


REPORT ON OPERATIONS 2005

EDISON

CONTENTS

EDISON IN ITALY

REPORT ON OPERATIONS
2005

EDISON

EDISON TODAY

Edison is one of the largest Italian operators. It produces, imports and sells electric power and hydrocarbons (natural gas and oil).

Electric power

Italian Market in 2005		Facilities and Production Capacity in 2005	
Total Italian market	329.4 TWh	Total Italian installed capacity	73,500 MW
Deregulated market	136.8 TWh	Edison's installed capacity	6,639 MW
Edison's sales	52.7 TWh	Edipower's installed capacity (50%)	3,428 MW
Edison's sales to the deregulated market	23.6 TWh	Total Italian net production of electric power	289.7 TWh
Edison's Energy Exchange sales	3.6 TWh	Edison's net production of electric power	33.4 TWh
		Edipower's net production of electric power*	11.3 TWh
Market share *(of total market)*	16.0 %	Share of total production	11.5 %
Market share *(of deregulated market)*	17.3 %	Share of total production *(incl. 50% of Edipower*)*	15.4 %
Transmission network	2.9 '000/Km	Deregulated market customers	10.6 '000

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

Source: Edison data, Forecast 2005 of Terma and Acquirente Unico.

Hydrocarbons

Italian Market in 2005		Facilities and Production Capacity in 2005	
Total market	85.2 Bill. m^3	Total Italian production	12.0 Bill. m^3
Edison's sales in Italy	13.1 Bill. m^3	Edison's production in Italy	0.9 Bill. m^3
Market share	15.4 %	Share of total production	7.5 %
		Concessions and permits in Italy	65 n.
		Concessions and permits outside Italy	11 n.
Edison's sales outside Italy	0.5 Bill. m^3	Storage centers in Italy	2 n.
		Reserves	26,1 Bill. m^3 eq.
Gas transmission network (low- and medium-pressure pipelines)	3.18 '000/Km	Production outside Italy	0.3 Bill. m^3
Direct customers	163.0 '000		

Source: Edison data, Forecast 2005 M.A.P.

SIMPLIFIED STRUCTURE OF THE GROUP AT DECEMBER 31, 2005

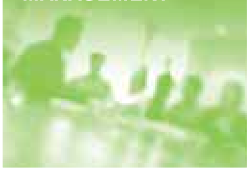
EDISON

Energy

ELECTRIC POWER OPERATIONS

HYDROCARBON OPERATIONS

ENERGY MANAGEMENT



MARKETING & DISTRIBUTION

Other operations

IHW (2)
Water

EDISON Spa (1)

Electric Power Operations

- Edison Energie Speciali – Production of Electric Power
- Edison Rete – Electric Power Transmission
- Edipower (2) – Production of Electric Power

Hydrocarbon Operations

- Edison International – Hydrocarbon Expl. & Prod.
- Edison Stoccaggio – Natural Gas Storage
- Edison DG – Natural Gas Distribution

Energy Management

- Edison Trading – Energy management

Marketing & Distribution

- Edison Energia – Energy Purchas. and Distribution
- Edison per Voi – Natural Gas Sales

■ Electric Power Operations
■ Hydrocarbons Operations

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

(2) Edipower and IWH are joint ventures consolidated by the proportional method.

A LETTER TO THE SHAREHOLDERS

Dear Shareholders:
In 2005, our Company reported the best result in its history.
The year that just ended was particularly important, also due in part to the arrival of new industrial shareholders who brought to Edison the long-term stability that the Company needs to continue to grow and develop. Thanks to this new ownership base, Edison can now rely on Italian and international shareholders who, by contributing industry expertise and potential synergies, will help it achieve the strategic objective of growing as a major Italian energy player with a presence in the international market.

In 2005, Edison sales volumes increased significantly, with sales rising to 52.6 Terawatt-hours (+4.3%) for electricity and to 13.6 billion cubic meters for natural gas (+19%). Sales to customers in the deregulated market were up sharply, enabling Edison to increase its market share and achieve a leadership position, both in the electric power (+17%) and natural gas (+19%). Edison was a also a key player on the Electric Power Exchange, in operation for a full year for the first time in 2005. As a result, the Group was able to report total revenues of 6.6 billion euros, or 18.2% more than in 2004.

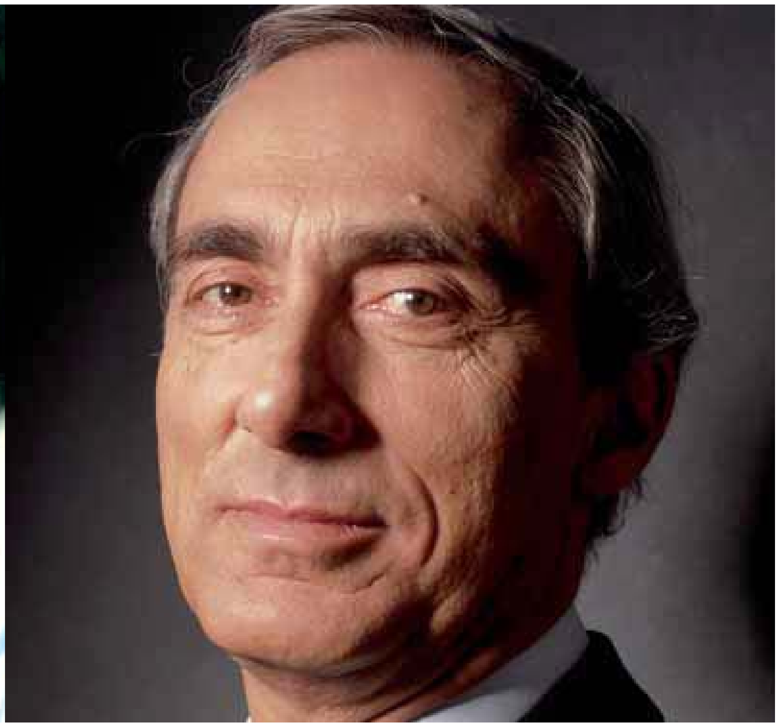
Net profit rose to 500 million euros, compared with 354 million euros in 2004. This achievement was particularly rewarding, considering that it was attained in a year characterized by a number of unfavorable events: elimination of the incentives on sales of energy under CIP6 contracts, cost of usage of the strategic natural gas reserves, lower margins caused by a scarcity of rainfall and some technical problems at our production facilities.
The negative impact of these events was more than offset by strong sales volumes, the efficiency and high yield of the Group's new facilities, the good margins earned by the hydrocarbon production operations, a drastic reduction of financial expense, the containment of overhead and the optimization of the tax burden, made possible by the corporate restructuring implemented in recent years.

A positive operating performance and the sale of non core activities, which marked the completion of a process started four years ago to divest the Group's diversified operations, caused indebtedness to fall from 4,906 to 4,878 million euros. As a result of the decrease in indebtedness and the increase in earnings, the main international rating agencies improved or confirmed the Group's rating.

In 2005, Edison made fundamental progress in implementing its capital investment plan, which is one of the most ambitious launched in Europe in the last 10 years: the Candela power plant, the most efficient and environmentally friendly facility in Europe was inaugurated; the Altomonte and Torviscosa facility were virtually completed and will be commissioned early in 2006; and Edipower continued to carry out its repowering program on schedule, bringing on line the Chivasso, Piacenza and Sermide power plants.
Edison also reaffirmed its commitment to renewable energy and, with 200 Megawatt of installed capacity is now a leading player in wind energy generation.

With those achievements, in the period between 2001 and 2005, the addition of new facilities increased the installed capacity of Edison and Edipower (for the pro rata share attributable to Edison) by about 7,000 Megawatt to a total of more than 12,000 Megawatt.

The natural gas industry experienced a particularly challenging period toward the end of 2005. The well known natural gas crisis validated the farsightedness of Edison's strategic decision to invest in new infrastructures. Working in partnership with Exxon Mobil and Qatar Petroleum, Edison is currently the only company with a regasification terminal under development. This facility, which is located in the North Adriatic, is scheduled to come on stream in 2008. It will have a capacity of 8 billion cubic meters a year and will provide Edison and the Italian energy system



in general with a more diversified, safer and more cost effective supply of natural gas.
In addition, work on the design of a second regasification terminal near Rosignano continued, while waiting for the issue of the necessary permits.

To further improve the safety of its supplies, Edison is also working on two new natural gas pipelines that will link Italy with Algeria and Greece. In November, Italy, Greece and Turkey signed an intergovernmental agreement that laid the groundwork for construction of the second of these two pipelines. Edison is determined to be a key player in the field of natural gas, with infrastructures and contracts that will place it in the restricted circle of the top international players. During 2005, Edison significantly strengthened its commitment to hydrocarbon exploration and production. As a result, its reserves increased by more tan 10%, due mainly to new discoveries in Algeria.

In 2005, Edison's achievements were not limited to reporting gratifying results: it also continued to pursue a long-term strategic vision that enabled it to lay a foundation for its future growth. Lever-

aging its historical tradition as Italy's top energy operator, Edison was able to enter the deregulated market and, in few years, become a dynamic player both in Italy and internationally.

In the coming years, Edison will continue to grow in accordance with the strategic guidelines provided in the Company's plans, which the new shareholders have endorsed. It will develop a flexible, competitive and environmentally compatible production capacity; it will diversify its supply of natural gas; it will build new importation infrastructures; it will invest in exploration and production; it will improve its range of integrated energy and natural gas customer propositions and become more customer oriented, thus ready to seize new opportunities in Italy and abroad.

These objectives are within our reach. We are confident that our Company's strong balance sheet and financial position, the professionality and commitment of its entire organization and its proven capacity to create value for all of its stakeholders will continue to be sources of strength and will reinforce the confidence of all shareholders in Edison's growth.

Giuliano Zuccoli
Chairman

Umberto Quadrino
Chief Executive Officer

BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

Board of Directors

Chairman		Giuliano Zuccoli (1)
Chief Executive Officer		Umberto Quadrino (1)
Directors		Marc Boudier (1)(2)
		Daniel Camus (3)
		Uris Cantarelli (3)
	indipendent Director	Giovanni De Censi (2)
		Pierre Gadonneix
	indipendent Director	Gian Maria Gros-Pietro (2)(3)
		Mario Mauri (1)(2)
		Renato Ravanelli
		Klaus Stocker (3)
		Gerald Wolf

Board of Statutory Auditors

Chairman	Sergio Pivato
Statutory Auditors	Salvatore Spiniello
	Ferdinando Superti Furga

Independent Auditors

PricewaterhouseCoopers Spa

(1) Member of the Strategy Committee.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.

INFORMATION ABOUT THE COMPANY'S SECURITIES

Number of shares at December 31, 2005

Common shares	4,162,515,334
Savings shares	110,592,420
Warrant outstanding	1,018,648,623

Shareholders with Significant Holdings at December 31, 2005

	% of voting rights	% interest held
Transalpina di Energia Srl	71.232%	69.388%
EDF Eléctricité de France Sa (1)	17.333%	16.884%
JP Morgan Securities Ltd	4.628%	4.508%
Mediobanca Spa	3.050%	2.971%

(1) Interest held directly and indirectly.

KEY EVENTS IN 2005

GROWING OUR BUSINESS

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

On March 7, 2005, Edison Spa and Sonatrach (the Algerian state oil company) signed a letter of intent covering the supply of up to four 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.

The Candela power plant, the first completed facility of Edison's Industrial Plan, was inaugurated on October 24, 2005.

Edison – Agreement to Build the Isola di Porto Levante Offshore LNG Terminal near Rovigo

On May 2, 2005, Edison, Qatar Petroleum and ExxonMobil signed definitive agreements to cause the associated company Terminale GNL Adriatico Srl (formerly Edison LNG) to build the Isola di Porto Levante LNG receiving and regasification terminal off the coast of Italy in the northern Adriatic Sea.

The terminal, scheduled for startup by the end of 2007, will have a regasification capacity of 8 billion cubic meters a year.

This facility will be a strategic and reliable source of supply and will help meet Italy's growing demand for natural gas. The Isola di Porto Levante terminal has secured all of the primary permits for construction and operation from the appropriate Italian and EU agencies.

The contract for the construction of the platform, LNG storage tanks, LNG receiving equipment and regasification facilities has been awarded to Aker Kvaerner. Snamprogetti (ENI Group) has been selected to build a pipeline linking the terminal with the national transmission network. The terminal will be located about 15 kilometers from the Veneto coast and will stand in approximately 30 meters of water.

IGI Italy-Greece Natural Gas Pipeline – Italy's Minister of Production Activities and Greece's Minister of Development Sign an Agreement

During the year, there was significant progress in the development of the Italy-Greece Natural Gas Pipeline. First, a Protocol of Intent to build a natural gas pipeline linking Italy and Greece, which Edison is developing with DEPA, Greece's national natural gas company, was signed on June 24, 2005 in Athens. Then, at a meeting held in Lecce on November 4, 2005, which Mr. Güler, Turkey's Energy Minister also attended, Mr. Scajola, Italy's

Minister of Production Activities, and Mr. Sioufas, Greece's Minister for Development, signed an Italy-Greece intra-government agreement that provides a key starting point for construction of this important infrastructure.

Thanks to the collaboration of Botas, Turkey's national gas company, the IGI pipeline will be connected to Turkey's pipeline network. As a result, the new pipeline will enable Italy to import natural gas from the Caspian Basin and the Middle East, where more than 20% of the world's reserves are located. The pipeline, which will connect the Italian, Greek and Turkish distribution networks, will have a transmission capacity of 8 billion cubic meters of natural gas a year. It will have a length of about 800 kilometers, 600 kilometers of which will be built by Depa in Greece. The remaining 200 kilometers will run under the sea between Greece and Apulia. The facility will have no impact on the environment, since nothing will be released into the atmosphere or the sea, and will have virtually no visual impact.

With the IGI pipeline, Italy will be able to diversify its natural gas supply sources while at the same time gaining reliability and competitiveness.

The IGI Project has already been reviewed by the European Union, which considers it one of five priority schemes for the development of a trans-European energy system and has

Capital expenditures in the area of wind power totaled 23 million euros. They were used to complete the S. Bartolomeo (CB) Wind Farm and expand the Faeto (CH) Wind Farm.

provided financial support for the development of technical and financial feasibility studies. In Italy, local and regional governments have also expressed great interest in this project and Edison will cooperate actively with them to define the best conditions for the construction of the project.

Edison Inaugurates the Candela Power Plant

On October 24, 2005, Edison inaugurated a thermoelectric power plant in Candela, a town in the province of Foggia. This new 380-MW facility is the most efficient and environmentally compatible power plant in Italy and the first of the projects in the Edison industrial plan to be completed. The inauguration of this facility and the upcoming commissioning of the Altomonte and Torviscosa power plants are bringing the Group closer to achieving the objective of 14,000 MW of installed capacity by 2008 and increasing its share of the Italian electric power market to about 20%.

The Candela facility is the first in Italy to use a fuel a mix of "lean" gases with low calorific value, such as those extracted from nearby deposits, thereby allowing the exploitation of local energy resources that otherwise would remain unused. The Candela power plant is a combined-cycle, cogenerating facility that burns natural gas. It uses the most efficient and environmentally compatible technology available today to achieve a yield of more than 56% (compared with 37% for a conventional power plant) with minimal impact on the environment.

Edison also signed an agreement with the Ciccolella Group, a leader in European floriculture, which will build greenhouses covering about 150 acres adjacent to the power plant.

Under this agreement, which is the first of its kind in Europe, the greenhouses will use energy and heat generated by the Edison power plant for all of their energy needs. Assuming the same fuel consumption, the yield of the power plant/greenhouse system could be as high as 80% and will result in significant energy savings, in line with the principles of the Kyoto Protocol.

Allocation of Increased Capacity on the TTPC and TAG Pipelines

In 2002, ENI announced plans to increase the capacity of the Tunisian section of the Mattei gas pipeline, which it uses to import natural gas from Algeria (TTPC), and of the TAG gas pipeline, which crosses Austrian territory to deliver Russian natural gas (originally, each of these two projects was supposed to deliver about 6.5 billion cubic meters of natural gas a year, starting in 2007-2008). At one point, these capacity expansion projects had been put on hold due to a potential capacity overhang in Italy.

In 2005, as conditions in the Italian market changed and the government stepped up pressure to increase competition, ENI reactivated these projects, announcing that the first phase would be completed by 2008 (adding about 3.2 billion cubic meters a year in new capacity to each pipeline). It also began the process of allocating transmission capacity as of May 2005 for the TTPC and as of November 2005 for the TAG.

In anticipation of the Group's growing need for natural gas supplies projected for the coming years and taking into account the close commercial relationships that the Group has developed since the 1990s with pipeline suppliers (Sonatrach for Algerian gas and Gazprom/Gazexport for Russian gas), Edison was directly involved in the process of allocating the additional capacity that both pipelines will deliver.

As a result of this process, Edison gained additional capacity totaling about 2 billion cubic meters a year on the TTPC pipeline starting in 2008 (consistent with the contract for the supply of Algerian natural gas by Sonatrach) and about 20 million cubic meters a year on the TAG pipeline. In this case, the method use to allocate natural gas volumes for subsequent distribution produced a significant fragmentation of the available capacity among more than 140 users.

STREAMLINING THE CORPORATE ORGANIZATION AND CHANGING OUR PORTFOLIO OF BUSINESSES

Edison France – Sale of 40-MW Thermoelectric Power Plant

On February 7, 2005, Edison France, a company that holds a 50% interest in Flandres Energies (owner of a 40-MW thermoelectric power plant), was sold to the Dalkia Investissement Group.

The change in net financial position was 8 million euros, but the transaction did not have a material impact on the financial statements of Edison Spa.

Edison – The Company Sells its Electric Power Holdings in Egypt

On May 6, 2005, as part of its planned divestitures of nonstrategic assets, Edison signed a contract to sell its 39% interest in Sidi Krir Generating Company, Ltd. (a company under Egyptian law that owns a 683-MW thermoelectric power plant) and Sidi Krir Operating Company B.V. (a company under Dutch law that provides operation and maintenance services at the power plant) to the Globeleq Group at a price of US$45 million.
Globeleq, an energy group focused on the emerging markets of Africa, South America and Asia, already owned 61% of the capital stock of the companies that are being divested.
This transaction will not have a material impact on Edison's financial statements, but will improve its financial position by about 35 million euros.

Edison And Miotir – Agreement to Sell Investment In Gemina

On November 30, 2005, Edison Spa and Miotir Spa reached an agreement whereby Edison sold its interest in Gemina Spa, equal to 3,405,735 shares – 3,405,701 of which, equal to 0.93% of Gemina's share capital, had been conveyed to the Gemina Stock Blocking Syndicate – at a price of 2 euros per share, for a total consideration of 6.8 million euros.

Edison – Sale of a 5.1% in interest in AEM for 161.5 million euros

On July 29, 2005, Edison sold on the block market 91,807,000 AEM Spa shares. This block of shares, which was equal to 5.1% of AEM's share capital, was sold at a price of 1.7592 euros per share, generating total proceeds of 161.5 million euros.
This transaction improved the Group's financial position by the same amount and generated a gain of about 20 million euros.

Edison Sells Tecnimont to Maire Holding for 180 Million Euros

On October 25, 2005, Edison completed the sale of 100% of the share capital of Tecnimont Spa to Maire Tecnimont Spa, a company of the Maire Group. This transaction, which closed today, was cleared by the relevant antitrust agencies.
Concurrently with the sale, Edison paid 50 million euros for a 19.5% interest in Maire Tecnimont Spa. The remaining 80.5% of this company is owned by Maire Holding Spa. Edison's investment is assisted by a put-and-call option that can be exercised after three years.
Edison has chosen to exercise its put option immediately. As a result, the shares covered by the option will be transferred to Maire Holding within three years of today's date, unless an earlier exercise becomes possible pursuant to the terms of the contract or Maire Holding exercises its call option.
The sales price for Tecnimont was set at 180 million euros, net of the finance charges that Edison has incurred to monetize the deferred portion of the price (30 million euros) and the receivable of 50 million euros generated by the exercise of the put option. These assets were monetized when Edison signed a contract assigning these receivables to Sanpaolo IMI Spa.
The sale of Tecnimont generated a net gain of 86 million euros in Edison's consolidated financial statements but will not have a material effect on the net consolidated financial position, since the company that is being sold, and therefore deconsolidated, has a positive net financial position.

Edison Buys a 20% Interest in Finel from EdF

On November 30, 2005, Edison Spa purchased a 20% interest in Finel Spa from EdF International Sa, which partially exercised its right to terminate its investment in Finel's share capital.
As yet announced to the financial markets in July and December 2004, Edison had granted EdF International this investment termination right upon the transfer to Edison of the investment in Ise, the electric power and steam production and distribution company that represented Finel's sole industrial asset.
Consistent with prior agreements, Edison paid EdF International a price of about 152 million euros, equal to 20% of the book value of Finel's shareholders' equity at September 30, 2005, for a 20% interest in Finel's share capital. Finel's assets consist of cash investments. This transaction will have an impact of equal amount on Edison's financial position.

Following this transaction, Edison owns 80% of Finel's share capital. The remaining 20% is held by EdF International. EdF International has the option of selling the remaining 20% of Finel's share capital starting on December 1, 2006.

OTHER KEY EVENTS

Edison – Moody's Boosts the Company's Credit Rating

On May 19, 2005, based on analyses completed in February, the rating agency Moody's Investors Services boosted the credit of Edison Spa and the Selm Holding International Sa subsidiary from Baa3 to Baa2, with stable outlook.

