (Ise) at a price of 145 million euros. This price takes into account an earlier distribution to Ilva of reserves totaling 65 million euros. Subsequently, Finel Spa (a company controlled 60% by Edison and 40% by EDF) sold Edison Spa the remaining 75% of Ise's capital stock at a price of 486 million euros. The purpose of these transactions, which were carried out within the framework of a corporate reorganization program launched in 2003, was to enable Edison to absorb Ise. This merger became effective as of December 3, 2004.
- Edison sold its investments in Edison T&S (which had been demerged as part of the separation of the storage operations) and in its SGM subsidiary to the Clessidra Sgr Italian private equity fund. The assets subject of the sale, which closed on September 7, 2004, include a 1,300-km high-pressure gas transmission system. When the deconsolidation of assigned debt is included, this transaction, which closed for a cash price of 169 million euros, improved the Group's net financial position by about 190 million euros.

The transactions listed above, as well as other significant transactions, are reviewed in detail in the Report on Operations prepared by the Board of Directors.

All of these transactions, which were reviewed by the Board of Directors on the basis of adequate information and analyses, were carried out in the interest of the Company, complied with the applicable statutes and the Bylaws, and were consistent with the strategic operating and financial plan approved by the Board of Directors. In addition, they were not manifestly imprudent or reckless, did not give rise to conflicts of interest, were not in conflict with resolutions approved by the Stockholders' Meeting and did not compromise the integrity of the Company's assets. Based on the information received from the Board of Directors and on meetings with the Independent Auditors, we are not aware of any atypical or unusual transactions carried out by the Company in 2004 or since the end of that year.

The information provided in the Report on Operations with regard to transactions between the Company and related parties and intra-Group transactions is adequate, given the size and structure of the Company and the Group.

In their letter of March 16, 2005 to the Company's Board of Directors, the Independent Auditors indicated that they did not encounter any problematic or questionable items in the course of their audit of Edison's statutory and consolidated financial statements. Today, they informed us that the work they have performed thus far, which they are about to complete, uncovered no issues that require a specific disclosure. The Independent Auditors were also given additional assignments. These assignments and the fees charged, excluding out-of-pocket costs and VAT, are listed below:

- Audit of the flow of information provided by Edison Group companies and of the adjustments made to the balance sheet at January 1, 2004, which was prepared in accordance with Italian accounting principles to permit the preparation of consolidated financial statements at December 31, 2004 that are in accordance with IFRS principles: 25,000 euros;
- Audit of amounts rebilled among joint venture partners: 50,000 euros;
- Audit of securitization transactions: 12,000 euros;
- Issuance of a comfort letter in connection with the placement of debt securities in July 2004: 54,000 euros;
- Audit of semiannual financial statements in connection with the sale of Edison T&S and SGM to Fondo Clessidra: 43,800 euros;
- Audit of the Prospectus entitled "Purchase of a 25% Interest in Iniziative Sviluppo Energie Spa - Ise Spa from Ilva Spa and of the Remaining 75% from the Finel Spa Subsidiary and Merger by Absorption of Iniziative Sviluppo Energie Spa - Ise Spa into Edison Spa": 12,000 euros;
- Audit of the Prospectus entitled "Merger by Absorption of Edison Termoelettrica Spa, Espec Spa, Termica Narni Srl, Edison Gas Spa and Montecatini Spa into Edison Spa and Sale of Reserves": 12,000 euros;
- MBO analysis of top management for 2004: 5,000 euros.

The fees listed above appear to be fair in view of the scope, complexity and characteristics of the work performed.
There is no evidence that assignments were entrusted to entities tied to the Independent Auditors.
As of the writing of this Report, the Board of Statutory Auditors did not receive any complaint pursuant to Article 2408 of the Italian Civil Code.
In 2004, the Board of Statutory Auditors met six times and attended 12 meetings of the Board of Directors.
The Board of Statutory Auditors found no cause to take issue with any failure to comply with the principles of sound management.
In keeping with the adoption in 2003 of a new development model based on Business Units, the Company has redesigned the line organizations of the individual departments and restructured the organization of some of its headquarters staff functions.
During the first half of 2004, the Group completed a chart of its corporate activities and processes, with the goal of making its organizational, managerial and control model consistent with requirements of the new statute that governs the administrative liability of companies (Legislative Decree No. 231/01).
In addition, it took the necessary steps to bring its organizational and management system into compliance with the new statute governing the protection of personal da-