The main reasons cited for the improved rating include a stronger balance sheet, better than anticipated earnings in 2004, the expectation that the Company will maintain a sufficiently sound financial structure to tackle the risks inherent in the development of a deregulated market, the progress made in investing in new production capacity and the recent change in shareholder base, which is being viewed as a positive development for the Company's stability.

Cereol Holding – End of the Oleina Arbitration

On June 1, 2005, as already explained in the section of this Report that provides an update of the main legal and tax disputes, Edison and Bunge signed an agreement that permanently and definitively settled any and all claims that may arise from the obligations undertaken by Edison pursuant to a contract (executed in 2002) to sell its interest in Cereol. Under the settlement, Edison paid Bunge US$85 million. This transaction did not have an impact on Edison's earnings, since the Company carries ample provision on its balance sheet to cover the risks associated with the abovementioned obligations.

Transalpina di Energia Srl Acquires Control of Edison

On September 16, 2005, Transalpina di Energia Srl purchased 63.3% of the common shares of Edison Spa and 240,000 Edison warrants, which are convertible into Edison common shares, from Italenergia Bis Spa. The price paid was 1.55 euros per share and 0.59 euros per warrant. The entire share capital of Transalpina di Energia is owned in equal shares by WGRM Holding 4 Spa, a wholly-owned subsidiary of Electricité de France Sa (EDF), and Delmi, a subsidiary of AEM Spa.

This transaction was made possible by a framework agreement that WGRM, EDF, Delmi and AEM signed on May 12, 2005 in anticipation of their joint purchase of Edison Spa.

Following its acquisition of Edison Spa, Transalpina di Energia Srl launched a mandatory tender offer for the Edison common shares and a voluntary tender offer for the Edison 2007 Common Share Warrants. On September 26, 2005, Edison's Board of Directors, based on the opinion of its financial advisor, Credit Suisse First Boston, concluded that the price of 1.86 euros per share and 0.87 euros per warrant offered by Transalpina di Energia was fair. The tender offer was completed successfully on October 26, 2005 and 93,37% of the shares and 40.22% of the warrants were tendered.

Subsequently, on October 28, 2005, the shareholders of Edison Spa, meeting in ordinary session, set the number of members of the new Board at 12 and agreed that the term of office of the entire Board of Directors will be three fiscal years (i.e., until the financial statements at December 31, 2007 are approved). They also determined the Board's composition and annual compensation. Lastly, on December 13, 2005, the Extraordinary Shareholders' Meeting of Edison Spa approved amendments to the Company Bylaws required by the new system of corporate governance instituted pursuant to the agreements reached by EDF and Delmi and described in the Tender Offer Prospectus.

FINANCIAL HIGHLIGHTS
FOCUS ON PERFORMANCE

Edison Group

(in millions of euros)	2005 IAS/IFRS	2004 IAS/IFRS	% change
Sales revenues	6,650	5,627	18.2%
EBITDA	1,306	1,475	(11.5%)
as a % of sales revenues	19.6%	26.2%	
EBIT	649	815	(20.4%)
as a % of sales revenues	9.8%	14.5%	
Profit before taxes	436	510	(14.5%)
Group interest in net profit	500	354	41.3%
Capital expenditures	598	608	(1.6%)
Investments in exploration	22	25	(12.0%)
Net invested capital (A+B)	11,307	11,082	2.0%
Net borrowings (A) [1]	4,878	4,906	(0.6%)
Shareholders' equity before minority interest [1] (B)	6,429	6,176	4.1%
Group interest in shareholders' equity [1]	6,270	5,707	9.9%
ROI [2]	5.90%	7.15%	
ROE [3]	8.35%	6.45%	
Debt / Equity ratio (A/B)	0.76	0.79	
Number of employees [1]	2,963	4,536	
Stock market prices (in euros) [3]			
- common shares	1.7344	1.5570	
- nonconvertible savings shares	1.8303	1.5091	
- warrants outstanding	0.8334	0.5530	
Profit (Loss) per share			
- basic	0.1165	0.0829	
- diluited	0.1060	0.0768	

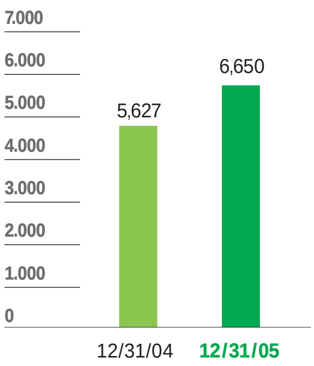
(1) Companies consolidated line by line and Group interest in companies consolidated by the proportional method.
(2) EBIT divided by average net invested capital, computed after deducting the value of equity investments held as fixed assets.
(3) Group interest in net profit divided by average Group interest in shareholders' equity.
(4) Simple arithmetic mean of the prices for the last calendar month of the year.

Edison Spa

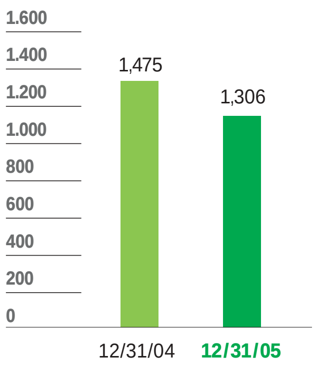
	2005 Italian GAAP	2004 Italian GAAP	% change
Sales revenues	4,065	3,303	23.1%
EBITDA	624	719	(13.2%)
as a % of sales revenues	*15.4%*	*21.8%*	
EBIT	211	316	(33.2%)
as a % of sales revenues	*5.2%*	*9.6%*	
Net profit (Loss) for the period	351	312	12.5%
Capex	407	389	4.6%
Net invested capital	8,529	8,472	0.7%
Net borrowings	3,940	4,251	(7.3%)
Shareholders' equity	4,589	4,221	8.7%
Debt/Equity ratio	0.86	1.01	(14.7%)
Number of employees	1,782	1,631	9.3%

Key Group Data

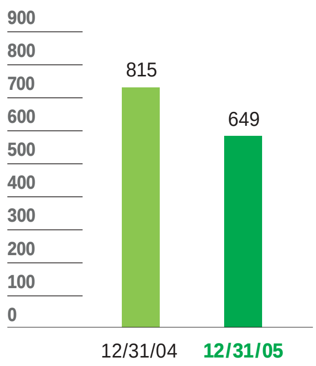
Sales revenues



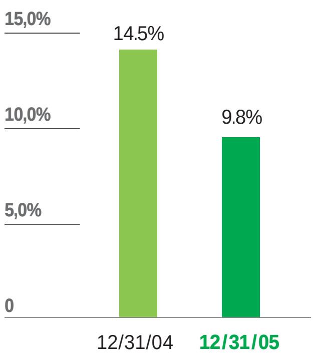
EBITDA



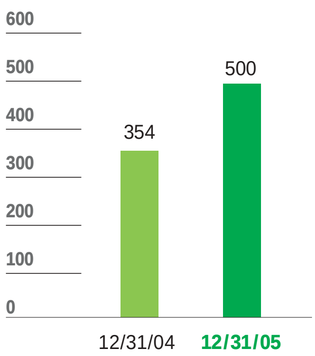
EBIT



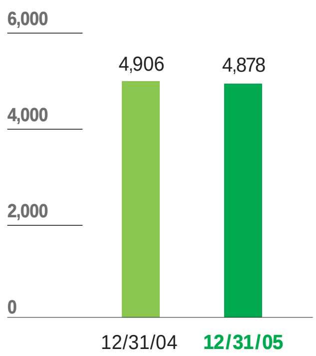
EBIT/sales revenues



Group interest in net profit



Net borrowings



SALES REVENUES AND EBITDA BY BUSINESS

Sales Revenues and EBITDA

(in millions of euros)	2005 IAS/IFRS	2004 IAS/IFRS	% change
Core Business			
Electric Power Operations			
Sales revenues	4.993	4.304	16.0%
EBITDA	1.006	1.205	(16.5%)
as a % of sales revenues	*20.1%*	*28.0%*	
Hydrocarbons Operations			
Sales revenues	3.303	2.231	48.1%
EBITDA	353	335	5.3%
as a % of sales revenues	*10.7%*	*15.0%*	
Corporate Activities			
Sales revenues	42	62	(32.3%)
EBITDA	(76)	(89)	14.6%
as a % of sales revenues	n.m.	n.m.	
Eliminations			
Sales revenues	(1,940)	(1.253)	
EBITDA	-	-	
Total core business			
Sales revenues	6.398	5.344	19.7%
EBITDA	1.283	1.451	(11.6%)
as a % of sales revenues	***20.1%***	***27.2%***	
Other Operations			
Continuing Operations			
Water			
Sales revenues	31	27	14,8%
EBITDA	8	4	100%
as a % of sales revenues	*25.8%*	*14.8%*	
Engeneering (*)			
Sales revenues	221	256	n.a.
EBITDA	15	20	n.a.
as a % of sales revenues	*6.8%*	*7.8%*	
Eliminations			
Sales revenues	-	-	-
EBITDA	-	-	-
Total other operations	-		-
Sales revenues	252	283	(11.0%)
EBITDA	23	24	(4.2%)
as a % of sales revenues	***9.1%***	***8.5%***	
Edison Group			
Sales revenues	6.650	5.627	18.2%
EBITDA	1.306	1.475	(11.5%)
as a % of sales revenues	***19.6%***	***26.2%***	

(*) The data for full year 2005 reflect the amounts for the first half of the year.

PERFORMANCE AND RESULTS OF THE GROUP

Operating Performance

Core Businesses

The operating and financial results for the first half of 2005 and those for the period used for comparison purposes have been computed in accordance with the International Financial Reporting Standards (IAS/IFRS), which, among other issues, required the proportional consolidation of Edipower at 50% and the interruption of the amortization of goodwill, now subject to a yearly impairment test.

During 2005, sales revenues were up significantly (+19.7%) compared with the previous year, thanks to positive performances by both the hydrocarbons operations (+48.1% including intra-Group transactions) and the electric power operations (+16.0%).
These gains were made possible by the combined impact of increased sales volumes and higher prices. The hydrocarbons operations reported a sharp rise in unit sales of natural gas (+19.5%, net of intra-Group transactions), due mainly to higher demand from residential users, while in the electric power area, volumes improved by 4.3%, due mainly to growing demand from customers in the deregulated market. At the same time, a favorable trend in the benchmark oil market drove prices higher in both areas of business compared with the previous year.

However, EBITDA declined by about 168 million euros (-11.6%), falling from 1,451 million euros in 2004 to 1,283 million euros in 2005. This decrease, which was in line with expectations, was due to external factors: specifically, for the electric power operations, the expiration of the CIP-6 incentives for some of the Group's power plants (about 160 million euros), the shutdowns of other power plants for scheduled and extraordinary maintenance, and a decrease in hydroelectric output caused by a reduction in the availability of water resources, and for the hydrocarbons operations, the charges recognized (about 20 million euros) to reflect the cost of using strategic reserves during the periods of unusually intense cold in the first three months of 2005.

Overall, the unfavorable divergence that occurred in 2005 between rising fuel prices and procurement costs in general and the trend of market prices, which reflected these cost increases only in part, was more than offset by the skillful management of the Group's portfolio of energy assets, an increase in unit sales, an effective hedging strategy in the commodities market and the positive performance of the hydrocarbons production operations.

For the reasons explained above, EBIT, which under the new reporting standards no longer include a charge for the amortization of goodwill and include the depreciation and amortization due to the consolidation of Edipower, decreased to 630 million euros, down from 797 million euros in 2004.

Other Operations

Engineering – On July 20, 2005, Edison Spa signed a contract to sell 100% of the Tecnimont Spa shares it held to Maire Holding Spa. The sale closed on October 25, 2005. As required by IFRS 5, Tecnimont's revenues and expenses for the first half of 2005 are reflected on a line-by-line basis in the consolidated income statement, while the profit for the third quarter of the year (the company was deconsolidated as of October 1, 2005) is shown in the income statement under Profit (Loss) from discontinuing operations.

Water – The water operations ended 2005 with EBITDA of 8 million euros, up from 4 million euros in 2004.

Results of the Group

As the net result of the various factors described when reviewing the core businesses, the Group reported a gain in sales revenues, which rose 18.2% to 6,650 million euros, but a decline in EBITDA (-11.5%) and EBIT (-20.4%), which fell to 1,306 million euros and 649 million euros, respectively.

Group interest in net profit was up a strong 41.3%, growing to 500 million euros.
This improvement reflects the progress made in streamlining and optimizing the use of borrowed funds and the positive impact of the sale of nonstrategic assets completed in recent years. It is also the product of nonrecurring gains earned in 2005. A decrease in average indebtedness, coupled with the absence of nonrecurring borrowing costs, produced a decline in net financial expense of about 90 million euros. In addition, the Group's tax burden decreased by 72 million euros and minority interest was reduced by 62 million euros. The largest nonrecurring gains were those generated by the sales of the investments in AEM Spa (23 million euros) and Tecnimont Spa (86 million euros).

At December 31, 2005, the Group's net borrowings totaled 4,878 million euros, down slightly from 4,906 million euros at the end of 2004, despite the high level of capital investments (more than 600 million euros) required by the Company's expansion plan.

The table below presents in simplified form the Gruoup's net borrowings:

(in millions of euros)	12.31.05	12.31.04	Change
Long-term indebtedness			
Bonds	2,838	2,825	13
Bank borrowings	1,757	1,738	19
Amounts owed to other lenders	65	83	(18)
Total long-term debt	4,660	4,646	14
Short-term borrowings			
Current financial liabilities	655	805	(150)
Current financial assets	(76)	(87)	11
Cash and cash equivalents	(361)	(458)	97
Total short-term borrowings	218	260	(42)
Net borrowings	4,878	4,906	(28)

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

(in millions of euros)	2005	2004
A. Net borrowings at beginning of period	(4,906)	(5,264)
EBITDA	1,306	1,475
Change in operating working capital	(192)	(16)
Income taxes paid (-)	(131)	(20)
Change in other assets (liabilities)	(141)	(231)
B. Cash flow from operating activites	842	1,208
Investments in property, plant and equipment, intangibles and non-current financial assets (-)	(883)	(836)
Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	470	242
Dividends received	8	14
C. Free cash flow	437	628
Financial income (expense), net	(219)	(310)
Contributions of share capital and reserves	18	52
Dividends declared (-)	(11)	(82)
D. Net cash flow from financial activities	225	288
Change in the scope of consolidation	(197)	70
E. Net cash flow for the period	28	358
F. Net borrowings at end of period (A+B)	(4,878)	(4,906)

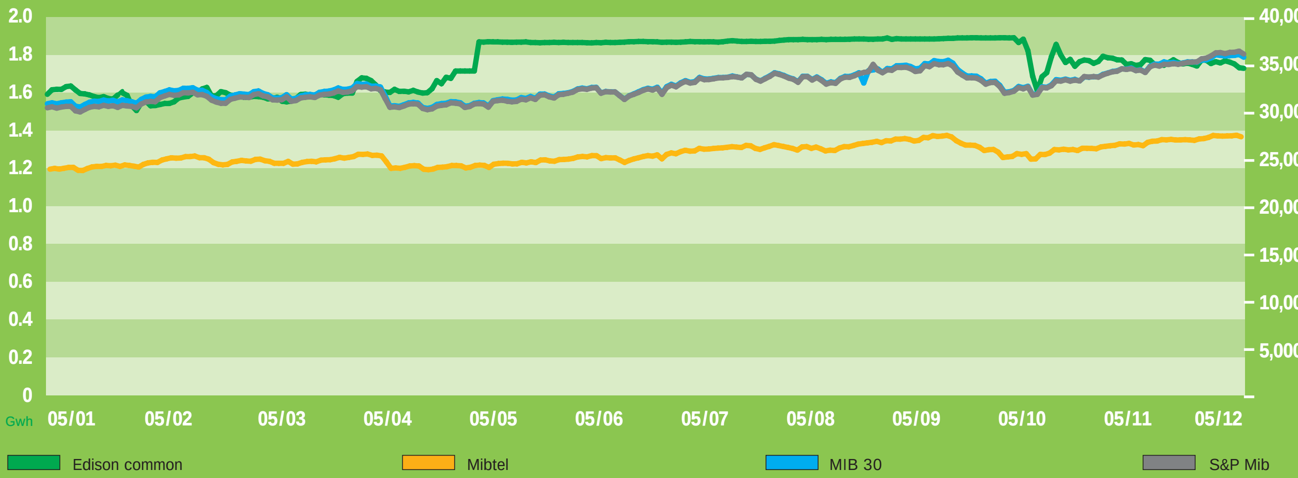
Forecast 2006

For 2006 we foresee a good development of our Group's activities due to the availability of Candela power plant for the whole year, the full operation of Altomonte power plant and the start up of Torviscosa new power plant.

EDISON AND THE FINANCIAL MARKETS

Edison's 2005 Stock Market Chart

Stock Market Price of the Edison Common Share



NB Note: Starting on May 13, 2005, the share price was affected by the announcement of a change in the chain of control of Edison Spa and the resulting launch of a mandatory tender offer at a price of 1.86 euros per share.

Dividends and Other per Share Data

(in euros)	December 31, 2005	December 31, 2004
Edison Spa		
Stock market price [1]		
- common shares	1.7344	1.5570
- savings shares	1.8303	1.5091
- warrants	0.8334	0.5530
Number of shares (at end of period):		
- common shares	4,162,515,334	4,148,295,546
- savings shares	110,592,420	110,592,420
Total shares	4,273,107,754	4,258,887,966
Warrants	1,018,648,623	1,025,610,224
Edison Group		
Basic earnings (loss) per share [2]	0.1165	0.0829
Diluted earnings (loss) per share [2]	0.1060	0.0768
Group interest in shareholders' equity per share	1.467	1.340
Price/Earnings (P/E) ratio (P/E) [3]	14.68	18.98

(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

Rating

	Current	December 31, 2004
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	Baa2	Baa3
Medium/long term outlook	Stable	Positive

REPORT ON OPERATIONS

The 800-MW Torviscosa power plant will go on stream in 2006. It will produce energy for the deregulated market.

ECONOMIC FRAMEWORK

The global economic expansion that got under way in 2003 continued in 2005, but the pace of growth differed in the various geographic regions. The pace of economic expansion was driven primarily by growth in the United States and Asia, coupled with fresh momentum in global trade.

In the United states, the economy continued to expand at a healthy rate despite a steady rise in oil prices. The same was true in China, where the rate of growth is hovering around 9% thanks to a surge in net exports and an increase in capital investments. Fearing the possibility of triggering a deflationary process, the Chinese government is being exceedingly cautious in its efforts to put the local economy on a path to more balanced growth.

In the euro-zone countries, the rates of economic growth remained modest (1.4%, compared with a projected 3.6% for the United states, 9.3% for China and 4.6% for the Pacific basin). However, the pace of GDP expansion picked up unexpectedly in the third quarter of 2005, with positive contributions coming from all components of domestic demand and especially strong growth in capital investments. Nevertheless, there is still uncertainty about the direction of internal demand, which makes it difficult to predict the start of a virtuous cycle inside the euro zone.

In Japan, the rate of GDP growth slowed during the closing months of the year due to weakness in the main components of domestic demand, as may be expected in a country that has emerged only recently from a period of deep recession. However, the positive elements that are underpinning the recovery – a positive trend in the labor market, which fuels consumption, coupled with stronger balance sheets and increased profitability, which stimulate investments – remain in place. GDP growth in Japan is projected to be 2.5% for all of 2005.

In the foreign exchange markets, the U.S. dollar continued to strengthen in 2005, achieving an overall gain of 12.5%, rising as high as US$1.35 for one euro and settling at US$1.18 for one euro at December 31, 2005. The steady strengthening of the U.S. dollar is due to several factors, including a differential of 175 basis points between EU and U.S. benchmark interest rates (4% set by the FED compared with 2.25% set by the ECB), different expectations of economic growth and incentives for U.S. companies to repatriate capital that were available until the end of 2005.

On the inflation front, even though the price of oil stayed above US$60 per barrel, there was no increased price pressure in the terminal markets. Nevertheless, the European Central Bank raised its benchmark rate by a modest 25 basis points to counter any inflation fears. The United States is the country with the highest risk of inflation: at year's end, the overall rate was 3.5%, significantly higher than the 2.2% rate recorded for the entire euro zone and the 2% rate reported in Italy.

Key Economic Data

	2005	2004	% change
Oil price US$/bbl	54.4	38.2	42.3%
US$/euro exchange rate	1.24	1.24	-
Oil price euro/bbl	43.7	30.7	42.1%

The oil market went through a turbulent period in 2005, with the price of Brent crude averaging US$54.40/bbl, or 42.3% more than the average for 2004 (US$38.20/bbl). In 2005, the price of crude oil rose to the highest level since 1979, with monthly averages reaching almost US$64/bbl in August and almost US$63/bbl in September. Given the relative change in the euro/US dollar exchange rate, the in-

crease in the price of Brent crude in euros was 42.1%, about the same as for the price in US dollars.
As for refined products, the trend that characterized the industry in recent years continued in 2005, with the crack spread on diesel fuel increasing by more than US$4/bbl over 2004, but decreasing for less valuable distilled products. Among the latter, the increase in the crack spread was smaller for low-sulfur fuel oil than for high-sulfur fuel oil, the use of which is restricted by increasingly stringent environmental laws.

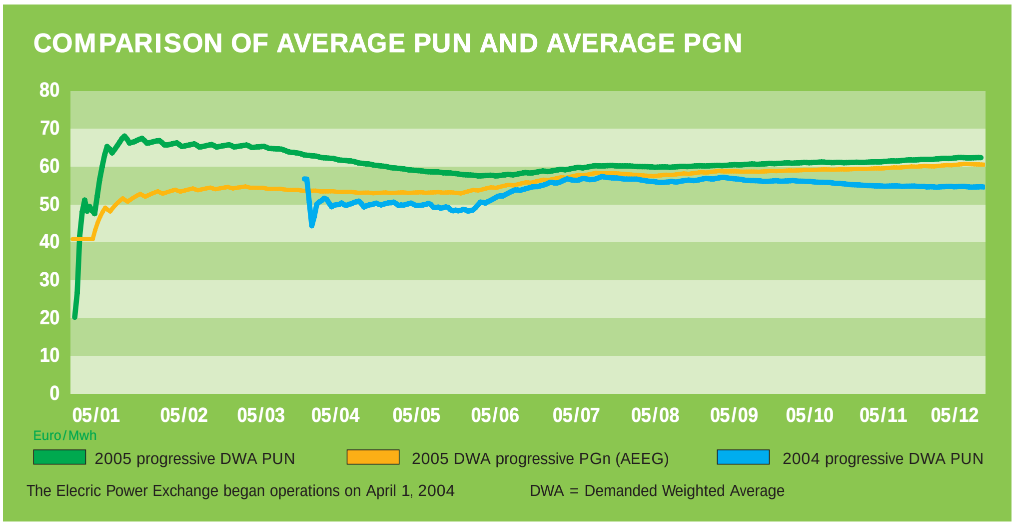
THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy

TWh	2005	2004	% change
Net production	289.7	290.1	(0.1%)
Imports	49.1	45.6	7.7%
Surges	(9.4)	(10.3)	9.0%
Total demand	329.4	325.4	1.3%

Source: GRTN data.

In 2005, demand for electric power from the Italian grid totaled 329.4 TWh (TWh = one billion kWh), up 1.3% from 2004 (325.4 TWh). On a seasonally adjusted basis, the increase is more pronounced (+1.8%), due mainly to colder weather in 2005 and a difference in the number of days in the year (2004 was a leap year).
Domestic production was sufficient to meet 85.5% of demand, compared with 86.4% in 2004. As a result, imports increased from 13.6% to 14.5%, reflecting the contribution of the San Fiorano-Robbia power line (on the Italy-Switzerland border), which was put into service in 2005. Hydroelectric output decreased by 14.9% compared with 2004, falling below the level of the last 10 years due to a reduction in the availability of water resources.
The chart below shows the trend of the average single national price weighted on demand (average PUN DWA in Italian) through June 30, 2005, compared with that of the old benchmark, the National Power Generation Price (abbreviated PGN in Italian):



At December 31, 2005, the moving average for the PUN was euro 63.2/MWh, or 2.6% higher than the PGN (the wholesale benchmark price used before the start of the Electric Power Exchange). The largest differentials occurred earlier in the year, with the spread flattening out in the later months.

Demand for Natural Gas in Italy

(in billions of m³)	2005	2004	% change
Services and residential customers	30.1	28.3	6.5%
Industrial users	21.7	22.1	(1.6%)
Thermoelectric power plants	32.9	28.9	13.9%
Transportation	0.5	0.3	66.7%
Total demand	85.2	79.6	7%

Source: MAP final data for 2004 and preliminary year-end data for 2005.

Demand for natural gas grew to about 85 billion cubic meters (including system usage and leaks), a gain of about 7% compared with 2004.
This increase, which comes on the heels of the gains recorded in previous years (+13.9%), fueled by

The new Torviscosa (UD) power plant is being built next to a landmark Snia facility, providing a perfect architectural bridge between past and present.

the startup of new combined-cycle power plants that are being brought on stream in anticipation of a surge in demand for electricity in future years.
The rise in consumption by residential customers, while not as high, was also substantial (+6.5%). Inclement weather, with temperatures falling below the seasonal average during the early and closing months of the year, is the reason for this increase.
This weather pattern forced the Ministry of Production Activities to avail itself of the option of declaring a weather emergency on two separate occasions in 2005. The first, in February and March, resulted in a supply cut-off to interruptible dual-fuel users and required a partial utilization (about 1 million cubic meters) of the strategic reserve on a system-wide basis, which had a negative financial impact on industry operators. On the second occasion, which occurred on December 23, 2005, the weather emergency was caused by very large withdrawals by the natural gas storage system in November and December 2005.
These withdrawals became necessary as a result of the unusually cold weather pattern mentioned above, which affected all of Italy starting in November 2005. They also reflected general economic factor, the most significant of which was a supply shortfall — an issues that continued to be in the news early in 2006 — caused by cutbacks in deliveries from Russia (due to transit issues in the Ukraine and the wave of ex-

treme cold that swept Russia, the Ukraine and all of Europe) and Libya (due to technical problems).
Contrary to what happened in the thermoelectric, residential and transportation segments of the market, demand from industrial users decreased, but only by a limited amount (1%).

Overall, 39% of natural gas supplies are currently used for thermoelectric production, 35% for residential uses and 26% for industrial applications. Demand from transportation users accounts for less than 1% of the total.

With regard to supply, a reduction in domestic production (about 12 billion cubic meters, or 8%, less than in 2004, in line with past trends and future projections) was offset by a rise in imports (+8% in 2005), particularly gas coming from Libya through the new Greenstream pipeline, which was commissioned in October 2004.

REGULATORY FRAMEWORK

Electric Power

The main legislative measures and other significant developments that affected the regulatory framework of the electric power industry in 2005 are reviewed below.

General Regulations

The issuance of Resolution No. 19/05 marked the completion of an inquiry carried out by the AEEG, together with the Italian antitrust agency, to determine the level of deregulation of the electric power industry. The inquiry showed that the situation is unsatisfactory in terms of competition and efficiency in the supply of electric power at the wholesale level. In October, upon the conclusion of this inquiry, the AEEG issued Resolution No. 212/05, enacting measures designed to promote competition in the wholesale electric power market. The tool that is being developed for 2006 to achieve this goal is significantly different from the method used in 2005. The new method is based on the sale of virtual production capacity (the so-called Virtual Power Plant).
With regard to the rules enacted to control market power (Resolution No. 254/04), the portion of the

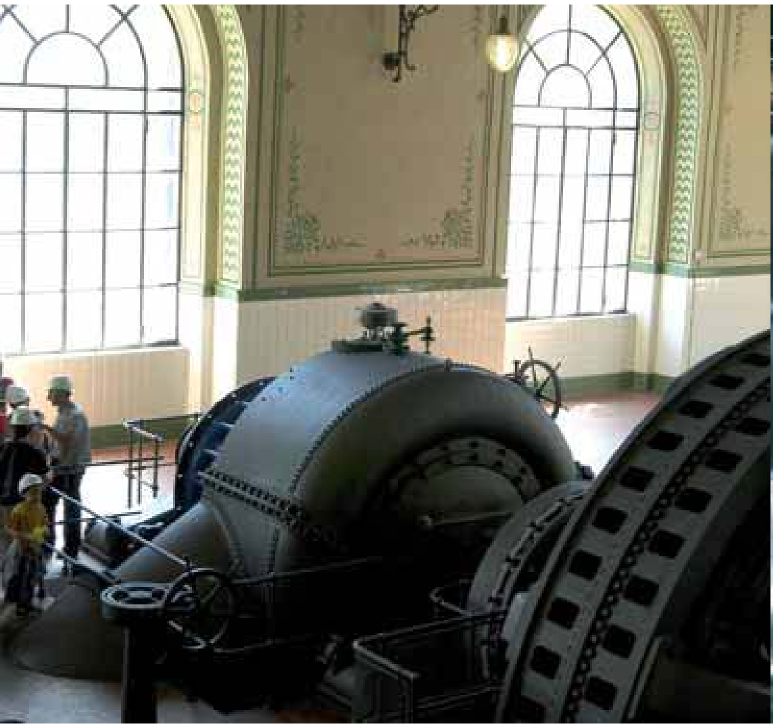

Edison's power plants on the Adda River are a veritable open-air museum of industrial archeology. Yet, they still function perfectly and are in total harmony with the environment.

rules containing the penalty system (Article 5, from Section 5.12 to Section 5.22) was declared invalid by the Regional Administrative Court of Lombardy, which found in favor of an appeal filed by several operators, including Edison Trading.
Resolution No. 300/05, which was enacted at the end of the year, withdrew the Ct parameter from use. The AEEG introduced the Ct parameter in 1997 as an indicator of the average cost of fuel used to generate electric power. It has provided and, to a certain extent, continues to provide a key benchmark for the sale of electric power in the deregulated market.
Another significant development was introduced with the 2006 Budget Bill (Law No. 266/2005). Pursuant to Sections 485 and following, which deal with the completion of the deregulation and European integration of the domestic electric power market, including issues related to the definition of common principles in the areas of competition and equal treatment for hydroelectric producers, all major concessions for the exploitation of public water resources that are in force on the day the law goes into effect will be extended for 10 years beyond their scheduled maturity, provided the corresponding power plants are substantially upgraded.
At present, due to the lack of certainty of the regulation, the plants have not been upgraded.

Lastly, on January 17, 2006, the Council of State ruled in favor of the AEEG in the appeal that the latter filed against a decision by which the Regional Administrative Court had annulled Resolution No. 20/04. This resolution ordered a reduction of prices in the captive market for the months of March, April and May 2004 in order to lessen the financial impact on consumer of new usage time bands (Resolution No. 05/04) introduced by the AEEG for 2004. All major market operators, including Edison Spa, objected to these new usage time bands and had appealed the corresponding Resolution to the Regional Court of Lombardy, which annulled it.

Actions of the Ministry of Production Activities

One of the most significant measures proposed by the Ministry of Production Activities is a draft decree to standardize the energy efficiency of electric power generating facilities with a rated capacity of more than 10 MVA. The purpose of this decree is to create sufficient coverage to meet demand for electric power and have a sufficient reserve margin even during peak demand periods in winter and summer. While this Report was being written, the decree was awaiting the signature of the Minister of Production Activities.



Market Rules and the Electric Power Exchange

The process of completing the operating rules of the Italian electric power market continued in 2005. The rules that govern dispatching (Resolution No. 168/03) are currently being amended. Starting in the second half of 2006, the amended rules will provide a platform for registering and trading bilateral contracts.

In response to these developments, the Electricity Market Operator also started a series of consultations about the features of Bipex, the platform for standardized forward bilateral contracts that will complete the structure of the Italian electric power market, increasing its flexibility and providing its operators with a benchmark for prices of electric power in the forward market.

Environment

Law No. 62 of April 18, 2005 calls for the incorporation of several Directives, including Directive No. 2003/87 (Emissions Trading Directive), into the Italian legal system. The legislative decree needed to carry out this process is currently going through the legislative process: A draft has been approved by the government on a preliminary basis and has been sent to the legislature for review.

At the same time, the Emissions Quota Allocation Scheme prepared by the government early in December 2005 was received favorably both by the Chamber of Deputies and the Senate of the Republic. It is now in the Conference Committee in accordance with the procedure set forth in Law No. 316/2004.

Concurrently with this process, the Allocation Scheme was also sent to the Environment Directorate General of the European Commission for administrative review. Except for a limited number of observations, the Environment DG found the Allocation Scheme submitted by the Italian Government to be acceptable and ready for enactment, as soon as the abovementioned observations have been addressed.

The actual assignment of quotas to industrial facilities will take place after the allocation decisions have been made. Once the assignment of quotas to industrial facilities has been recorded in the National register, industry operators will be free to use them to meet their obligations.

Hydrocarbons

Actions of the Electric Power and Gas Authority (AEEG)

In 2005, new developments in the area of rates included the definition by the AEEG, for the second regulatory period (October 1, 2005 to September 30, 2009), of the method to determine the rates that should be charged for transmission services (Resolutions No. 166/05, No. 179/05, No. 204/05, No. 234/05 and No. 297/05) and the utilization of regasification terminals (Resolutions No. 178/05 and No. 197/05). The AEEG also began a series of consultations regarding storage services rates (Resolution No. 78/05).
In the area of distribution, Resolution No. 171/05 defined the computation method used for individual rates during the second regulatory period (October 1, 2004 to September 30, 2008), based on the certified financial statements of the distributors. Resolution No. 122/05, which deals with the computation method for standard distribution rates, is still being contested, based on allegations that the AEEG did not fully comply with the order issued by the Administrative Judge in connection with Resolution No. 170/04.
With regard to the issue of the rates charged to end users in the so-called market for former captive customers, the Regional Administrative Court of Lombardy, in a decision handed down at the end of June, ruled that Resolution No. 248/04 was invalid and upheld an appeal filed by numerous operators, including Edison Spa and its Edison Per Voi subsidiary. The contested resolution changed the method used to update the rate computation component that is based on raw materials as of January 1, 2005 after the thermal year was already in progress. In September 2005, the AEEG filed an appeal with the Council of State challenging Decision No. 3478, by which the Regional Administrative Court of Lombardy annulled Resolution No. 248/04 in response to an appeal filed by Hera Trading Srl (Resolution No. 184/05), and concurrently sought from the government and parliament clarification about the regulatory powers of the AEEG. The Council of State has since stayed the appellate court decision and at the end of the year, while waiting for the final outcome of a decision on the merits, the AEEG issued a resolution (Resolution No. 298/05) by which it “provisionally” updated the raw material quota of gas rates for the first quarter of 2006 in accordance with Resolution No. 248/05. In mid-January 2006, the AEEG filed an appeal with the Council of State asking it to immediately suspend the effectiveness of a decision by which the Regional Administrative Court of Lombardy, responding to an action filed by Edison Per Voi Spa, annulled Resolution No. 248/04. In the meantime, Edison Per Voi and other distributors petitioned the Regional Administrative Court of Lombardy asking it to declare Resolution No. 298/05 invalid. On January 3, 2006, the Court granted the motion to stay Resolution No. 298/05, but the AEEG has already indicated that it plans to appeal this decision to the Council of State.

With regard to the issue of access to infrastructural facilities in general and storage facilities in particular, the AEEG provided guidelines for drafting Storage Codes that industry operators will be required to produce through a process that is open to the input of all interested parties (users, transmission and distribution companies, end users), who will be represented by Consultation Committees (Resolutions No. 119/05 and No. 167/05).
On the issue of access to distribution facilities, a work group that comprises representatives of the AEEG and associations of distributors and users are in the process of finalizing a standardized network code (in accordance with the guidelines of Resolution No. 138/04 and Determination No. 170/04), with the objective of having an operational code in place by October 1, 2006. Certain provisions of this code, including specifically those concerning the procedure for allocating natural gas to users of transmission facilities at the point where transmission networks connect to distribution systems (so-called city gates) (Resolution No. 249/05), will go into effect in February 2006.
Lastly, on August 18, 2005, the AEEG submitted proposals to the Italian parliament and government that pertained, in particular, to the outsourcing of the management of underground storage facilities. These proposals are designed to expand these facilities, foster competition and increase national energy security.

Government Actions

The most significant actions taken by the Ministry of Production Activities in 2005 are reviewed below:

- Communication of March 15, 2005, in which the Technical Committee for Emergencies and Monitoring of the Natural Gas System set March 18 as the date when the emergency weather period would end, in accordance with the provisions of the Decree of June 25, 2004 entitled "Emergency Weather Procedure for the Natural Gas System."
- Communication of March 15, 2005, which, with regard to the definition of strategic reserves, confirmed for the 2005-2006 thermal year the volume set forth in Article 3, Section 6, of the Ministerial Decree of May 9, 2001, at 5.1 billion standard cubic meters.
- Communication of July 11, 2005, concerning the capacity for continuous transmission of natural gas at the points of entry and egress of the national network of gas pipelines for the period from October 1, 2005 to September 30, 2015.
- Decree of October 18, 2005, establishing the criteria for the classification of gas pipelines included in regional transmission networks and the criteria for connection of end users to the networks.
- Decree of December 12, 2005, approving an update to the Emergency Weather Procedure for the Natural Gas System. This Decree sets forth a new procedure for handling weather-related emergencies that could affect the natural gas system during winter.

Another government measure worthy of mention is Decree Law No. 273/05 ("Thousand Extensions" Decree) of December 12, 2005, which extended to December 31, 2007 the expiration of existing natural gas distribution licenses. These licenses can be extended further (to December 31, 2009) if the conditions set forth in the Letta Decree can be met. A further extension of one year can be granted by the local municipal government when such action is "demonstrably" in the public's interest (Article 23). This decree is currently being converted into law.

OVERVIEW OF THE YEAR
PERFORMANCE OF THE

ELECTRIC POWER OPERATIONS

Quantitative Data

Sources

GWh (*)	2005 IAS/IFRS	2004 IAS/IFRS	% change
Net production Edison Group:	33,369	34,705	(3.8%)
- Thermoelectric power plants	30,205	30,890	(2.2%)
- Hydroelectric power plants	2,757	3,411	(19.2%)
- Wind farms	407	404	0.8%
Edipower	11,320	12,443	(9.0%)
Imports	1,580	1,111	42.2%
Other domestic purchases and swaps [1]	6,424	2,265	183.6%
Total sources	52,693	50,524	4.3%

Uses

GWh (*)	2005 IAS/IFRS	2004 IAS/IFRS	% change
CIP-6 dedicated	20,375	21,914	*(7.0%)*
Captive and other industrial customers	5,082	5,283	*(3.8%)*
Deregulated market	27,086	23,327	*16.1%*
Exports	150	0	*n.a.*
Total uses	52,693	50,524	4.3%

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

Financial Highlights

(in millions of euros)	2005 IAS/IFRS	2004 IAS/IFRS	% change
Sales revenues	4.993	4.304	16.0%
EBITDA	1.006	1.205	(16.5%)
as a % of sales revenues	20.1%	28.0%	
Capital expenditures	511	535	(4.5%)
Number of employees [1]	1,992	1.996	(0.2%)

[1] End of period amount.

Sales revenues grew to 4,993 million euros in 2005, for a gain of 16% over the previous year. Higher unit sales (+4.3%) and a significant increase in average sales prices, made possible by a rise in the cost of benchmark fuels and a successful pricing strategy implemented in the target markets, account for this improvement.

At December 31, 2005, EBITDA totaled 1,006 million euros, or 199 million euros less (-16.5%) than in 2004. This decrease is mainly the result of the expiration of CIP-6 incentives for several power plants (about 160 million euros). However, the shortfall in production caused by scheduled or extraordinary maintenance at some CIP-6 and Merchant power plants, the shutdown of the Brindisi power plant for environmental reasons, a decline in hydroelectric output caused by a reduction in available water re-

GROUP'S BUSINESSES

sources and a sizable increase in fuel costs that could not entirely be reflected on market prices were offset in part by an effective management of the Group's portfolio of energy assets, especially in the ancillary services market; the contribution provided by the newly commissioned Candela power plant; and a successful hedging strategy in the commodities market.

Sales and Marketing

In 2005, sales of electric power totaled 52,693 million kWh, or 4.3% more than the volume sold in the previous year. Sales in the deregulated market continued to grow (+16.1%), rising from 23,327 GWh in 2004 to 27,086 GWh in 2005. Direct deliveries to eligible customers were up about 31.6%, accounting for most of the increase. Sales on the Electric Power Exchange, which amounted to 3,612 GWh, correspond both to sales made on the so-called STOVE market in the first quarter of 2004 and to those made on the Electric Power Exchange during the rest of 2004, which together totaled 5,491 GWh.
Sales under CIP 6 contracts decreased by 7.0% due to the plant downtime mentioned above.
Deliveries to industrial customers and captive customers totaled 5,082 GWh, down slightly (-3.8%) compared with 2004.

Production and Procurement

Net production totaled 33,369 million kWh in 2005. The decrease of 3.8% compared with the previous year reflects a decline in production from the thermoelectric power plants (-2.2%). Hydroelectric output was also down (19.2%), as the availability of water resources decreased to a level that had not been recorded in years, when compared with the average for the last 30 years.

The share of energy generated by Edipower's plants that was available to the Group was 9.0% less than in 2004 due to the temporary shutdown of some facilities for maintenance and the stoppage of production at the Brindisi power plant in connection with environmental issues related to the use of the plant's coal storage facility, which was restarted in October. This negative development was offset in part by the startup of the Candela power plant (380 MW) during the second half of the year. In 2005, Edison's internal production was supplemented by electric power purchased from external sources. Including imports, these purchases increased to 8,004 GWh, or 4,628 GWh more than in 2004.

HYDROCARBONS OPERATIONS

Quantitative Data

Sources

millions of m^3 of natural gas	2005 IAS/IFRS	2004 IAS/IFRS	% change
Total net production:	1,248	1,309	(4.7%)
- Production in Italy	902	1,027	(12.2%)
- Production outside Italy	346	282	22.7%
Pipeline imports	6,601	6,710	(1.6%)
LNG imports	80	18	344.4%
Domestic and other purchases [1]	5,714	3,421	67.0%
Total sources	13,643	11,458	19.1%

[1] Includes inventory changes and pipeline leaks.

By expanding its storage facilities, Edison makes available to Italy significant reserves of natural gas.