ta (Legislative Decree No. 196 of June 30, 2003 – Personal Data Code).
In the opinion of the Board of Statutory Auditors, the Company's administrative organization is adequate for its size, and its operating procedures are sufficiently reliable, accurate and safe.
The system of internal controls is efficient and effective. The Internal Control Officer is responsible for checking and determining with reasonable certainty that the Company's internal controls are operating properly. The Internal Control Officer reports to the Directors with executive authority, the Audit Committee and the Board of Statutory Auditors. The Board has appointed the System of Internal Control Manager to the post of Internal Control Officer. His task is to oversee the internal auditing work that is carried out to assess the overall adequacy of the system of internal controls. This work is conducted by an organization that is separate from that of the operational personnel, performing activities that are designed to monitor risk and the effectiveness of controls at the line level. These activities cover all processes and areas of the Company and include the monitoring both of financial and operational risks.
In keeping with the principles of objectivity, transparency and truthfulness, transactions between Edison and related parties are governed by a procedure that defines: the criteria used to identify transactions with related parties, the general rules and code of conduct that apply to such transactions, the regulations that govern the approval of such transactions, and the requirements for reporting transactions to Edison's Board of Directors. As a general principle, all transactions with related parties, including those executed through subsidiaries, must comply with criteria of substantive and procedural fairness.
In the opinion of the Board of Statutory Auditors, the Company's administrative and accounting system is adequate to the purpose of recording its operating performance and presenting it fairly.
The Board of Statutory Auditors reviewed the guidelines provided to the subsidiaries and ascertained that these guidelines were adequate.
The Board of Statutory Auditors met on a regular basis with Company executives and the Independent Auditors hired to review the Company's accounting records and audit its statutory and consolidated financial statements, with whom it exchanged data and information. The Independent Auditors provided information on their audit work and advised the Statutory Auditors that they had found no material or questionable facts requiring disclosure.
Edison Spa has adopted the Code of Conduct recommended by the Committee for the Corporate Governance of Listed Companies. More specifically, it established an Audit Committee, which comprises three nonexecutive Directors (two of whom are independent Directors); a Compensation Committee, which comprises four nonexecutive Directors (one of whom is an independent Director and serves as Chairman); and a Strategy Committee, which comprises six members selected among the Directors who represent the Company's main stockholders.
In July 2004, Edison Spa approved the organizational and management model required pursuant to Legislative Decree No. 231/2001, the purpose of which is to prevent the occurrence of the significant violations referred to in the Decree. The Decree

establishes the administrative liability of companies if employees or contractors commit certain types of crimes for the benefit of the Company. The adoption of this model is part of a broader strategy pursued by Edison to increase the awareness of its employees, contractors and commercial partners of the need to follow transparent and fair management practices and comply with the laws currently in force and the fundamental principles of business ethics when pursuing the Company's objectives. To that end, in September 2003, Edison's Board of Directors approved a Code of Ethics that is in line with the most stringent international standards and is an integral part of the Company's organization and management model.
In July 2004, in compliance with the requirements of the abovementioned Decree, the Board of Directors established an Oversight Board, which is responsible for overseeing the proper implementation of the organizational and management model and ensuring that it is properly updated. The Oversight Board comprises two independent Directors who sit on the Audit Committee and a third independent Director. A representative of the Board of Statutory Auditors also attends the meetings of the Oversight Board. The Oversight Board relies on the support of the Company's Departments, chief among them the System of Internal Control Department, and has a separate expense budget. The Oversight Board reports semiannually to the Board of Directors and the Board of Statutory Auditors on the progress made in implementing the model and presents its plans for the following six months.
The Report on Operations provides a comprehensive presentation of the circumstances that enabled the Company to report a net profit for the year.
In the opinion of this Board of Statutory Auditors, the positive trend in the Company's operating performance is indicative of the wisdom of the strategy of pursuing an integrated approach to the operation of the Group's electric power and natural gas operations.
Based on the foregoing considerations, we concur with the information provided in the Report on Operations and with the motion put forth by the Board of Directors for the appropriation of net income.

Lastly, we remind you that our term of office expires with the approval of these financial statements.

Milan, March 30, 2005

The Board of Statutory Auditors
Sergio Pivato
Salvatore Spiniello
Ferdinando Superti Furga

This document is also available on the
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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