Uses

millions of m³ of natural gas	2005 IAS/IFRS	2004 IAS/IFRS	% change
Residential use	4,012	3,186	25.9%
Industrial use	1,471	1,653	(11.0%)
Thermoelectric fuel use	7,307	6,156	18.7%
Exports	346	282	22.7%
Other sales	507	181	180.0%
Total uses	13,643	11,458	19.1%
Natural gas reserves (in millions of m³ of equivalents)	26.1	23.6	10.6%

Financial Highlights

(in millions of euros)	2005 IAS/IFRS	2004 IAS/IFRS	% change
Sales revenues	3,303	2.231	48.1%
EBITDA	353	335	5.3%
as a % of sales revenues	10.7%	15.0%	
Capital expenditures	73	60	21.7%
Investments in exploration	22	25	(12.0%)
Number of employees (1)	441	416	6.0%

(1) End of period amount.

Sales revenues totaled 3,303 million euros in 2005, or about 48% more than in the previous year. This increase is mainly the result of higher unit sales of natural gas (+19.1%) and an increase in average unit revenues. In detail, consumption of natural gas by residential customers rose by 826 million cubic


meters (+25.9%), while sales to thermoelectric power plants were up 1,151 million cubic meters (+18.7%) compared with 2004.
EBITDA increased to 353 million euros, up from the 335 million euros earned in 2004.
The improvement in EBITDA was made possible by higher unit sales and the positive impact of favorable trends in the benchmark markets on the Group's oil and gas production. These developments more than offset the negative effect of a contraction of the price/cost spread earned on sales to residential customers, especially during the second half of the year; the charges incurred in connection with the use of the strategic reserve during the periods of unusually intense cold early in the year; and the sale of the gas transmission network in July 2004.
With regard to this issue, Edison filed a report with the Ministry of Production Activities detailing the events that made it necessary to tap into the strategic reserve and concurrently applied for a permit to use the reserve, as required by the Decree dated September 26, 2001. If this filing is accepted, it will help reduce the cost of drawing from the reserve, which amounted to about 20 million euros.

Sales and Marketing

In 2005, unit sales of natural gas increased to 13,643 million cubic meters, or 19.1% more than the 11,458 million cubic meters sold in 2004.
Thanks to the implementation of successful marketing programs, unit sales to residential users (both consumers and distributors) were up sharply, rising by about 25.9% compared with 2004.
Shipments to thermoelectric power plants were also significantly higher than in 2004 (+18.7%), reflecting the Group's increased ability to supply its plants directly instead of relying on outside suppliers.
On the other hand, sales to industrial users decreased by 11.0% compared with 2004.
The activities that operate in the wholesale market enjoyed solid growth, with unit sales reaching 507 million cubic meters, counting exports, up from 181 million cubic meters in 2004.
At December 31, 2005, the Group served about 163,000 residential customers.

Production and Procurement

In 2005, production of natural gas totaled 1,248 million cubic meters, or about 60 million cubic meters

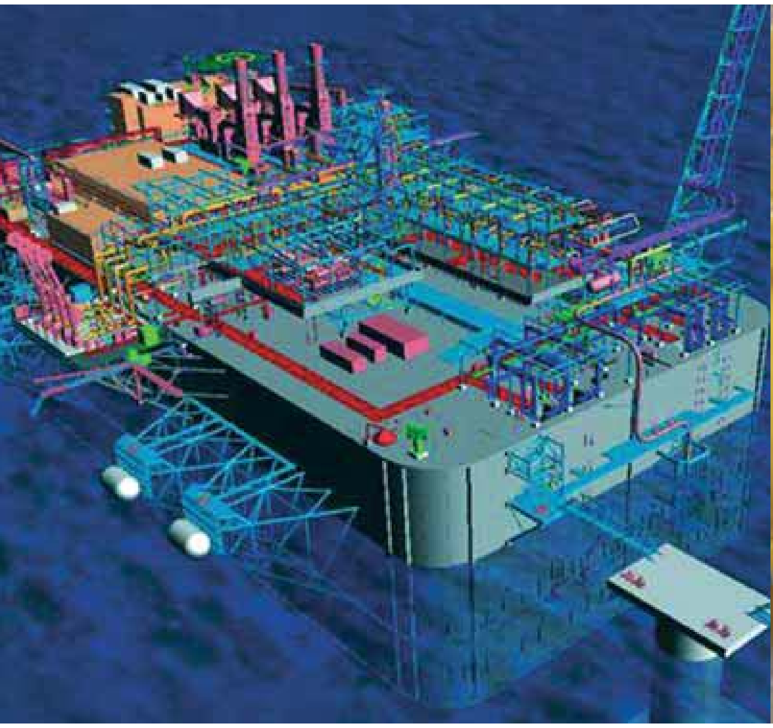
Edison is developing numerous projects for the construction of infrastructures that will give Italy access to more diversified, safer and more competitive supplies of natural gas.

less (-4.7%) than in the same period last year. This reduction is the net result of a decrease in output in Italy caused by the natural depletion of gas fields and an increase of production in Egypt.
On the procurement side, overall purchases of natural gas increased in 2005. Specifically, imports of natural gas via pipeline or as LNG declined to 6,681 million cubic meters, down slightly from 6,728 million cubic meters in 2004. At the same time, domestic purchases grew by 2,293 million cubic meters (+67.0%), rising from 3,421 million cubic meters in 2004 to 5,714 million cubic meters in 2005.
Overall, imports of natural gas accounted for 50.9% of the natural gas Edison sold in Italy, down from 60.4% in 2004.
At 2,229 barrels, production of crude oil was only slightly lower than in 2004, as the fields continued to produce at a good rate. However, average prices were sharply higher, rising from 14.80 euros per barrel to 21.70 euros per barrel in response to favorable trends in the benchmark oil markets.

Investments in Exploration

During 2005, investments in exploration totaled 22 million euros, of which 20 million euros were allocated to projects outside Italy and 2 million euros were used for projects in Italy.
Technical and financial assessment studies completed in Italy resulted in the definition of the Argo and Codogno exploration projects, with drilling scheduled to start in 2006. In addition, the Group was awarded two new exploration permits in the Padanian Plain and, on the strength of previous discoveries, applied for production concessions for the Tresauro and Capparuccia fields.
Outside Italy:

- In Egypt, the Group was awarded the West Wadi El Rayan permit and proceeded with 2D/3D seismic mapping to delineate the prospects that will be drilled in 2006.
- In Algeria, two wells were drilled in the Reggane permit and both produced natural gas. In addition, drilling of another exploratory well is already under way, with completion expected in the first quarter of 2006, and 2D/3D seismic mapping of the Akabli M'Sari permit has been completed.
- In Croatia, 3D seismic mapping of the area encompassing the Izabela gas field was completed at the end of the year, followed by the drilling of a delineation well that will become a production well in the future. In December, the Group was awarded a new offshore gas exploration permit in the Ivona block.
- In the United Kingdom, Edison received a new permit for offshore gas exploration in the North Sea.
- In the Ivory Coast, 3D seismic mapping of the CI24 offshore permit had almost been completed by the end of the year.
- In Senegal, the Group completed the 2D seismic mapping of the Rufisque offshore permit.



Hydrocarbon Reserves

The Group's hydrocarbon reserves increased to 26 billion cubic meters of natural gas equivalents, up from 24 million cubic meters of natural gas equivalents. The increase of 2 billion cubic meters, net of 2005 production of 1.626 billion of cubic meters of natural gas equivalents, was made possible primarily by new discoveries in the Reggane and Sali exploration permits in Algeria.

CORPORATE ACTIVITIES

Financial Highlights

(in millions of euros)	2005 IAS/IFRS	2004 IAS/IFRS	% change
Sales revenues	42	62	(32.3%)
EBITDA	(76)	(89)	14.6%
as a % of sales revenues	n.m.	n.m.	
Capital expenditures	2	1	n.m.
Number of employees [1]	526	539	(2.4%)

[1] End of period amount.

Corporate Activities, which consist of those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature and of certain holding companies and real estate companies, had net revenues of 42 million euros, or 20 million euros less than in 2004. A drop in non-recurring gains accounts for this decrease.

EBITDA were negative by 76 million euros, as the loss narrowed by about 13 million euros compared with 2004.

Capital Increases

The capital increases carried out during 2005 (14.2 million euros) include 6.96 million euros generated in 2005 by the conversions of outstanding Edison warrants, which can be exercised at any time until December 31, 2007 to purchase Edison shares, and 7.26 million euros generated by the exercise of options awarded under the Company's stock option plan. At December 31,2005, there were 1,018,648,623 warrants outstanding.

Real Estate Operations

During 2005, the Group continued to divest its investment properties, which were valued at 49 million euros at December 31, 2005, 13 million euros less than at the beginning of the year.

Disposals completed in 2005, which did not have a material financial impact, involved the following properties:

- A building on Via Guerrini in Ravenna;
- A building on Via Massimo D'Azeglio in Ravenna.;
- A portion of a building on Via Tor Tre Teste in Rome.

In 2004, as part of the corporate restructuring process, most of the Group's real estate assets (other than those owned by Edison Spa) were transferred to the subsidiary Come Iniziative Immobiliari Srl, which then changed its name to Montedison Srl.

OTHER CONTINUING OPERATIONS

Water Distribution and Treatment (IWH)

Financial Highlights

(in millions of euros)	2005 IAS/IFRS	2004 IAS/IFRS	% change
Sales revenues	31	27	*14.8%*
EBITDA	8	4	100%
as a % of sales revenues	25.8%	14.8%	
Capital expenditures	11	10	n.m.
Number of employees [1]	4	7	n.m.

[1] End of period amount.
Note: The data in the table above reflect the Group's interest in operations that are consolidated at 50% by the proportional method.

Revenues for 2005, which totaled 31 million euros, were generated primarily by operations carried out in Guayaquil under license. The growing profitability of these operations also accounts for the sharp improvement in EBITDA, which rose to 8 million euros, or 100% more than the amount earned in 2004.

Engineering (Tecnimont)

Financial Highlights

(in millions of euros)	2005 IAS/IFRS	2004 IAS/IFRS	% change
Sales revenues	221	256	n.a.
EBITDA	15	20	n.a.
as a % of sales revenues	6.8%	7.8%	
Capital expenditures	1	2	n.a.
Order backlog [1]	-	568	n.a.
Number of employees [1]	-	1,578	

[1] End of period amounts.
Note: the data for 2005 cover only the first half of the year, as these operations have been divested (IFRS-5).

Energy: It is our business and the force that inspires us.
It an engine of creativity, growth, productivity, progress and change.

As explained in the section of this report that reviews the Group's operating performance, the 2005 data shown in the table above cover only the first half of the year, as these operations have been divested (IFRS-5).


gennaio



A YEAR OF GROWTH
CAPITAL INVESTMENTS

ELECTRIC POWER OPERATIONS

In 2005, the Electric Power operations made capital expenditures for 511 million euros (of which 93 million euros represent the amount invested by Edipower).

The main projects carried out by the Hydroelectric Division, in addition to its usual incremental maintenance activities, included the replacement of a 4-MW turbine/alternator unit at the Colle power plant in the Meduna District, which will enable the power plant to earn green certificates, and an expansion of the Glorenza power plant, as a result of which the concession will be extended until 2031 pursuant to Law No. 529.

The capital expenditures of the Thermoelectric Division were used mainly to complete construction of a 400-MW plant in Candela (FG), which went on stream during the second half of the year, and of an 800-MW facility in Altomonte (CS), which has started prodution during the final quarter of the year. In addition, work continued on an 800-MW power plant in Torviscosa (UD), with the construction phase now 96% complete, and on another 800-MW facility in Simeri Crichi (CZ).

Capital expenditures in the area of wind power totaled 23 million euros. They were used mainly to complete the S. Bartolomeo Wind Farm (16 MW) in the municipality of Ripabottoni (CB), which went into service in December 2005, and to expand a wind farm in Faeto (CH) where 14 generators have already been installed. When the latter facility is completed, it will have a total of 20 generators with a combined capacity of 12 MW.

Edison's share of the total invested by Edipower amounted to 93 million euros. The main projects included final work on a new combined-cycle unit at the Piacenza power plant, which has completed the testing phase and began a trial run in December. Work at the Brindisi power plant focused on new coal handling logistics needed to resume production. In addition, construction of a new 800-MW power plant began in Turbigo and, in November 2005, job-site activity got under way on the partial rebuilding of generating units 1 and 2 (phase 1) of the Mese power plant. Overall, the Mese project is 60% complete.


Edison has launched a 4-billion-euro capital investment program that will increase its electric power generating capacity to 14,000 MW and its supply of natural gas to 19 billion m^3 by 2011.

HYDROCARBONS

Capital Expenditures

Capital expenditures totaled 73 million euros in 2005, compared with 60 million euros in the previous year.

Activities in Italy included further development of the Naide field in the Adriatic, with startup of the platform on June 30, 2005. Other significant projects included development of the Candela deposit of low-grade gas, which will be used to fuel the power plant of the same name, and upgrades to the Rospo platform, which are required before the two new wells needed to improve on-site oil recovery can be drilled in 2006. The Group's gas storage operations completed the first phase of the expansion of the Collalto field in July 2005. Development of the Cavarzere-Minerbio gas pipeline, which will be connected to the regasification terminal, continued, with completion of the FEED in July 2005. The distribution operations were concerned mainly with new hookups and installing connection lines and decompression stations.

In the Rashid 2 field of the Rosetta concession (20% Edison) in Egypt, the P2 platform was completed and installed. Following the drilling and completion of four wells, the Rashid 2 field was brought gradually into production between April and August 2005. Subsequently, engineering work got under way for the development of two additional fields discovered in the same concession (Rosetta 3 and Rosetta North), which are expected to require the drilling of five new wells.

INNOVATION, RESEARCH AND DEVELOPMENT

In 2005, the Group focused its research and development efforts on projects involving power generation through fuel cells, advanced photovoltaic technologies and superconductivity. In addition, the research operations continued to provide technical support to the Marketing Department in assessing the suitability of cogenerating technologies for small facilities.

In 2005, the Group focused its research and development efforts on projects involving power generation through fuel cells, advanced photovoltaic technologies and superconductivity.

Lastly, significant efforts were devoted to evaluating opportunities for collaborative research projects with EdF, with the objective of maximizing any synergies that could be developed through joint projects planned for 2006.

SUPERCONDUCTIVITY

Experiments involving a magnesium diboride superconductor built with Edison's reactive infiltration technology focused on the production of materials used to build prototypes of superconducting devices in collaboration with Istituto CNR IENI in Lecco.

In the area of systems research, the Electrical Measurements Laboratory of the Edison Research Center (the first facility in Italy that has been certified to perform measurements involving critical temperature superconducting tape) performed, on behalf of the CESI, the characterization of several superconductor samples, including some produced by Edison. Similar work was also performed on behalf of the CERN in Geneva.

Edison also continued to collaborate with the CNR IMEM in Parma on several joint research projects.

ADVANCED PHOTOVOLTAIC TECHNOLOGIES

A project carried out in collaboration with the Universities of Parma and Ferrara resulted in the development of prototypes of multi-junction solar cells and high-concentration photovoltaic systems based on the spectral separation of concentrated sunbeams. These devices will be tested at Edison's Trofarello Research Center.
A separate agreement was reached with ENEA for the joint development of a special radiometer that can be used to study these high-performance photovoltaic systems.

HYDROGEN AND FUEL CELLS

A project financed under an agreement with the Region of Piedmont and the Italian Ministry of the Environment to build a research center and laboratory dedicated to research in this area was completed in June. The experiments carried out at this facility involved the characterization of different types of fuel cells, powered by either hydrogen or natural gas, with capacities ranging up to 10 kW.
The testing was carried out with the support of the Materials Science Department of Turin's Politecnico. In addition, a project carried out in cooperation with the Energetics Department of Milan's Politecnico resulted in the development of simulation software for high-temperature cells.
Work in the field of hydrogen production included a technical and financial assessment of a natural gas reforming system designed specifically for use with fuel cells.
Lastly, Edison is a participant in the National Hydrogen and Fuel Cells Platform established by the MIUR.

HEALTH, SAFETY AND THE ENVIRONMENT

Consistent with its stated environmental and safety policy, Edison follows an integrated approach to handling issues in these areas, promoting the development and use of management systems specifically designed to ensure compliance with statutory requirements, stimulate technological innovation, enhance competitiveness and improve relationships with the community and interaction with the environment.
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 sets forth principles and guidelines that serve as reference points for all Group companies.

At the Santa Giustina's Dam, Edison completed an innovative system that ensures the discharge of a "minimum vital water flow" by releasing sufficient water from the reservoir to preserve the natural habitat and allow irrigation downstream.

The main activities the Group carried out in 2005 that are consistent with these principles are reviewed below.

Electric Power Operations:

- Award of EMAS registration to the power plants of Thermoelectric Division 2 in Nera Montoro (TR) and Porcari (LU);
- Renewal for three years of the EMAS registration for Edison Energie Speciali;
- Certification of the Integrated Environmental and Safety System in accordance with OHSAS 18001 and ISO 14001 for all power plants, dams and lesser reservoirs of Hub 3 of the Hydroelectric Operations, and BSI OHSAS 18001 certification of the Safety Management System used by the organization of Thermoelectric Division 1.

Hydrocarbons:

- Start of a project to develop an integrated environmental and safety management system (ISO 14001-BSI OHSAS 18001) for the organization of the Sambuceto (PE) District.

Research and Development:

- Award of accreditation to the Electrical Measurements Laboratory at the Trofarello (TO) Research Center by the SINAL (National System for the Accreditation of Laboratories).

Other significant developments that occurred in 2005 are reviewed below:

- SINCERT, an agency concerned with the accreditation of certification companies, awarded Edison an attestation of excellence for the development of quality systems.
- In the area of occupational safety, the effectiveness of the programs implemented over the years is demonstrated by the favorable trend of accident indices for company personnel and employees of contractors.

The levels of these indices in 2005 show an improvement over 2004, assuming the same number

of work hours. This positive performance is even more remarkable considering the high risk environment that exists at the construction sites of new thermoelectric power plants.
Specifically, the frequency index (FI) for company personnel was 2.4 (3.0 in 2004) and the serious accident index (SAI) was 0.04 (0.11 in 2004). For employees of contractors, the FI was 8.2 (10.2 in 2004) and the SAI was 0.53 (0.60 in 2004).
Edipower was granted renewals of the UNI EN ISO 14001 environmental certifications that had been awarded in previous years to the Chivasso, Piacenza, San Filippo del Mela, Sermide, Turbigo and Brindisi power plants and to the Udine hub. In addition, it published its first Sustainability Report in June.
During 2005, work continued, and in some cases was completed, on the process of soil decontamination, particularly at the San Filippo del Mela power plant. At the Chivasso power plant, improvements in environmental performance and an increase in the environmental efficiency of the thermoelectric facilities resulted in a reduction of emissions compared with 2004: 27% for sulfur dioxide, more than 30% for nitric oxides and more than 40% for particulate matter.
In the area of occupational safety and health, all Edipower production units improved their performance compared with previous years, achieving an FI of 3.23 and an SAI of 0.04.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

HUMAN RESOURCES

At December 31, 2005, the Edison Group had 2,963 employees (including the staff of companies consolidated by the proportional method), compared with 4,536 at the end of 2004.
The deconsolidation of the engineering operations (Tecnimont) is the main reason for the overall reduction in staffing levels (-1,573 employees compared with 2004).
In addition, continued implementation in 2005 of the corporate restructuring program led to the merger by absorption of Società Megs Srl into Edison Spa (143 employees were affected) and the mergers by absorption of all of the operating companies of the Gas Distribution Division into Edison D.G.
The table below provides a breakdown of the Group's payroll by type of business at December 31, 2005 and shows the changes that have occurred since December 31, 2004. The figures are presented in accordance with the newly adopted IAS principles.

Number of Employees by Type of Business

Number at end of period	2005 IAS/IFRS	2004 IAS/IFRS	% change
Electric Power Operations	1,992	1,996	(0.2%)
Hydrocarbons Operations	441	416	6.0%
Corporate Activities	526	539	(2.4%)
Core Businesses	2,959	2,951	0.3%
Water	4	7	(42.9%)
Engineering	-	1,578	n.a.
Edison Group	2,963	4,536	(34.7%)

While we may all be different from each other, we must all speak with the same tone of voice.

The significant reduction shown above is due to Tecnimont's deconsolidation.
In 2005, as required by Legislative Decree No. 196 of June 30, 2003 (Privacy Code), the Group updated its Planning Document on the Security of Personal Data.

INDUSTRIAL RELATIONS

The main developments that occurred in 2005 are reviewed below:

- In July, signing of a supplemental agreement with the unions that affected all Group companies that are covered by the national collective bargaining agreement for electrical workers. The main issues that were settled with this contract include: system of industrial relations; renewal of the performance bonus, which will be based on profitability and productivity parameters; definition of administrative guidelines for the delivery of supplemental health benefits; and renegotiation of specific financial benefits.
- Start of negotiations through Assoelectrica (an electrical industry association) in preparation for the renewal of both the benefit and compensation portions of the national collective bargaining agreement for the electrical industry. This contract, which expired on June 30, 2005, covers 74% of the employees of the Edison Group.
- Completion of the process of dissolving the FIPDAM (a supplemental pension plan for managers of the former Montedison companies), the final financial statements of which were approved by the members in December, and concurrent switch to the Previndai as the reference retirement fund for Group managers.
- Signing by Edipower of the Minutes of a Labor Union Agreement concerning the performance bonus for the four-year period from 2005 to 2008.
- In October, successful conclusion of discussions held with the unions at the national level concerning a new organizational model for the operation of conventional thermal facilities.

ORGANIZATION AND TRAINING

Responding to changes in its shareholder base, the Group implemented a new overall organizational structure, which specifically includes the following changes:

- Creation of a Chief Financial Officer position that reports to the Chief Executive Officer. The Finance Department; the Planning, Administration and Control department; the Mergers, Acquisitions and Divestments Department; and the Chief Risk Officer will report to the Chief Financial Officer.
- Creation of a Chief Operating Officer position, which also reports to the Chief Executive Officer. The Chief Operating Officer will oversee the operations of the Group's four Business Units and the Renewable Sources, Engineering, Research and Development and Purchasing Departments.
- Placement of the Systems of Internal Controls Department under direct reporting to the Chairman.
- Establishment of a new Development Department within the Central Departments that report to the Chief Executive Officer. The Development Department will handle responsibilities previously assigned to the Strategies and Industrial Development Department and to the New Initiatives Development Department. In addition, the offices that monitor regulatory and market legislation issues were reorganized, and responsibility for these matters was assigned to the Institutional Affairs Department and the General Counsel Department.
- Establishment of a Renewable Sources Department that oversees the Industrial Division of Edison's Wind Power operations and the Group's investments in the area of renewable resources. The new Department will establish guidelines for operating in the markets for green certificates, white certificates and CO_2 emissions rights, and will work on developing industrial partnership projects.

Programs carried out in 2005 in the area of employee training and development included completion of the Group's first Management Review, which involved about 450 executives and middle managers. The Review provided a quantitative and qualitative reference framework of the Group's human capital while at the same time providing a starting point for merit-based management of employees and the more focused development of future training programs.

Training projects carried out in 2005 included the successful completion of a program on the introduction of a corporate governance model that meets the requirements of Legislative Decree No. 231. In addition, a series of seminars addressed issues related to the adoption of the new International Financial Reporting Standards (IAS/IFRS).

At the same time, the Group continued to provide institutional training specifically designed to develop management skills, as well as training in technical and professional fields and safety.

Overall, the Group provided about 12,000 hours of training, roughly the same as in 2004, with a significant increase in the training support developed with internal resources. As a result, the costs paid for externally provided instruction decreased significantly, falling to about 1 million euros in 2005 (1.5 million euros in 2004). Edipower also provided training to its employees. Its programs, which provided about 48,000 hours of training, focused on safety and health, management training and, of particular importance, technological innovation projects, which were being deployed concurrently with the conversion of conventional power plants to combined-cycle facilities.

Lastly, the Group was involved in organizing the European Gas Workshop and the EDF European Air Regulation Workshop in Italy. The managers of the Edison and EdF Groups played leading roles in both events, which provided opportunities for discussion and the sharing of experiences and knowhow on relevant business development topics.

The right style
of communication is essential
to establish our personality.
We want to be perceived
as honest, friendly,
uncomplicated and direct.


AUGURI!

CORPORATE GOVERNANCE 2005 ANNUAL REPORT

CORPORATE GOVERNANCE ORGANIZATION

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 main rules of corporate governance, as defined following the change in controlling shareholders of

Edison that occurred as of September 16, 2005, with Transalpina di Energia Srl (TdE), a joint venture of Elettricité de France Sa (EDF) and AEM Spa (AEM) becoming the Company's majority shareholder, have been incorporated in Edison's Bylaws. Consistent with the Governance Agreements discussed later in this Report, this was done to provide the utmost transparency and facilitate the understanding by the financial markets of the Company's rules of corporate governance by incorporating the rules directly in a legal document that, because of the specific disclosure requirements that govern it, is best suited to achieve the desired objective. The most significant amendments to the Bylaws approved by the Shareholders' Meeting in December 13, 2005 concerned the following: quorums required for Shareholders' Meeting to be effectively convened and adopt resolutions, which, when allowed, are higher than the statutory minimums; number of members of the Board of Directors, set permanently at 12; procedure for electing the Chairman and the Chief Executive Officer; expansion of the issues reserved for the Board of Directors, as explained later in this Report; and method for calling meetings of the Board of Directors and quorum required for Board meetings to be effectively convened and adopt resolutions, which was set at 10 in both cases. These amendments became effective on January 10, 2006.

Moreover, as explained in previous Reports, Edison's Bylaws had already been amended in December

2002, when the Company's shares were accepted for public listing following the absorption of the Edison (formerly Montedison) subsidiary, to comply with the provisions of Legislative Decree No. 58/1998 (the Uniform Financial Code) 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 shareholders to representation on the Board of Statutory Auditors. The Bylaws were amended again in April 2004 to make them consistent with new statutory provisions enacted with Legislative Decree No. 6/2003, particularly with regard to the provisions that govern the convening Shareholders' Meet-

ings and attendance to those Meetings, and the rules by which the Board of Directors operates, giving the Board jurisdiction over certain issues previously reserved for the Shareholders' Meeting.
The Bylaws and this Report 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, based on a conventional organizational model, 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, the Board of Statutory Auditors and the Independent Auditors.

The Company's corporate governance structure also includes procedures for allocating and delegating authority, which are described below; a system of internal controls; and the Company's Code of Ethics, which was approved by the Board of Directors in September 2003. 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)

SHAREHOLDERS' MEETING

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

A Regular Shareholders' Meeting, gathered on the first or second calling, is duly convened and may adopt resolutions with the favorable vote of shareholders representing more than half of the common share capital, with the following exceptions: (i) a Shareholders' Meeting gathered on the second calling to approve the Annual Report and elect corporate officers or remove them from office is duly convened irrespective of the percentage of capital represented by shareholders attending the Meeting and may adopt resolutions (except for the election of Statutory Auditors) with the favorable vote of shareholders representing more than half of the share capital present at the Meeting; and (ii) a Shareholders' Meeting convened to elect the Board of Statutory Auditors on the basis of slates of candidates, which adopts resolutions with specific majorities.

A Special Shareholders' Meeting, gathered on the first, second or third calling, is duly convened when shareholders representing more than half of the common share capital are in attendance and may adopt resolutions with the favorable vote of shareholders representing at least two-thirds of half of the share capital represented at the Meeting.

At a meeting held on July 28, 2005. the Board of Directors, exercising the right it enjoys under the Bylaws to "amend the Bylaws to comply with statutory requirements," adopted a resolution amending the rules that govern attendance at Shareholders' Meetings. Specifically, the Board resolved that the deadline set forth in the Bylaws for depositing shares to qualify for attending a Shareholders' Meeting would be two business days. The Board further resolved that the deposit of the shares (held in dematerialized form through a centralized clearing system) must be confirmed by an intermediary by means of a written communication sent to the issuer company, which shall replace the certification for all intents and purposes.
The Company has not adopted specific regulations for the conduct of its Shareholders' 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.

SHAREHOLDER BASE

The structure of Edison's capital and shareholder base are summarized below.
On February 21, 2006, Edison's share capital totaled 4,273,112,753.00 euros, divided into 4,162,520,333 common shares and 110,592,420 savings shares. Since there are 1,018,643,624 warrants outstanding that can be exercised at any time until December 31, 2007 (except during the period between the date of the meeting of the Board of Directors at which the Board calls a Shareholders' Meeting to distribute earnings and the corresponding dividend record date) to acquire through subscription an equal number of common shares at a price of 1 euro per share, the share capital 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 Shareholder Register and reflects communications received pursuant to law and other information available as of February 21, 2006, lists the Shareholders who hold, directly or indirectly (including through third parties, nominees and subsidiaries), an interest greater than 2% of the voting stock:

Shareholder	Number of common shares held	Percentage of the voting common shares held	Percentage of share capital
- Transalpina di Energia Srl	2,965,041,428	71.232	69.388
- EDF	721,505,448	17.333	16.884
broken down as follows:			
- held directly	96,796,470	2.325	2.265
- held indirectly	624,708,978	15.008	14.619
- J.P. Morgan Securities Ltd (*)	192,648,155	4.628	4.508
- Mediobanca Spa (**)	191,019,556	3.050	2.971

(*) On February 28, 2006 J.P. Morgan has announced the reduction of its stake in Edison to 1.982%
(**) On February 24, 2006 Mediobanca has announced the reduction of its stake in Edison to 1.794%.

The Company is controlled by TdE, which, pursuant to the definition provided in Article 93 of Legislative decree No. 58/1998, is not controlled by any individual or legal entity. For the sake of full disclosure, it should be noted that TdE is owned in equal shares by two partners: WGRM Holding 4 (hereinafter WGRM, a wholly owned subsidiary of EDF) and Delmi Spa (hereinafter Delmi), a 51% subsidiary of AEM. Delmi's other shareholders are: Enia Spa (hereinafter Enia) (15%), Società Elettrica Altoatesina-SEL Spa (hereinafter SEL) (10%), Dolomiti Energia Spa (hereinafter Dolomiti Energia) (10%), Mediobanca Spa (hereinafter Mediobanca) (6%) Fondazione Cassa di Risparmio di Torino (hereinafter Fondazione Cassa di Risparmio di Torino) (5%), Banca Popolare di Milano Scarl (hereinafter Banca Popolare di Milano) (3%). None of these parties exercises oversight and control over Edison.

As required under Article 2497 bis of the Italian Civil Code, virtually all of the Company's direct and indirect Italian subsidiaries, except in certain special cases, have identified Edison Spa as the entity that exercises oversight or coordinating authority over their operations. The only exceptions are some companies in which other shareholders also hold an equity interest and some subsidiaries that are subject to permanent restrictions.

SHAREHOLDERS' AGREEMENTS

The shareholders' Agreements executed by Banca Intesa Spa, Capitalia Spa and Imi Investimenti Spa were cancelled on September 1, 2005. These Agreements, which covered (i) 123,366,768 Edison common shares and (ii) 338,658,338 Italenergia Bis shares and 126,996,877 Italenergia Bis warrants, were cancelled since all of the rights provided thereunder had been exercised upon the abovementioned shares and warrants being transferred to wholly owned subsidiaries of EDF.

A summary of the abovementioned Shareholders' Agreements, which were discussed in the 2004 Corporate Governance Report, was published in the newspaper *La Repubblica* on August 3, 2003.
The Company is aware of the following Shareholders' Agreements, as defined in Article 122 of the Uniform Financial Code:
(i) Framework Agreement executed on May 12, 2005 by AEM, Delmi, EDF and WGRM for the purpose of acquiring joint control of Edison through a 50-50 joint venture of Delmi and WGRM, subsequently identified as TdE.
(ii) Shareholders' Agreements executed by the same parties concurrently with the abovementioned Agreement, which concerned the corporate governance of Edison and TdE.
Based on the communications provided by the contracting parties and the latest update of November 14, 2005, these Agreements (hereafter the Governance Agreements) cover the following securities:
- 3,686,546,876 Edison shares, equal to 88.56% of the Company's common share capital at October 27, 2005;

- 491,562,016 warrants, equal to 48.25% of the total warrants outstanding at October 27, 2005;
- 100% of the share capital of Transalpina di Energia (amounting to 2,592,010,000 euros at September 16, 2005).

(iii) Investment and Shareholders' Agreement executed on July 7, 2005 by AEM, Dolomiti Energia, SEL, Mediobanca, Banca Popolare di Milano and Fondazione Cassa di Risparmio di Torino, and a subsequent agreement amending and supplementing the earlier stipulations, which was executed on July 18, 2005 by the abovementioned parties and Enìa. These two agreements governed the following: the inclusion of Dolomiti Energia, Mediobanca, Banca Popolare di Milano. Fondazione Cassa di Risparmio di Torino and, subsequently, Enìa in Delmi's shareholder base; an increase of SEL interest in Delmi; capitalization and financing commitments by Delmi's shareholders; and the relationships between and interests of the signatories with respect to the organization and operations of Delmi and, limited to certain issues, of TdE and Edison.

Based on the latest update of November 14, 2005, these Agreements, taken together, cover the following securities:

- 100% of the Delmi shares representing Delmi's share capital (amounting to 1,466,868,500 at November 15, 2005) and, indirectly:
- the 50% interest in the equity capital of TdE held by Delmi;
- Edison common shares and warrants held indirectly by Delmi through TdE, equal to 50% of the total number of Edison shares and Edison warrants held by TdE, which, based on the latest update of November 14, 2005, was equal to 1,482,520,714 Edison common shares (equal to 35.62% of the total number of Edison common shares outstanding at October 27, 2005) and 105,006,199.5 Edison warrants (equal to 10.31% of the total number of Edison warrants outstanding at October 27, 2005).

(iv) Shareholders' Agreement executed on July 7, 2005 by Mediobanca, Banca Popolare di Milano and Fondazione Cassa di Risparmio di Torino (Delmi's financial shareholders) covering the mutual obligation to provide information and communication of voting decisions made by the parties to the Agreement ahead of meetings of Delmi's Management Committee and of meetings of the Boards of Directors and Shareholders' Meetings of Delmi, TdE and Edison. The Agreement also governs how votes will be cast at the abovementioned meeting and the inclusion of new shareholders in Delmi's shareholder base.

Based on the latest update of July 27, 2005, this Agreement covered 164,656,800 Delmi shares, equal to 14% of Delmi's share capital at July 18, 2005.

The abovementioned Shareholders' Agreements were communicated to the public within the deadlines and in the manner required by the applicable statutes.

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 Shareholders' Meeting.

Considering the powers that the Shareholders' Meeting transferred to the Board of Directors in April 2004 and the amendments to the Company Bylaws approved by the Shareholders' Meeting on December 13, 2005 with regard to the powers of the Board of Directors, in addition to those attributions that cannot be delegated pursuant to law, the Board of Directors has sole jurisdiction over the following:

- Decisions concerning the Company's share capital;

- Approval of the Edison and consolidated business plan and budget;
- Opening and closing secondary headquarters;
- Designation of the Directors authorized to represent Edison;
- Reduction of the Company's share capital when a shareholder requests redemption of his shares;
- Amending the Edison Bylaws to comply with statutory requirements;
- Mergers and demergers involving wholly owned and 90% owned subsidiaries;
- Bond issues
- Purchases or acts of disposition of property, other investments, contract or transactions involving an amount that may not exceed 30 million euros per transaction or series of related transactions, except for the execution of contracts to sell or buy natural gas, electric power, other raw materials and securities representing green certificates or rights to release CO_2 emissions, with respect to which there is no limit as to the amounts for which power may be delegated;
- Conveyances or other acts of disposition of equity investments that will result in the Company's losing control of a subsidiary;
- Purchases, conveyances or other acts of disposition of companies or business operations and investments and interests in other companies, businesses or institutions involving an amount that may not exceed 30 million euros per transaction or series of related transactions;
- Decisions concerning the exercise of voting rights at Shareholders' Meetings of subsidiaries, except for votes involving issues specifically identified beforehand by the Board of Directors;
- Execution of joint venture and partnership contracts, except for those involving exploration for and production of oil, gas and other raw materials;
- Granting and canceling encumbrances, pledges, collateral, sureties and other guarantees and similar rights on intangible and tangible assets involving an amount that may not exceed 30 million euros per transaction or series of related transactions;
- Granting, receiving or repaying ahead of schedule financing facilities, assumption of debt and other financial transaction of any type (other than the investment of liquidity in financial instruments traded in the money market and derivatives executed to hedge foreign exchange, interest rate and commodity price risks) involving an amount that may not exceed 200 million euros per transaction or series of related transactions;
- Decisions concerning court proceedings involving an amount that may not exceed 30 million euros;
- Appointing and dismissing Edison's Chief Financial Officer.

The authority of the Board of Directors over the approval of the abovementioned issues extends to Edison's subsidiaries as well, except for the following: budgets, business plans, secondary headquarters, authorization to Directors to represent their company and amendments to Bylaws to comply with statutory requirements.

In addition, at a meeting held on October 28, 2005, the Board of Directors reserved for its exclusive jurisdiction all significant transactions with related parties, which it specified will include (as explained in greater detail in the section entitled "Transactions with Related Parties") transactions with TdE, the Company's controlling shareholder, TdE's shareholders and Group companies owned by these shareholders, all of which have been classified as "Significant Parties."

Lastly, the Board of Directors adopted an internal rule of conduct whereby its approval is required for financial transactions, conveyances and dispositions of equity investments, companies and business operations, and investments and divestitures that, irrespective of the value of each individual transaction, exceed in the aggregate their corresponding total amount in the approved consolidated budget, and decisions concerning the granting of collateral or guarantees when their aggregate amount exceeds 200 million euros in a given fiscal year.

Pursuant to a power of attorney provided by the Shareholders' Meeting held on June 28, 2002, the Board of Directors is authorized to issue, until June 28, 2007, up to 20,948,327 shares (the remaining balance is currently 13,129,058 shares) earmarked for the Group's stock option plans and reserved for the exercise of these options by employees, within the limits of the applicable statutes. The options that have been assigned in previous years pursuant to the abovementioned power of attorney are listed in the section entitled "Stock Option Plans." No new options were assigned in 2005, as the Board of Directors chose not to exercise the abovementioned power of attorney.

In 2003 and 2004 the Board of Directors approved the issuance of up to 2,029 million euros in bonds. Taking into account the securities issued in 2000 by the Board of Directors of the "old" Edison, now absorbed by the Company, the Edison bonds currently outstanding total 2,629 million euros. The characteristics of the different outstanding bond issues are listed in the Notes to the Financial Statements.

The powers attributed to the Board of Directors until October 28, 2005 are discussed in detail in the 2004 Corporate Governance Report.

Appointments and Compositions

In view of the structure of the Company's Shareholder base until September 16, 2005 and considering the changes that occurred after that date and the corporate governance rules adopted as a result, there appears to be no need for an Appointments Committee.

With regard t this issue, it important to keep in mind that the Governance Agreements referred to earlier in this Report set at 12 the number of Edison Directors, including 10 representing TdE (of which five designated by EDF and WGRM and five designated by Delmi) and two independent Directors designated one each by EDF/WGRM and Delmi.

The current Board of Directors was elected by the Shareholders' Meeting on October 28, 2005.

In response to changes in Edison's shareholder base brought about by the purchase of a controlling interest by TdE, the Directors elected at an earlier Shareholders' Meeting held on April 19, 2005, on which occasion the existing Board of Directors had been reappointed upon the expiration of its three-year term of office, resigned, effective as of the election of their replacements.

The number of Directors elected at the Shareholders' Meetings held in October and April, was also 12 (the Bylaws then in force stated that the Board of Directors should have a minimum of seven and a maximum of 15 members).

The Directors currently in office are: Giuliano Zuccoli (Chairman), Umberto Quadrino (Chief Executive Officer), Marc Boudier, Daniel Camus, Uris Cantarelli, Giovanni De Censi, Pierre Gadonneix, Gian Maria Gros-Pietro, Mario Mauri, Renato Ravanelli, Klaus Stocker and Gerard Wolf. They will remain in office until the Shareholders' Meeting is convened to approve the 2007 Annual Report.

The Directors in office until October 28, 2005 were: Umberto Quadrino (Chairman and, after April 19, 2005, also Chief Executive Officer) Umberto Tracanella (Deputy Chairman) Giulio del Ninno (Chief Executive Officer until April 19, 2005), Mario Cocchi, Michel Cremieux, Paolo Iovenitti, Gaetano Micciché, Piergiorgio Peluso, Sergio Pininfarina, Eugenio Razelli, Dario Velo and Romain Zaleski.

In both cases, the nominations of candidates for the Board of Directors and the curricula vitae of the candidates were filed at the Company's registered office by the Company's controlling shareholder sufficiently in advance of the shareholders' Meeting to comply with the recommendations contained in the Code of Conduct. The curriculum vitae of each Director is available at the Company website (www.edison.it).

The table below lists the Company's Directors in office at December 31, 2005 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
Giuliano Zuccoli	Chairman and CEO of AEM Spa Director of Atel Sa Director of Banca Piccolo Credito Valtellinese Scpa Chairman of Delmi Spa Chairman of Edipower Spa CEO of Transalpina di Energia Srl
Umberto Quadrino	Director of Edipower Spa Director of RCS Mediagroup Spa Director of Transalpina di Energia Srl
Marc Boudier	Director of Atel Sa Director and General Manager of EDF International Chairman of EDF Belgium Chairman of EDF Péninsule Ibérique Member of the Control Board of EnBW Member of the Control Board of Estag Director of Transalpina di Energia Srl
Daniel Camus	General Manager of EDF Sa Member of the Control Board of EnBW Member of the ControlBoard of Morphosys Ag Director of Transalpina di Energia Srl
Uris Cantarelli	CEO of Enìa Spa Director of Transalpina di Energia Srl
Giovanni De Censi	Deputy Chairman of Credito Artigiano Spa Deputy Chairman of Credito Siciliano Spa Chairman of Banca Piccolo Credito Valtellinese Scpa Chairman of I.C.B.P.I. (Istituto Centrale delle Banche Popolari) Spa Chairman of Finanziaria Canova Spa Chairman of Julius Baer Private Banking Spa
Pierre Gadonneix	Chairman and General Manager of EDF Sa Member of the Control Board of Dalia Chairman of Transalpina di Energia Srl
Gian Maria Gros-Pietro	Chairman of Autostrade Spa Director of Fiat Spa Chairman of Perseo Spa Director of Seat Pagine Gialle Spa
Mario Mauri	Director of AEM Spa Chairman of Cambria Ltd Director of Delmi Spa Director of Prima Industrie Spa Director of Transalpina di Energia Srl
Renato Ravanelli	Director of Edipower Spa Director of Transalpina di Energia Srl
Klaus Stocker	Director of Delmi Spa Director of Transalpina di Energia Srl
Gerard Wolf	Director of Transalpina di Energia Srl

Directors with Executive Powers

Unless preempted by the Shareholders' Meeting, the Board of Directors has the right to select its Chairman. It can also delegate its powers to one of its members and appoint an Executive Committee and other committees with specific functions, defining their tasks, powers and rules of operation.

The Governance Agreements require that Delmi nominate the candidate to the post of Chairman and EdF nominate the candidate to the post of Chief Executive Officer. The abovementioned Agreements, which have been incorporated into the Bylaws, also define the powers of these two officers.

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, both also have the power to call meetings of the Board of Directors and set the agenda for each meeting. The Chairman, or the person designated to replace the Chairman when he is absent or otherwise unavailable, chairs meetings and coordinates the Board's activities.

The current Chairman, Giuliano Zuccoli, was elected by the Shareholders' Meeting on October 28, 2005. On the same date, the Board of Directors reelected Umberto Quadrino Chief Executive Officer.

Consistent with the recommendations of the Code of Conduct, upon being elected on October 28, 2005, the Chairman was not provided with operational authority, as he was given jurisdiction over institutional, guidance and control issues.

The Chief Executive Officer was given the most ample powers to manage the Company. Consequently, acting without the support of an additional signatory, he can carry out any actions that are consistent with the corporate purpose, subject to statutory limitations and excluding those transactions that, as indicated above, the Bylaws and resolutions adopted by the Board of Directors have placed under the Board's sole jurisdiction.

The powers enjoyed previously by the Chairman and Chief Executive Officer were discussed in the 2004 Corporate Governance Report, which should be consulted for additional information.

The Bylaws require that the Chief Executive Officer 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 his powers and inform these 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 independent Directors are Messrs. De Censi and Gros-Pietro.

Until October 28, 2005, there were four independent Directors: Messrs. Iovenitti, Pininfarina, Tracanella and Velo. As explained earlier in this Report, this change in the number of independent Directors is consistent with the provisions on the composition of the Board of Directors in the Governance Agreements executed by the shareholders who are part of Edison's chain of control.

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 2005, the Board of Directors met 10 times. The average attendance of Directors at Board meetings was 85.83%. The average attendance of Statutory Auditors at Board meetings was 96.67%.

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 was determined by the abovementioned Shareholders' Meeting that elected them. The compensation of Directors that perform special functions or are members of Board Committees 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.

Currently, the Chairman receives exclusively a fixed compensation. Given the nature of the Chairman's current tasks and function, which are not related to the Company's regular operations, a compensation tied to the Company's performance would not have been appropriate at this time.

As for the Chief Executive Officer, he was awarded, as in the past, compensation consisting of a fixed portion and a variable portion tied to the achievement of short-term and medium-term objectives set by the Board of Directors, upon a proposal by the Compensation Committee. The Board of Directors agreed that, over the next two years, the weight of the fixed portion will be reduced, compared with that of the variable portion, since the latter is more closely related to the results achieved in managing the Company.

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

IIn 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. The Governance Agreements call for the continued use of these Committees, specifying that each Committee must have four members, two appointed by EDF/WGRM and two appointed by Delmi.

Audit Committee

The Audit Committee established on October 28, 2005 comprises four nonexecutive Directors, including one independent Director. Its members are: Daniel Camus (Chairman), Uris Cantarelli, Gian Maria Gros-Pietro and Klaus Stocker.

Before October 28, 2005, the Committee members were: Paolo Iovenitti (Chairman), Michel Cremieux and Umberto Tracanella.

Consistent with the powers it received from the Board of Directors, this Committee makes proposals and provides advice on the following matters: (i) it helps the Board of Directors in setting guidelines for the system of internal controls and checking regularly the system's efficiency and operating effectiveness; (ii) it evaluates the work programs prepared by the Internal Control Officers and receives regular reports from the Internal Control Officers; (iii) 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; (iv) 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; (v) it reports regularly 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; (vi) 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. When appropriate, the Audit Committee can perform these tasks using the support of external consultants.

The Audit Committee approves resolutions by the favorable vote of the absolute majority of its members, i.e., at least three members.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor that he designates, the Chief Financial officer and the Chief Operating Officer (the latter in a consulting capacity) may also attend meetings of the Audit Committee. The Chairman of the Board of Directors and the Chief Financial Officer may each invite another Director to attend meetings in a consulting capacity. In addition, employees and independent experts, including a representative of the Independent Auditors, may be invited to attend meetings from time to time in a consulting capacity.

In 2005, the Committee met five 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 2004 annual financial statements and the semiannual report on operations, and the accounting principles used; review the internal auditing work plan and the progress made in implementing it; assess the progress made by the subsidiaries of Edison Spa in implementing the organization and management model required pursuant to Legislative Decree No. 231/2001 (Model 231); review the findings of the independent auditors; review the results of the Company's risk management project.

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 established on October 28, 2005 comprises four nonexecutive Directors, including two independent Directors. Its members are: Mario Mauri (Chairman), Marc Boudier, Giovanni De Censi and Gian Maria Gros-Pietro.

Before October 28, 2005, the Committee members were: Sergio Pininfarina (Chairman), Michel Cremieux, Eugenio Razelli and Romain Zaleski.

The current Board of Directors assigned to this Committee the task of formulating observations and/or proposals concerning: (i) the compensation of the Chairman of the Board of Directors, Chief Executive Officer and Directors who perform special functions within the Company or receive special assignments from time to time or serve on Company Committees; (ii) at the request of the Board of Directors, the compensation policies applicable to senior executives; and (iii) stock option plans. When appropriate, the Audit Committee can perform all of these tasks using the support of external consultants.

The Audit Committee approves resolutions by the favorable vote of the absolute majority of its members, i.e., at least three members.

Employees and independent experts may be invited to attend meetings from time to time in a consulting capacity. The Chairman and the Chief Executive Officer may not be present when the Committee discusses motions involving compensation of these two officers.

In 2005, the Compensation Committee met four times. On those occasions it defined the compensation of Directors who perform special functions, set the objective the achievement of which will determine the variable compensation of Directors with executive responsibilities, assessed the feasibility of those objectives, and oversaw the implementation of the stock option plan.

Strategy Committee

The Strategy Committee established on October 28, 2005 comprises four Directors. Its members are: Giuliano Zuccoli (Chairman), Marc Boudier, Mario Mauri and Umberto Quadrino.

Before October 28, 2005, the Committee members were: Umberto Quadrino (Chairman) Giulio Del Ninno, Michel Cremieux, Piergiorgio Peluso and Eugenio Razelli.

The Board of Directors assigned to the Strategy Committee the task of developing, assessing and submitting to the Board of Directors strategic options for Edison and its Group companies, relying on the support of external consultants, when appropriate.

The Audit Committee approves resolutions by the favorable vote of the absolute majority of its members, i.e., at least three members.

The Chief Financial officer and the Chief Operating Officer, acting in a consulting capacity, may also attend meetings of the Strategic Committee. The Chairman of the Strategic Committee and the Chief Executive Officer may each invite another Director to attend meetings in a consulting capacity. In addition, employees and independent experts may be invited to attend meetings from time to time, also in a consulting capacity.

The Strategy Committee meets on a regular basis, preferably a few days in advance of meetings of the Board of Directors for which it is required to provide preparatory work in its areas of expertise.

In 2005, the Committee met three times, focusing on reviewing and discussing the Budget and Business Plan and evaluating the Company's principal investments.

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 of Directors 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.

In July 2004, Edison Spa approved Model 231, 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 unlawful acts for the benefit of the Company. The adoption of Model 231 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. In this area, the Company's Code of Ethics, which is in line with the most stringent international standards, is an integral part of Model 231.

Model 231, 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 occurrence of unlawful behavior.

Following the adoption of Model 231 in July 2004, the Board of Directors established an Oversight Board, which is responsible for overseeing the proper implementation of Model 231 and ensuring that it is properly updated. 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 follow up plan for the following six months

The Oversight Board that had been established on July 28, 2004 and which, as reelected by a new Board of Directors on April 19, 2005, comprised two independent Directors who sat on the Audit Committee (Umberto Tracanella, Chairman, and Paolo Iovenitti) and a third independent Director (Dario Velo), ceased to be in office upon the resignation of all of its members, when they resigned from the Board of Directors. The Board held five meetings during 2005. A new Oversight Board was appointed by the Board of Directors on February 21, 2006. Its members are an external professional (Umberto Tracanella), Chairman, and two independent Directors (De Censi and Gros-Pietro)

In 2005, the Group continued to pursue a project to help its subsidiaries implement a version of Model 231 that has similar objectives and is set up along the same lines as those of Edison's Model. During the year, more than 20 subsidiaries representing the bulk of the operations of the Edison group adopted Model 231. A one-person Oversight Board, consisting of a member of the Board of Statutory Auditors, has been given responsibility for these companies.

ORGANIZATION OF THE COMPANY AND PROXIES

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 Chief Executive Officer 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 Compensation commitee awarded to key executives of the Group 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. The number of options awarded to each executive was determined by using a multiplier of the variable compensation earned by each executive during the year. No new options were awarded in 2005. Additional information about the stock options awarded to executives in previous years is provided in the section of this Report entitled "Stock option plans."

TRANSACTIONS WITH RELATED PARTIES

As mentioned earlier in this Report, the Board of Directors, meeting on October 28, 2005, reserved for its sole jurisdiction all decisions concerning contracts to sell or buy natural gas, electric power, other raw materials and securities representing green certificates or rights to release CO_2 emissions involving an amount greater than 30 million euros per transaction or series of related transactions, or any other contract, acts or transactions of any amount or type (including those covered by the powers granted to the Chief Executive Officer) that involve, directly or indirectly relevant parties, i.e. (i) TdE; (ii) shareholders of TdE; (iii) shareholders of shareholders of TdE; (iv) other companies or entities that control, are controlled by or are the joint control of the abovementioned parties; and (v) other companies or entities in which the abovementioned parties hold an equity interest. All of the above does not apply to Edison subsidiaries.

Moreover, consistent with the recommendations of the Code of Conduct, the Board of Directors adopted a Group procedure that governs transactions between Edison and all related parties. This procedure, which applies to the Chief Executive Officer as well, requires compliance with the principles of objectivity, transparency and truthfulness, based on the general principles that all transactions with related parties, including those executed through subsidiaries, must be conducted fairly, both substantively and procedurally. The abovementioned procedure defines the following: the criteria to identify transactions with related parties, the general rules and the principles of conduct that apply to such transactions, the rules governing the approval of such transactions, and the obligations to report to the Board of Directors.

The abovementioned procedure requires that the Board of Directors be provided with adequate information about the type of relationship with the counterpart, the manner in which the transaction will be executed, the timing and terms of the transaction, the interests involved and the underlying motives, and the risks that the Company and its subsidiaries may incur as a result of the abovementioned transactions with related parties and of any contracts, acts or transactions of any type that involve amounts greater than 30 million euros per transaction or series of related transactions executed directly or indirectly with related parties.

When the nature, amount or other characteristic of a transaction require it, the Board of Directors, in order to prevent the transaction with a related party 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 its fairness. In some cases, the Board of Directors has asked for the input of the Audit Committee.

The abovementioned procedure regulates in detail the position of Directors who may have an interest, albeit potential or indirect, in a transaction with a related party. Specifically, when a transaction requires the prior approval of the Board of Directors, the Director affected by the transaction is required to inform the Board of Directors promptly and exhaustively about his interest in the transaction, explaining the nature, terms, origin and scope of said interest. If a transaction does nor require the prior approval of the Board of Directors and falls within the scope of the power awarded to the Director affected by it, including when the transaction is being executed by means of a special power of attorney issued by the same Director, the Director in question is required to refrain from executing the transaction and cause his representatives to do the same, choosing instead to submit the transaction to the Board of Directors for prior approval. In all cases, the applicable resolution of the Board of Directors must contain an adequate explanation of the reasons for the transaction and of the benefits that the transaction would have for the Company.

HANDLING OF CONFIDENTIAL INFORMATION

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

- The persons responsible for treatment of confidential information and the circulation price-sensitive news must be 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 applicable laws and regulations, 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 trans-

action 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.).

The procedures described above are in the process of being updated to take into account new requirements imposed on publicly traded companies upon inclusion of EU regulations on market abuse in the Italian legal system.

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. Taking into account the general principles and the specific prohibitions contained in the laws concerning insider trading, 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, in the belief that all interested parties should comply with the requirements of the abovementioned statutes.

In 2005, a total of 20 reports were filed in accordance with the abovementioned statutes by an equal number of significant parties. As explained in the relevant section of this Report, all 61 transactions covered by these reports involved the early exercise of stock options.

The Group's Internal Dealing regulations will be updated on April 1, 2006, to make them compliant with the new requirements imposed on publicly traded companies by the Uniform Financial Code.

COMMUNICATIONS WITH SHAREHOLDERS AND INSTITUTIONAL INVESTORS

Edison, acting directly or through representatives, engages in an ongoing dialog with the financial markets with the specific goal of complying with the laws and rules governing the circulation of privileged information and the procedures that apply to the circulation of confidential information. The Group's behavior and procedures are designed to avoid disparity of treatment in the disclosure of information and ensure effective compliance with the principle 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 and encourages the participation of industry press representatives. In addition, the Company promptly informs its shareholders and potential shareholders of any action or decision that could have a material impact on their investment. In also 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, and documents concerning Shareholders' and Bondholders' Meetings, so as to ensure that its shareholders and stakeholders are informed about the issues on which they will be asked to cast their vote. The Company also encourages journalists and qualified professionals to attend its Shareholders' Meetings.

The Company's staff includes a manager who is responsible for relations with institutional investors and another who is in charge of relations with Shareholders. Each heads a separate corporate organization.

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 Shareholders' 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 Shareholders who, either alone or in combination with other Shareholders, represent at least three percent of the shares entitled to vote at the Ordinary Shareholders' 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 or ability to remain in office and evidence that the candidates possess the qualifications required for the post in question 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 Shareholders' Meeting of April 19, 2005, at which time the shareholders reelected the Statutory Auditors previously in office. Its term of office will end with the approval of the 2007 Annual Report. No Statutory Auditors was elected by minority shareholders because only one slate of candidates had been filed at the time of the election.

In 2005, the Board of Statutory Auditors met five 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 Spiniello	Director	Fondiaria Sai Assicurazioni Spa
	Director	Immobiliare Lombarda Spa
	Statutory Auditor	Telecom Italia Spa
	Statutory Auditor	Telecom Italia Media Spa
Ferdinando Superti Furga	Statutory Auditor	Arnoldo Mondadori Editore Spa
	Director	Parmalat Spa
	Director	Risanamento Spa
	Chair. Board of Statutory Auditors	Telecom Italia Spa

According to the provisions of the Governance Agreements that apply to the Board of Statutory Auditors, Delmi and EDF/WGRM have each the right to designate one Statutory Auditor and one Alternate. The third Statutory Auditor and Alternate must be taken from a slate filed by Edison minority shareholders, provided that such a slate has been filed. In addition, EDF/WGRM and Delmi must decide jointly which of the two Statutory Auditors they designated will serve as Chairman of the Board of Statutory Auditors and must also select jointly Edison's independent auditors.

INDEPENDENT AUDITORS

Group Audit Plan

The Company and its Italian subsidiaries, with very few exceptions, 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, and not just those that meet the Consob's "materiality" requirements, are audited by independent auditors rather than by the Board of Statutory Auditors, as allowed pursuant to law. 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 financial statements, the separate financial statements that are prepared annually for the Electric Power and Hydrocarbons operations and perform the additional special audit required by the Electric Power and Gas Authority or needed to comply with contractual requirements. Limited to the 2004 and 2005 fiscal years, the independent auditors also carried out audits related to the adoption of the International Financial Reporting Standards (IFRS).

Edison's independent auditors, PriceWaterhouseCoopers Spa and its international subsidiaries (PWC), working in accordance with the assignment it received directly, audited about 98% of all asset and revenue accounts. Other independent auditors were retained exclusively by some foreign subsidiaries.

PWC's assignment expired with the approval of the 2004 financial statements. At the Shareholders' Meeting of April 19, 2005, it was rehired for a three-year period from 2005 to 2007.

The Shareholders' Meeting that granted the audit assignment, which includes auditing the statutory financial statements, the consolidated financial statements and performing regular checks of the accounting records, also approved the corresponding fees. Moreover, consistent with a long established Group policy, the Shareholders' Meeting also approved the granting of additional assignments that typically require the work of independent auditors and the corresponding fees. The same was also true for the Group's subsidiaries, which renewed PWC's assignment in 2005.

The assignments awarded to PWC and the corresponding fees were later expanded by the Board of Directors to address needs effectively incurred as a result of events that could not be forecast when the original assignment was awarded by the Shareholders' Meeting.

Compensation

The total cost of the Group audit for 2005 amounts to 2,176,000 euros, broken down as follows:

Description	Main Auditors: PWC		Other Auditors		Total	
	Hours	Fee	Hours	Fee	Hours	Fee
Audit of the statutory financial statements	4,760	363,345			4,760	363,345
Audit of the consolidated financial statements	800	60,972	220	15,250	1,020	76,222
Limited Audit of the Semiannual Report	1,420	107,672			1,420	107,672
Regular reviews of the accounting records	625	47,449			625	47,449
Audit of separate annual statements	600	45,729			600	45,729
Audit of transition to the IAS/IFRSs	1,840	194,330	120	8,750	1,960	203,080
Additional review activities	1,600	144,533			1,600	144,533
Total for Edison Spa	11,645	964,030	340	24,000	11,985	988,030
Italian subsidiaries and joint ventures	12,552	981,399			12,552	981,399
Foreign subsidiaries and joint ventures	1,401	155,160	784	51,517	2,185	206,677
Total for the Edison Group	25,598	2,100,589	1,124	75,517	26,722	2,176,106

TREASURY STOCK

At December 31, 2005, the Company held no treasury shares either directly or indirectly through subsidiaries.

STOCK OPTION PLANS

As explained in previous Annual Reports, in 1998 and 2000, respectively, the subsidiaries Edison and Sondel 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.

In February 2003, as mentioned earlier in this Report, the Company approved a new stock option plan and related regulations providing for the award of options to buy Edison shares at predetermined prices and during predetermined periods. The options available under this plan were awarded in November 2003 And December 2004. No additional options were awarded in 2005.

The table below shows the number of Edison stock options outstanding at the end of 2005, taking into account the changes that occurred during the year (including those concerning the options awarded to Giulio Del Ninno, the Company's Chief Executive Officer). 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).

	2005 fiscal year Number of shares	Average exercise price
Options outstanding at January 1	8,603,667	1.533
Options expired/returned/cancelled during the year, broken down as follows:	(786.719)	1.781
2001	324,247	1.400
2000	374,801	2.107
1999	87,671	1.792
Options exercised during the year	(7,258,187)	1.469
New options awarded during the year	-	-
Options outstanding at December 31	**558,761**	**2.027**

The following changes occurred between January 1, 2005 and December 31, 2005:

- As allowed by the regulations, a total of 7,258,187 options were exercised as a result of a change in Edison's control, resulting in the subscription of 3,672,015 Edison common shares at a price of 1.36 euros per share and 3,586,172 additional shares at a price of 1.58 euros per share. Virtually all of the shares issued in connection with the exercise of the abovementioned options were tendered in response to the tender offer for Edison shares and warrants launched by TdE in October.
- The options held by 10 executives were cancelled.

At December 31, 2005, a total of 13 executives held the stock options listed in the table below:

Award period	Number of shares that can be bought/subscribed	Exercise price per share	Exercise period
2000	489,493	2.107	8/1/02-7/31/06
2003	36,171	1.360	11/1/06-10/31/10
2004	33,097	1.580	12/1/07-11/30/11
Totale	558,761		

With regard to the options outstanding at the beginning of the year, 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 Shareholders' 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 Shareholders' 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 options awarded in 2003 and 2004. On November 11, 2003 and December 3, 2004, the Board of Directors authorized the issuance of up to 4,200,000 and 3,619,269 shares, respectively, earmarked for the exercise of stock options awarded in 2003 and 2004.

At December 31, 2005, the unused portion of the capital increases reserved for the exercise of stock options awarded in 2003 and 2004 had decreased to a maximum amount of 36,171 euros and 33,097 euros, respectively.

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 below. As explained in the Corporate Governance Reports of previous years, these options were awarded to Mr. Del Ninno as a result of his employment relationship with the Company and not because he served as a Director.

Award period	Number of shares that can be bought/ subscribed	Exercise price per share	Exercise period	No. of shares bought/ subscribed
2000	332,831	2.107	8/1/02-7/31/06	(*)
2003	598,103	1.360	11/1/06-10/31/10	598,103
2004	500,114	1.580	12/1/07-11/3011	500,114
Total	1,431,048			1,098,217

(*) Expired

EQUITY INVESTMENTS OF DIRECTORS AND STATUTORY AUDITORS

The equity investments held in Edison Spa and its subsidiaries at December 31, 2005 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, 2004 to December 31, 2005, are presented in the table below. This information is based on the entries in the Shareholders' register, communications received and other data.

Reference Period: January 1, 2005 to December 31, 2005

First and last name	Investee company	Number of shares held at end of the previous year (12.31.04)	Number of shares bought	Number of shares sold	Number of shares held at end of the current year (12.31.05)
Directors in office					
Giuliano Zuccoli					
Umberto Quadrino					
Marc Boudier					
Daniel Camus					
Uris Cantarelli					
Giovanni De Censi	Edison Spa - common shares	2,100	15,400	17,000	500
	Edison Spa - common shares	-	10,000 (A)	10,000	-
	Edison Spa - saving shares	-	4,425	4,425	-
	Edison Spa - 2007 warrant	-	10,000	10,000	-
Pierre Gadonneix					
Gian Maria Gros-Pietro					
Mario Mauri					
Renato Ravanelli					
Klaus Stocker					
Gerard Wolf					
Directors out of office					
Giulio Del Ninno	Edison Spa - common shares	99,860	1,098,217 (B)	1,198,077	-
	Edison Spa - 2007 warrant	27,000	-	27,000	-
Umberto Tracanella					
Mario Cocchi					
Michel Cremieux					
Paolo Iovenitti					
Gaetano Miccichè					
Piergiorgio Peluso					
Sergio Pininfarina					
Eugenio Razelli					
Dario Velo					
Romain Camille Zaleski	Edison Spa - common shares	174,850 (A)	-	174,850	-
	Edison Spa - saving shares	3,430 (A)	-	3,430	-
	Edison Spa - 2007 warrant	89,140 (A)	-	89,140	-
Statutory Auditors					
Sergio Pivato					
Salvatore Spiniello					
Ferdinando Superti Furga					

(A) Held through his wife
(B) Subscription of shares stemming from stock option exercise.

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, 2005. 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, 2005 to December 31, 2005

(in thousands of euros)

Beneficiary	Description of post held			Compensation	
First and last name	Post held	Period during which the post was held	End of term of office *	Collected by employer	Collected by payee
Director in office (a)					
Giuliano Zuccoli	Board Chairman (d)	10/28/05 - 12/31/05	12/31/2007		145
Umberto Quadrino (b)	CEO (d)	1/1/05 - 12/31/05	12/31/2007	2,661 (g)	
Marc Boudier	Director (d) (e)	10/28/05 - 12/31/05	12/31/2007	27	
Daniel Camus	Director (f)	10/28/05 - 12/31/05	12/31/2007	17	
Uris Cantarelli	Director (f)	10/28/05 - 12/31/05	12/31/2007	17	
Giovanni De Censi	Director (e)	10/28/05 - 12/31/05	12/31/2007		19
Pierre Gadonneix	Director	10/28/05 - 12/31/05	12/31/2007	15	
Gian Maria Gros-Pietro	Director (e) (f)	10/28/05 - 12/31/05	12/31/2007		22
Mario Mauri	Director (d) (e)	10/28/05 - 12/31/05	12/31/2007		27
Renato Ravanelli	Director	10/28/05 - 12/31/05	12/31/2007		74
Klaus Stocker	Director (f)	10/28/05 - 12/31/05	12/31/2007		19
Gerard Wolf	Director	10/28/05 - 12/31/05	12/31/2007	15	
Director out of office					
Umberto Tracanella	Deputy Chairman	1/1/05 - 10/28/05	10/28/2005		172
Giulio Del Ninno (c)	CEO	1/1/05 - 10/28/05	10/28/2005	333 (g)	29
Mario Cocchi	Director	1/1/05 - 10/28/05	10/28/2005		59
Michel Cremieux	Director	1/1/05 - 10/28/05	10/28/2005	73	
Paolo Iovenitti	Director	1/1/05 - 10/28/05	10/28/2005		125
Gaetano Micciché	Director	1/1/05 - 10/28/05	10/28/2005	47	
Piergiorgio Peluso	Director	1/1/05 - 10/28/05	10/28/2005	51	
Sergio Pininfarina	Director	1/1/05 - 10/28/05	10/28/2005		103
Eugenio Razelli	Director	1/1/05 - 10/28/05	10/28/2005	61	
Dario Velo	Director	1/1/05 - 10/28/05	10/28/2005		63
Romain Camille Zaleski	Director	1/1/05 - 10/28/05	10/28/2005		55
Total				3,317	912
Statutory Auditors					
Sergio Pivato	Chair. Board Stat. Aud.	1/1/05 - 12/31/05	12/31/2007		60
Salvatore Spiniello	Statutory Auditors	1/1/05 - 12/31/05	12/31/2007		40
Ferdinando Superti Furga	Statutory Auditors	1/1/05 - 12/31/05	12/31/2007		40
Total				3,317	1,052

* The term of office ends when the Shareholders' Meeting approves the financial statements for the year ended on the date shown.

** The non-monetary benefits refer insurance policies taken out by the Company on behalf of the beneficiary.

*** Other compensation includes fees received for posts held at other subsidiaries as of December 31, 2005.

(a) Elected by the Shareholders' meeting of October 28, 2005.

(b) Chairman until April 19, 2005. Chairman and CEO from April 19, 2005 until October 28, 2005. CEO from October 28, 2005.

(c) CEO until April 19, 2005.

(d) Member of the Strategy Committee.

		Breakdown				
Compensation for postheld at the company preparing the Annual Report		Non monetary benefits (*)	Bonuses and other incentives		Other compensation (*)	
145						
1,231	(h)		1,430	(h) (i)		
27						
17						
17						
19						
15						
22						
27						
15					59	(h) (m)
19						
15						
172						
248	(h)	4	109	(h) (l)	1	
59						
73						
125						
47						
51						
103						
61						
63						
55						
2,626		4	1,539		60	
60						
40						
40						
2,766		4	1,539		60	

(e) Member of the Compensation Committee.
(f) Member of the Audit Committee.
(g) The compensation is paid to the beneficiary by the company that employs him. The company rebilts the cost to Edison
(h) The amount shown is net of pensions and severance provisions.
(i) Variable compensation for 2005.
(l) Variable compensation paid for the post of CEO until April 19, 2005.
(m) Employment wages.

Overview of the Structure of the Board of Directors and the Board Committees

Board of Directors							Audit Cmmittee		Cmpensation Commitee		Strategy Committee	
Post held	Members	Executive powers	Nonexec. powers	indipendent	*	No. of other posts held*	*	*	*	*	*	*
Directors in office since october 28, 2005												
Chairman	Giuliano Zuccoli		X		100	6					X	100
CEO	Umberto Quadrino (a)	X			100	3					X	100
Director	Marc Boudier		X		100	7			X	100	X	100
Director	Daniel Camus		X		66.67	3	X	(c)				
Director	Uris Cantarelli		X		66.67	2	X	(c)				
Director	Giovanni De Censi		X	X	100	6			X	100		
Director	Pierre Gadonneix		X		100	3						
Director	Gian Maria Gros-Pietro		X	X	66.67	4	X	(c)	X	100		
Director	Mario Mauri		X		100	5			X	100	X	100
Director	Renato Ravanelli		X		100	2						
Director	Klaus Stocker		X		100	2	X	(c)				
Director	Gerard Wolf		X		100	1						
Directors out of office since october 28, 2005												
Deputy Chairman	Umberto Tracanella		X	X	100	-	X	100				
Director	Mario Cocchi		X		100	-					X	100
Director	Michel Cremieux		X		100	-	X	80	X	100	X	100
Director	Giulio Del Ninno (b)	X			100	-					X	100
Director	Paolo Iovenitti		X	X	100	-	X	80				
Director	Gaetano Micciché		X		42.86	-						
Director	Piergiorgio Peluso		X		71.43	-					X	0
Director	Sergio Pininfarina		X	X	42.86	-			X	100		
Director	Eugenio Razelli		X		85.71	-			X	100	X	50
Director	Dario Velo		X	X	100	-						
Director	Roman Camille Zaleski		X		57.14	-			X	100		

Number of meetings held in 2005			
Board of Directors: 10	Audit Committee: 5	Compensation Committee: 4	Strategy Committee: 3

* An asterisk indicates whether a Director was designated through a slate filed by minority shareholders.
** This column shows the number of other companies with shares traded in regulated markets in Italy or abroad, including financial, banking or insurance companies or companies of significant size of which the party in question is a Director or Statutory Auditor. In the Corporate Governance chapter, these positions are listed in detail.
*** An "X" marked in this column indicates that the listed Director is a member of the Committee.
**** Attendance percentages of Directors at the meetings of the Board of Directors and Committee, respectively.
(a) The data shown for the Director Umberto Quadrino are for the entire year.
(b) Chief Executive Officer until April 19, 2005
(c) The Audit Committee has not met since October 28, 2005.

Board of Statutory Auditors

Post held	Name of member	Percentage of attendance at meetings of the Board of Statutory Auditors	Number of other post hel*
Chairman	Sergio Pivato	100	2
Statutory Auditor	Salvatore Spiniello	40	4
Statutory Auditor	Ferdinando Superti Furga	100	4
Alternate	Mariateresa Battaini		
Alternate	Mario Pia		
Alternate	Alessandro Rayneri		

Number of meetings held in 2005: 5

Quorum required to file minority slates for the election of one or more Statutory Auditors (pursuant to Article 148 of the Uniform Financial Code): 3% of the shares conveying the right to vote at Regular Shareholders' Meetings

(*) An asterisk indicates that a Statutory Auditor was designated through a slate filed by minority shareholders.

(**) This column shows the number of other listed companies with shares traded in regulated markets in Italy or abroad, including financial, banking or insurance companies or companies of significant size where the Auditor is a Director or Statutory Auditor. These positions are listed in detail in the Corporate Governance chapter.

Other Requirements of the Code of Conduct

	YES	NO	Brief description of the reasons for deviating from the Code of Conduct, when applicable
System for the delegation of powers and transactions with related parties			
When delegating power, did the Board of Directors define:			
a) limits	X		
b) method of exercise	X		
c) timing of regular reports?	X		
Did the Board of directors reserve the right to review and approve material financial and asset transactions (including transactions with related parties)?	X		
Did the Board of Directors define guidelines and criteria to identify material transactions?	X		
Are these guidelines and criteria described in the Report?	X		
Has the Board of Director established special procedures to review and approve transactions with related parties?	X		
Are the procedures for the approval of transactions with related parties described in the Report?	X		
Procedures followed in the most recent election of Directors and Statutory Auditors			
Were nominations to the Board of Directors filed at least 10 days in advance?	X		In 2005, there were two Shareholder's Meetings the Agenda of which included the election of the Board of Directors. At the first Meeting, the nominations were filed at least 10 days in advance. At the second Meeting they were filed seven days in advance, which was when the controlling shareholder filed its list of candidates. in tale data la lista dei candidati.
Were the nominations to the Board of Directors accompanied by exhaustive information?	X		
Were the nominations to the Board of Directors accompanied by affidavits stating that the candidates qualify as independent?	X		
Were nominations to the Board of Statutory Auditors filed at least 10 days in advance?	X		
Were the nominations to the Board of Statutory Auditors accompanied by exhaustive information?	X		
Shareholders' Meetings			
Has the Company adopted Regulations for the Conduct of Shareholders' Meetings?		X	The Company has not adopted specific regulations for the conduct of its Shareholders' 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.
Have these Regulations been annexed to the Report (or is there an indication where they may be obtained or downloaded)?		X	
Internal Control			
Has the Company appointed Internal Control Officers?	X		
Are the Internal Control Officers hierarchically independent of operating managers?	X		
Unit responsible for internal control (as required by article 9.3 of the Code)	Internal Control Department		
Investor Relations			
Has the Company appointed an Investor Relations Manager?	X		
Organizational unit and coordinates (address/phone/fax/e-mail) of the Investor Relations Manage	Relations with Institutional Investors and Financial Analysts – ph. +39-02.6222.1, e-mail investor.relations@edison.it		

RISK MANAGEMENT AND TYPES OF FINANCIAL RISKS

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

Milan, February 21, 2006

The Board of Directors
by Giuliano Zuccoli
Chairman

OPERATING PERFORMANCE AND FINANCIAL POSITION OF EDISON SPA

Reclassified Statement of Income

	FY 2005	FY 2004
A. Sales revenues	4,065	3,303
Other revenues and income	144	81
Net revenues	4,209	3,384
Change in inventory of work in progress, semifinished goods and finished goods	13	48
Increase in Company-produced additions to fixed assets	6	16
B. Production value	4,228	3,448
Raw materials and outside services (-)	(3,476)	(2,611)
C. Value added	752	837
Labor costs (-)	(128)	(118)
D. EBITDA	624	719
Depreciation, amortization and writedowns (-)	(413)	(403)
E. EBIT	211	316
Net financial income (expense)	(165)	(211)
Dividends	228	374
Upward adjustments (Writedowns) of financial assets	(38)	(216)
F. Income (loss) before extraordinary items and taxes	236	263
Exraordinary income (expense)	82	56
G. Income (loss) before taxes and minority interest	318	319
Income taxes	33	(7)
H. Net income (loss)	351	312

Reclassified Balance Sheet

	12/31/05	12/31/04
A. Fixed assets		
Intangibles	2,836	3,017
Property, plant and equipment	3,130	2,932
Financial fixed assets	2,728	2,887
	8,694	8,836
B. Net working capital		
Inventories	211	212
Trade accounts receivable	942	615
Other assets	763	713
Trade accounts payable (-)	(886)	(595)
Other liabilities (-)	(258)	(309)
Reserves for risks and charges (-)	(897)	(963)
	(125)	(327)
C. Invested capital, net of operating liabilities (A+B)	8,569	8,509
D. Reserve for employee severance indemnities (-)	(40)	(37)
E Net invested capital (C+D)	8,529	8,472
Covered by:		
F. Stockholders' equity	4,589	4,221
G. Net (borrowings) financial assets		
Long-term debt	3,077	3,021
Long-term loans receivable	(19)	(269)
	3,058	2,752
Short-term debt	1,385	1,531
Liquid assets and short-term loans receivable (-)	(503)	(32)
	882	1,499
Total net (borrowings) financial assets	3,940	4,251
H. Total coverage sources (F+G)	8,529	8,472

Statement of Changes in Net Financial Position

	FY 2005	FY 2004
A. Net borrowings at beginning of period	(4,251)	(4,691)
EBITDA	624	719
Change in operating working capital[1]	(27)	(15)
Taxes paid (-)	(26)	(5)
Change in other assets (liabilities)	(40)	707
B. Cash flow - Operating activities	531	1.406
Investments in intangibles, property, plant and equipment, and financial fixed assets (-)	(635)	(1,061)
Proceeds from the sale of intangibles, property, plant and equipment, and financial fixed assets	417	173
Dividends received	145	369
C. Free cash flow	458	887
Net financial expense	(165)	(214)
Contributions of capital stock and reserves	18	48
Dividends declared (-)	-	(281)
D. Net casg flow for the period	311	440
E. Net borrowings at end of period (A+D)	(3,940)	(4,251)

[1] Inventories + trade receivables - trade payables.

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 purpose, Edison constitutes a multiactivity industrial company with the following structure:

Activity	Area of Business
Production	ii.) Cogenerating power plants
	iv.) Facility using renewable energy sources
Natural gas operations	
Other operations	
Common services	

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 which will be explained in another document;
- the common services include all the economic and financial 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 common services, 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;
- the "Non attributable" colum also include the unallocated godwill.

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.

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.

* * *

In order to allow a comparison with the data of the Financial Statements, the figures related to transactions of goods and services occurred among activities of Edison Spa have been eliminated in the comum headed "Adjustments".
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 Annexe 1

(in thousands of euros)	Production	Natural gas oprerations	Other operations	Common service (ad)	Common service (ek)	Total	Non attributable	To be attributed	Total for the company
Balance Sheet - Assets									
B) FIXED ASSETS									
I. Intangibles									
4) Permits, licenses, trademarks and similar rights	19,599	215,306	82	-	-	234,987	11,363	-	246,350
5) Goodwill	708,308	69,503	-	-	-	777,811	1,791,633	-	2,569,444
6) Work in progress and advances	88	661	-	-	-	749	581	-	1,330
7) Other intangibles	19,370	-	-	-	-	19,370	-	-	19,370
Total intangibles	747,365	285,470	82	-	-	1,032,917	1,803,577	-	2,836,494
II. Property, plant and equipment									
1) Land and buildings	256,020	1,463	4,224	-	8,822	270,529	-	-	270,529
2) Plant and machinery	1,927,572	139,746	20,017	-	35	2,087,370	-	-	2,087,370
3) Manufacturing and distribution equip.	4,396	32	705	-	47	5,180	-	-	5,180
4) Other assets	884	406	240	-	2,270	3.800	-	-	3,800
5) Costruction in progress and advances	731,279	28,186	2,971	-	361	762,797	-	-	762,797
Total property, plant and equipment	2,920,151	169,833	28,157	-	11,535	3,129,676	-	-	3,129,676
III. Financial fixed assets									
1) Equity investments in:									
a) Subsidiaries	-	-	-	-	-	-	1,722,501	-	1,722,501
b) Affiliated companies	-	-	-	-	-	-	887,729	-	887,729
c) Other companies	-	-	-	-	-	-	38,864	-	38,864
Total equity investments	-	-	-	-	-	-	2,649,094	-	2,649,094
2) Long-term loans to:									
a) Subsidiaries	-	-	-	-	-	-	30,207	-	30,207
b) Affiliated companies	-	-	-	-	-	-	4	-	4
c) Other companies	-	-	-	-	-	-	46,616	-	46,616
Total long-term loans	-	-	-	-	-	-	76,827	-	76,827
3) Other securities	-	-	-	-	-	-	1,923	-	1,923
Total financial fixed assets	-	-	-	-	-	-	2,727,844	-	2,727,844
Total fixed assets	3,667,516	455,303	28,239	-	11,535	4,162,593	4,531,421	-	8,694,014
C) CURRENT ASSETS									
I. Inventories									
1) Raw materials, auxiliaries and supplies	31,842	5,134	-	-	344	37,320	-	-	37.320
3) Contract work in process	-	590	-	-	-	590	-	-	590
4) Finished goods and merchandise	-	138,721	34,205	-	-	172,926	-	-	172.926
5) Advances	16	79	-	1	126	222	-	-	222
Total inventories	31,858	144,524	34,205	1	470	211,058	-	-	211.058
II. Accounts receivable									
1) Trade accounts receivable	471,725	229,462	10,935	-	-	712,122	-	-	712,122
2) Accounts receivable from subsidiaries	67,462	115,440	3,162	-	22,969	209,033	89,260	-	298,293
3) Accounts receivable from affiliated companies	224	58,636	488	226	1,627	61,201	-	-	61,201
4) Accounts receivable from controlling companies	-	-	32	-	-	32	-	-	32
4-bis) Due from the tax authorities	-	-	-	-	-	0	330,444	-	330,444
4-ter) Deferred-tax assets	-	-	-	-	-	0	90,000	-	90,000
5) Accounts receivable from outsiders	60,778	56,176	3,258	125	774	121,111	15,803	-	136,914
Total accounts receivable	600,189	459,714	17,875	351	25,370	1,103,499	525,507	-	1,629,006
III. Financial assets not held as fixed assets									
4) Other equity investments	-	-	-	-	-	-	79,008	-	79,008
7) Loans receivable	-	-	-	-	-	-	449,902	-	449,902
Tot. financial assets not held as fixed assets	-	-	-	-	-	-	528,910	-	528,910
IV. Liquid assets	-	-	-	-	-	-	15,864	-	15,864
Total current assets	632.047	604.238	52.080	352	25,840	1,314,557	1,070,281	-	2,384,838
D) ACCRUED INCOME AND PREPAID EXPENSES	18.117	5.995	-	-	1,533	25,645	27,781	-	53,426
Total assets	4.317.680	1.065.536	80.319	352	38,908	5,502,795	5,629,483	-	11,132,278

Edison Spa - Unbundling Annexe 1

Balance Sheet - Liabilities

(in thousands of euros)	Production	Natural gas oprerations	Other operations	Common service (a-d)	Common service (e-k)	Total	Non attributable	To be attributed	Total for the company
A) STOCKHOLDERS' EQUITY									
I. Capital stock	-	-	-	-	-	-	4,273,108	-	4,273,108
II. Additional paid-in capital	-	-	-	-	-	-	3,402	-	3,402
VII. Other reserves	-	-	-	-	-	-	19,763	-	19,763
VIII. Retained earnings (Loss carryforward)	-	-	-	-	-	-	(58,227)	-	(58,227)
IX. Net income (loss) for the year	220,813	184,349	61,827	(67,177)	(68,599)	331,213	19,841	-	351,054
Total stockholders' equity	220,813	184,349	61,827	(67,177)	(68,599)	331,213	4,257,887	-	4,589,100
B) RESERVE FOR RISKS AND CHARGES									
2) Reserve for taxes	1,815	-	-	-	-	1,815	50,531	-	52,346
4) Other reserves	60,392	81,932	39,721	-	-	182,045	662,975	-	845,020
Total reserves for risks and charges	62,207	81,932	39,721	-	-	183,860	713,506	-	897,366
C) Reserve for employee severance indemnities	20,319	4,421	1,155	8,391	5,681	39,967	-	-	39,967
D) LIABILITIES									
1) Bonds	-	-	-	-	-	-	2,629,639	-	2,629,639
4) Due to banks	-	-	-	-	-	-	936,294	-	936,294
5) Due to other lenders	-	-	-	-	-	-	4,743	-	4,743
6) Advances	372	-	-	-	15,178	15,550	-	-	15,550
7) Trade accounts payable	390,704	410,768	16,891	596	15,410	834,369	-	-	834,369
9) Accounts payable to subsidiaries	24,365	8,321	383	130	88,869	122,068	814,073	-	936,141
10) Accounts payable to affiliated companies	380	4,477	54	57	5	4,973	270	-	5,243
12) Taxes payable	3,505	1,127	19	-	-	4,651	7,542	-	12,193
13) Contributions to pension and social security institutions	5,431	729	936	1,746	1,165	10,007	-	-	10,007
14) Other liabilities	12,755	29,390	7,553	12,310	54,082	116,090	20,207	-	136,297
Total liabilities	437,512	454,812	25,836	14,839	174,709	1,107,708	4,412,768	-	5,520,476
E) ACCRUED EXPENSE AND DEFERRED INCOME	675	6,060	-	-	438	7,173	78,196	-	85,369
Total liabilities and stockholders' equity	741,526	731,574	128,539	(43,947)	112,229	1,669,921	9,462,357	-	11,132,278

Edison Spa - Unbundling Annexe 1

(in thousands of euros)	Production	Natural gas oprerations	Other operations	Common service (ad)	Common service (ek)	Total	Non attributable	To be attributed	Total for the company
Statement of Income									
A) PRODUCTION VALUE									
1) Sales and service revenues	2,260,471	4,279,234	108,230	-	1	6,647,936	-	(2,582,781)	4,065,155
2) Work in progress and semifinished goods	-	16,296	4,275	-	-	20,571	-	-	20,571
3) Contract work in process	-	(7,357)	-	-	-	(7,357)	-	-	(7,357)
4) Incr. in company-produced add. to fixed assets	7,115	(786)	170	-	-	6,499	-	-	6,499
5) Other revenues and income	53,497	58,441	17,668	-	12,283	141,889	1,691	-	143,580
Total production value	2,321,083	4,345,828	130,343	-	12,284	6,809,538	1,691	(2,582,781)	4,228,448
B) COST OF PRODUCTION									
6) Raw materials, auxiliaries and merchandise	1,529,069	3,756,542	25,357	100	890	5,311,958	-	(2,549,776)	2,762,182
7) Outside services	146,222	306,198	21,383	26,024	35,363	535,190	-	(22,984)	512,206
8) Use of property not owned	27,291	3,724	4,451	558	2,315	38,339	-	-	38,339
9) Personnel:									
a) wages and salaries	42,457	15,478	2,584	18,471	12,422	91,412	-	-	91,412
b) social security contributions	12,904	2,442	869	8,968	3,686	28,869	-	-	28,869
c) provision for employee severance indemnities	2,934	665	161	2,235	835	6,830	-	-	6,830
e) other personnel costs	552	69	6	421	92	1,140	-	-	1,140
Total personnel costs	58,847	18,654	3,620	30,095	17,035	128,521	-	-	128,251
10) Depreciation, amortization and writedowns	226,649	59,095	2,457	-	2,882	291,083	121,796	0	412,879
11) Change in inv. of raw mat., auxil. and supplies	1,041	(595)	8,099	-	12,224	20,769	-	0	20,769
12) Provisions for risks	41,178	6,334	2,802	-	296	50,610	-	0	50,610
14) Miscellaneous operating costs	69,973	11,527	347	10,400	9,878	102,125	6	(10,021)	92,110
Total cost of production	2,100,270	4,161,479	68,516	67,177	80,883	6,478,325	121,802	(2,582,781)	4,017,346
Net production value (A-B)	220,813	184,349	61,827	(67,177)	(68,599)	331,213	(120,111)	-	211,102
C) FINANCIAL INCOME AND EXPENSE									
15) Income from equity investments	-	-	-	-	-	-	228,054	-	228,054
16) Other financial income	-	-	-	-	-	-	109,452	-	109,452
17) Interest and other financial expense	-	-	-	-	-	-	274,606	-	274,606
17bis) Currency conversion gains (losses)	-	-	-	-	-	-	9	-	9
Total financial income and expense	-	-	-	-	-	-	62,891	-	62,891
VALUE ADJUSTMENTS ON FINANCIAL ASSETS									
18) Upward adjustments	-	-	-	-	-	-	2,072	-	2,072
19) Writedowns	-	-	-	-	-	-	39,998	-	39,998
Total value adjustments on financial assets	-	-	-	-	-	-	(37,926)	-	(37,926)
EXTRAORDINARY INCOME AND EXPENSE									
20) Extraordinary income	-	-	-	-	-	-	314,061	-	314,061
21) Extraordinary expense	-	-	-	-	-	-	232,450	-	232,450
Total extraordinary items	-	-	-	-	-	-	81,611	-	81,611
Income before taxes	220,813	184,349	61,827	(67,177)	(68,599)	331,213	(13,535)	-	317,678
22) Income taxes	-	-	-	-	-	-	(33,376)	-	(33,376)
26) Net income (loss)	220,813	184,349	61,827	(67,177)	(68,599)	331,213	19,841	-	351,054

MOTION ON THE ITEMS ON THE AGENDA OF THE SHAREHOLDERS' MEETING

Dear shareholders:

Your Company's financial statements at December 31, 2005 show net income of 351,053,527.09 euros, rounded to 351,053,527 euros, and a loss carryforward of 58,226,559.03 euros, rounded to 58,226,559 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 resolutions:

Resolution on item 1

"The Shareholders' Meeting,

- having reviewed the statutory and consolidated financial statements at December 31, 2005 and the Report on Operations submitted by the Board of Directors;
- being cognizant of the Report of the Statutory Auditors, which is required under Article 153 of Legislative Decree No. 58/1998 (Uniform Financial Code);
- being cognizant of the Reports of the Independent Auditors on the statutory and consolidated financial statements at December 31, 2005;

resolves to:

- approve the Report on Operations in 2005 submitted by the Board of Directors;
- approve the statutory financial statements for the year ended December 31, 2005, and the individual items contained therein."

Resolution on item 2

"The Shareholders' Meeting,

- in light of the statutory financial statements for the year ended December 31, 2005, which shows net income of 351,053,527.09 euros; the consolidated financial statements at December 31, 2005; the Report on Operations submitted by the Board of Directors; the Report of the Statutory Auditors; and the Report of the Independent Auditors;
- in view of the fact that the Company has a loss carryforward of 58,226,559.03 euros;
- considering the provisions of Article 2430 of the Italian Civil Code that govern the handling of the statutory reserve and those of Article 24 of the Company's Bylaws concerning the dividends payable to the savings shareholders;
- considering that the balance sheet shows additional paid-in capital of 3,401,905.16 euros;
- considering that the balance sheet shows reserves that are restricted pursuant to Law No. 488/1992 in the amount of 15,993,000.00 euros, of which 938,000.00 euros apply to a reserve established in connection with Accettura/Garaguso Investment Project No. 37649/11 that has become available upon completion of the project;
- considering the provisions of Article 109, Section 4, of Presidential Decree No. 917/1986, as amended by Legislative Decree No. 344/2003 (Uniform Tax Code);

resolves to:

(i) set aside 5% of the year's net income of 351,053,527.09 euros by adding 17,552,676.35 euros to the statutory reserve;

(ii) cover the loss carryforward of 58,226,559.03 euros by utilizing the portion of the reserves restricted pursuant to Law No. 488/92 that became available upon completion of Accettura/Garaguso Investment Project No. 37649/11, which amounts to 938,000 euros, and by drawing 3,401,905.16 euros from additional paid-in capital, and covering the balance of 53,886,653.87 euros by appropriating an equal amount of the net income listed in item (i) above;

(iii) appropriate the 279,614,196.87 euros in net income that remains after the partial appropriation made to the statutory reserve referred to in item (i) above and to cover the loss carryforward referred to in item (ii) above, as follows:

a) a dividend on the 110,592,420 savings shares as follows:

- 5% of the shares' par value, i.e., 0.05 euros per share, as a preferred dividend for the 2005 fiscal year, for a total of	5,529,621.00 euros
- 5% of the shares' par value, i.e., 0.05 euros per share, as a past-due preferred dividend for each of the 2002, 2003 and 2004 fiscal years, which amounts to 0.15 euros per share, for a total of	16,588,863.00 euros
- 1.8% of the shares' par value, i.e., 0.018 euros per share, as a preferred dividend premium for the 2005 fiscal year, as required as a consequence of the motion set forth in item b) below	1,990,663.56 euros
for a combined amount of 0.218 euros per savings share, which is equal to an overall total of	24,109,147.56 euros

b) dividend on the 4,162,520,333 common shares as follows:

- 0.038 euros per share, equal to 3.8% of each common shares' par value	
for a total of	158,175,772.65 euros

c) to bring forward the balance as retained earnings, which, after deducting the amounts referred in items (i) and (ii) and letters a) and b) above, amounts to	97,329,276.66 euros

it being understood that, with regard to the 1,990,663.56 euros that constitute the portion of the net income that is being distributed to the holders of savings shares as a premium on the minimum guaranteed dividend, the Company will waive the claim it is allowed under Article 146, Letter c) of Legislative Decree No. 58/1998 concerning the establishment of a fund to cover the expenses that may be incurred to protect the common interests of the holders of savings shares, as approved by a Meeting of the said holders, the amount of which has been advanced by the Company.

The dividend will be payable on April 27, 2006 (coupon presentation date April 24, 2006).

Milan, February 21, 2006
The Board of Directors
by Giuliano Zuccoli
Chairman

REPORT OF THE BOARD OF STATUTORY AUDITORS

Dear Shareholders:

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, 2005, 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:

- On March 7, 2005, Edison Spa and Sonatrach (the Algerian state oil company) signed a letter of intent covering the supply of up to four billion cubic meters of Algerian natural gas a year.
- On May 2, 2005, Edison, Qatar Petroleum and ExxonMobil signed definitive agreements to cause the associated company Terminale GNL Adriatico Srl (formerly Edison LNG) to build an offshore LNG receiving and regasification terminal. The terminal, scheduled for startup by the end of 2007, will have a regasification capacity of 8 billion cubic meters a year.
- At a meeting in Athens on June 24, 2005, Edison and DEPA, Greece's national natural gas company, signed a Protocol of Intent to build a natural gas pipeline linking Italy and Greece. The signing of the Protocol was followed by the signing of an intra-government agreement by the relevant Italian and Greek Ministries. The pipeline, which will have a transmission capacity of 8 billion cubic meters of natural gas a year, is expected to go on stream in 2010. The facility will have no effect on the environment, since nothing will be released into the atmosphere or the sea, and it will have virtually no visual impact.
- On October 24, 2005, Edison inaugurated a thermoelectric power plant in Candela, a town in the province of Foggia. This new 380-MW facility is the most efficient and environmentally compatible power plant in Italy and the first of the projects in the Edison industrial plan to be completed.
- In 2005, as conditions in the Italian market changed and the government stepped up pressure to increase competition, ENI reactivated projects it had announced in 2002 but had shelved due to a potential capacity overhang in Italy. These projects involved increasing the capacity of the Tunisian section of the Mattei gas pipeline, which ENI uses to import natural gas from Algeria (TTPC), and of the TAG gas pipeline, which crosses Austrian territory to deliver Russian natural gas. ENI announced that the first phase would be completed by 2008 (adding about 3.2 billion cubic meters a year in new capacity to each pipeline). It also began the process of allocating transmission capacity as of May 2005 for the TTPC and as of November 2005 for the TAG. Anticipating the Group's growing need for natural gas supplies in the coming years and taking into account the close commercial relationships that the Group has developed since the 1990s with pipeline suppliers, Edison took advantage of the opportunity provided by the expansion of the ENI gas pipelines for the importation of Algerian and

Russian natural gas by choosing to participate in the process of allocating the additional capacity that both pipelines will deliver. As a result of this process, Edison gained additional capacity totaling about 2 billion cubic meters a year of Algerian gas from the TTPC pipeline (starting in 2008) and about 20 million cubic meters a year of Russian gas from the TAG pipeline.

- On July 29, 2005, Edison sold on the block market 91,807,000 AEM Spa shares. This block of shares, which was equal to 5.1% of AEM's share capital, was sold at a price of 1.7592 euros per share, generating total proceeds of 161.5 million euros. This transaction improved the Group's financial position by the same amount and generated a gain of about 20 million euros.
- On October 25, 2005, Edison completed the sale of 100% of the share capital of Tecnimont Spa to Maire Tecnimont Spa, a company of the Maire Group. Concurrently with the sale, Edison subscribed a capital increase, paying 50 million euros for a 19.5% interest in Maire Tecnimont Spa. Edison's investment is assisted by a put-and-call option that can be exercised after three years. Edison chose to exercise its put option immediately. The sales price for Tecnimont was set at 180 million euros, generating a net gain of about 80 million euros in Edison's consolidated financial statements but will not have a material effect on the net consolidated financial position.
- On November 30, 2005, Edison purchased a 20% interest in Finel Spa from EdF International Sa, which partially exercised its right to terminate its investment in Finel's share capital. Edison had granted EdF International this investment termination right upon the transfer to Edison of the investment in Ise, the electric power and steam production and distribution company that represented Finel's sole industrial asset. Consistent with prior agreements, Edison paid EdF International a price of about 152 million euros, equal to 20% of the book value of Finel's shareholders' equity at September 30, 2005, for a 20% interest in Finel's share capital. Finel's assets consist of cash investments. This transaction will have an impact of equal amount on Edison's financial position.
- On May 19, 2005, based on analyses completed in February, the rating agency Moody's Investors Services boosted the credit of Edison Spa and the Selm Holding International Sa subsidiary from Baa3 to Baa2.
- On June 1, 2005, Edison and Bunge signed an agreement that permanently and definitively settled any and all claims that may arise from the obligations undertaken by Edison pursuant to a contract (executed in 2002) to sell its interest in Cereol. Under the settlement, Edison paid Bunge US$85 million. This transaction did not have an impact on Edison's earnings, since the Company carries ample provision on its balance sheet.
- On September 16, 2005, Transalpina di Energia Srl purchased 63.3% of the common shares of Edison Spa and 240,000 Edison warrants, which are convertible into Edison common shares, from Italenergia Bis Spa. The price paid was 1.55 euros per share and 0.59 euros per warrant. The entire share capital of Transalpina di Energia is owned in equal shares by WGRM Holding 4 Spa, a wholly-owned subsidiary of Electricité de France Sa (EdF), and Delmi, a subsidiary of AEM Spa.
  This transaction was made possible by a framework agreement that WGRM, EdF, Delmi and AEM signed on May 12, 2005 in anticipation of their joint purchase of Edison Spa.
  Following its acquisition of Edison Spa, Transalpina di Energia Srl launched a mandatory tender offer for the Edison common shares and a voluntary tender offer for the Edison 2007 Common Share Warrants. On September 26, 2005, Edison's Board of Directors, based on the opinion of its financial advisor, Credit Suisse First Boston, concluded that the price of 1.86 euros per share and 0.87 euros per warrant offered by Transalpina di Energia was fair. The tender offer was completed successfully on October 26, 2005 and 93.7% of the shares and 40.22% of the warrants were tendered.
  In response to changes in Edison's shareholder base brought about by the purchase of a controlling interest by TdE, the Directors elected at an earlier Shareholders' Meeting held on April 19, 2005 resigned. On October 28, 2005, the Shareholders' Meeting of Edison Spa elected a new Board of Directors, determining the Board's composition and annual compensation. Subsequently, on December 13, 2005, the Shareholders' Meeting approved amendments to the Company Bylaws required by the new system of corporate governance instituted pursuant to the agreements reached by EdF and Delmi.

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 Shareholders' 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 2005 or since the end of that year.
The information provided in the Notes to the Financial Statements 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 February 21, 2006 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. On March 15, 2006, they issued their report, which contains no qualifications or requests of specific disclosures.
The Independent Auditors were also asked to perform tasks that were not included in the assignment they received from the Shareholders' Meeting on April 19, 2005. These tasks and the fees charged, excluding out-of-pocket costs and VAT, are listed below:

- Review of intra-Group contracts	10,000 euros
- Audit of gas transmission rates	10,000 euros
- Review of costs associated with the IGI Projects	6,000 euros
- Sel-Edison Spa Reporting-Package	3,000 euros
- ETS Spa Reporting Package	2,100 euros
- Certification of financial covenants compliance for 2005	3,750 euros
- Audit of 2005 personnel rates for Italian gas joint ventures	22,500 euros
- Audit of 2005 personnel rates for international gas joint ventures	22,500 euros
- Audit of 2005 rates for expatriates in Iran	11,250 euros
- Issuance of Comfort Letter for EMTN Program	50,000 euros

In addition, the audit fee was increased to reflect the following items:

- Edison's absorption of MEGS, a wholly owned subsidiary	11,047 euros
- Inflation adjustment	10,052 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.
In 2005, the Board of Statutory Auditors met five times and attended 10 meetings of the Board of Directors.
The Chairman of the Board of Statutory Auditors attended the meetings of the Audit Committee and of the Oversight Board.
The Board of Statutory Auditors found no cause to take issue with any failure to comply with the principles of sound management.
On April 19, 2005, on the occasion of the appointment of the Independent Auditors for the 2005-2007 period by the Shareholders' Meeting, the Board of Statutory Auditors issued the opinion required pursuant to Article 159, Section 1, of Legislative Decree No. 58/1998 and Consob Communication No. 97001574 of February 20, 1997.
In keeping with the requirements of Article 2389, Section 3, of the Italian Civil Code, the Board of Statutory Auditors issued an opinion approving the compensation set by the Board of Directors, upon a proposal by the Compensation Committee, to remunerate the Directors who are required to perform special tasks or sit on the Board's Committees.
Responding to changes in its shareholder base, the Group implemented a new overall organizational structure, which specifically includes the following changes:

- Creation of a Chief Financial Officer position that reports to the Chief Executive Officer. The Finance Department; the Planning, Administration and Control department; the Mergers, Acquisitions and

Divestments Department; and the Chief Risk Officer will report to the Chief Financial Officer.
- Creation of a Chief Operating Officer position, which also reports to the Chief Executive Officer. The Chief Operating Officer will oversee the operations of the Group's four Business Units and the Renewable Sources, Engineering, Research and Development and Purchasing Departments.
- Placement of the Systems of Internal Controls Department under direct reporting to the Chairman.

The Group was actively engaged in providing institutional, functional, technical and professional training in 2005. Specifically, it completed successfully a program on the introduction of a corporate governance model that meets the requirements of Legislative Decree No. 231.

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.

At a meeting held on October 28, 2005, the Board of Directors reserved for its exclusive jurisdiction all significant transactions with related parties, which it specified will include transactions with TdE, the Company's controlling shareholder, TdE's shareholders, the shareholders of TdE's shareholders and Group companies owned by these parties, all of which have been classified as "Significant Parties."

Moreover, consistent with the recommendations of the Code of Conduct, the Board of Directors adopted a Group procedure that governs transactions between Edison and all related parties. This procedure, which applies to the Chief Executive Officer as well, requires compliance with the principles of objectivity, transparency and truthfulness, based on the general principles that all transactions with related parties, including those executed through subsidiaries, must be conducted fairly, both substantively and procedurally. The abovementioned procedure defines the following: the criteria to identify transactions with related parties, the general rules and the principles of conduct that apply to such transactions, the rules governing the approval of such transactions, and the obligations to report to the Board of Directors.

The Company has established Group directives and procedures on the handling and processing of confidential information, particularly with regard to price-sensitive information. These procedures are in the process of being updated to take into account new requirements imposed on publicly traded companies upon inclusion of EU regulations on market abuse in the Italian legal system.

In December 2002, as required under specific regulations issued by Borsa Italiana, Edison approved a Code of Conduct for internal dealing. The purpose of the Code of Conduct is to ensure the transparent and consistent disclosure to the financial markets of information regarding transactions that involve Edison financial instruments in excess of a specified amount that 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 Code of Conduct became effective and binding on January 1, 2003. It will be updated on April 1, 2006, to make it compliant with the new requirements imposed on publicly traded companies by the Uniform Financial Code.

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 Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IAS/IFRSs). Specifically, as allowed under European Regulation No. 1606, which was enacted in July 2002, the Edison Group adopted as of January 1, 2005 the IAS/IFRSs, as issued by the International Accounting Standards Board (IASB) and approved by European Commission.

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.
The system of corporate governance adopted by the Company complies with the recommendations and standards of the Code of Conduct published by Borsa Italiana and is consistent with international practice. The main rules of corporate governance, as defined after September 16, 2005, the date that Transalpina di Energia Srl became Edison's controlling shareholder, have been incorporated in Edison's Bylaws, consistent with the Governance Agreements executed by the shareholders of Transalpina di Energia.
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. The continued use of these Committees was confirmed on October 28, 2005, when the Shareholders' Meeting elected a new Board of Directors.
Moreover, in July 2004, Edison Spa approved the organizational and management model required pursuant to Legislative Decree No. 231/2001. 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 to 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 that is responsible for overseeing the proper implementation of the organizational and management model and ensuring that it is properly updated. The Oversight Board comprises three independent Directors. Following changes in Edison's shareholder base, the previous Oversight Board ceased to be in office when all of its members submitted their resignations from the Board of Directors. A new Oversight Board was appointed by the Board of Directors on February 21, 2006. Its members are an outside professional, who serves as Chairman, and two independent Directors. 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 six months to come.
A representative of the Board of Statutory Auditors also attends the meetings of the Oversight Board. The Report on Operations provides a comprehensive presentation of the circumstances that enabled the Company to report a net profit from operations that is significantly higher than in the previous year. 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, after coverage of prior-period losses and satisfaction of the rights of the holders of savings shares.

Milan, March 16, 2006

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

This document is also available on the
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