


REPORT ON OPERATIONS
2007

EDISON

EDISON
IN THE WORLD

12,500 MW installed generating capacity

34 Thermoelectric Power Plants

68 Hydroelectric Power Plants

28 Wind Farms

33 bcme Reserves

CONTENTS

REPORT ON OPERATIONS
2007

EDISON TODAY

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

Electric power

Italian market in 2007		
Total Italian Demand	339.8	TWh
incl: - Deregulated market	195.0	TWh
Edison's net sales in Italy (*)	63.6	TWh
incl: - Deregulated market (*)	27.5	TWh
- Power Exchange sales	13.7	TWh
- CIP 6/92 sales	18.1	TWh
- Sales to captive customers	4.3	TWh

Facilities and Production Capacity in 2007		
Edison's installated capacity + Edipower (50%) (**)	12.5	'000 MW
Total Italian net production of electric power	301.5	TWh
Edison's net production of electric power *(including 50% of Edipower)*	53.4	TWh
Share of total Italian production	17.7	%
Number of direct end customers	15.0	'000

(*) Including sales to wholesalers and excluding exports.
(**) Including share of Edipower's installed capacity available to Edison under the current tolling contract and a total of 540 MW of installed capacity belonging to seven power plants that are being divested

Source: Preliminary year-end data by AU and Terna and Edison estimates.

Hydrocarbons

Italian market in 2007		
Total Italian market	83.6	Bill. m^3
Edison's available supply in Italy	13.2	Bill. m^3
Edison's available supply/Total Italian market	15.8	%
Edison's sales outside Italy	0.6	Bill. m^3

Facilities and Production Capacity in 2007		
Total Italian production	9.7	Bill. m^3
Edison's production in Italy	0.7	Bill. m^3
Share of total production	7.0	%
Number of concessions and permits in Italy	59	n.
Number of concessions and permits outside Italy	23	n.
Number of storage centers in Italy	2	n.
Hydrocarbon Reserves	33.4	Bill. m^3 eq.
Production outside Italy	0.3	Bill. m^3
Gas transmission network (low-and medium pressure pipelines)	3.35	'000/Km
Number of direct end customers	171.9	'000

Source: Preliminary year-end data by the Ministry of Economic Development and Edison estimates.

SIMPLIFIED STRUCTURE OF THE GROUP AT DECEMBER 31, 2007

EDISON

Energy				Other operations
Electric Power Operations	**Hydrocarbons Operations**	**Energy Management/ Gas Supply & Logistics**	**Marketing & Distribution**	**IWH** (2) Water
EDISON Spa (1)				
■ **Edison Energie Speciali** Production of Electric Power ■ **Edipower** (2) Production of Electric Power	■ **Edison International** Hydrocarbon Expl. & Prod. ■ **Edison Stoccaggio** Natural Gas Storage ■ **Edison DG** Natural Gas Distribution	■■ **Edison Trading** Energy management	■■ **Edison Energia** Sales of Energy & Gas	

■ 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 at 50% by the proportional method.

A LETTER TO SHAREHOLDERS

Dear Shareholders:

In the year that just ended, Edison reported further improvements in operating performance, increasing its share of the Italian market and embarking on a path toward international expansion.

These results were achieved in a particularly difficult external environment, as growth in the electric power and natural gas markets slowed considerably compared with historical trends. Specifically, demand was up 0.7% for electric power and just 0.1% for natural gas, compared with average annual increases of 2.3% and 3.8% in the electric power and natural gas industries, respectively, during the past 10 years. Lower growth in the national economy and last winter's exceptionally mild weather are the main reasons for this contraction.

A slowdown in demand, coupled with increased competition in the electric power market (new power plants with more than 5,000 Megawatts in generating capacity came on stream in 2007), caused a reduction in average energy prices: Power Exchange prices were lower by an average of 5% compared with 2006. Natural gas prices were also down, due both to the strength of the euro and the lag with which higher oil prices are reflected on the sales price of natural gas.

The Group's results for 2007 were adversely affected by changes in the regulatory framework – Resolution No. 249/06 published by the Electric Power and Natural Gas Authority in particular – that reduced profit margins.
In addition, the Group sold some of its CIP6 power plants in 2007, producing a narrowing of the scope of consolidation.

Despite these challenges, Edison succeeded in reporting highly positive results. Sales revenues, which were down by a relatively small 2.9% due mainly to the sale of power plants mentioned above, totaled 8,276 million euros. However, the Group's sales performance compares favorably with the general market trend. Unit sales of electric power, when stated on a comparable scope of consolidation basis (63.7 Terawatt hours), were little changed compared with 2006, but sales to deregulated market customers were up 2.1%, with Power Exchange sales more than doubling. Meanwhile, the hydrocarbons operations increased unit sales by 1.3% to 13.8 billion cubic meters, as rising demand from the new thermoelectric power plants offset the negative impact of an exceptionally mild winter on sales to residential customers.

The progression of the Group's operating results was impressive: in 2007, EBITDA increased by 4.5% (+7% on a comparable scope of consolidation basis), reaching 1,605 million euros; EBIT were up 19.1% (+21.7% on a comparable scope of consolidation basis) to 896 million euros; and profit before taxes grew by about 23% (+26.1% on a comparable scope of consolidation basis) to 687 million euros. The net financial position also improved significantly, with net borrowings decreasing from 4,256 million euros to 2,687 million euros, owing in part to a capital increase of about 1 billion euros generated by the conversion of warrants. The debt/equity ratio of 0.33 is one of the best among all energy companies.

The net profit earned by the Group in 2007, which at 497 million euros was within striking distance of the 500-million-euro mark, will enable the Company to pursue a more generous dividend policy.

In 2007, Edison's electric power operations completed one of the most ambitious production capacity expansion programs carried out in Europe during the past 10 years, thereby creating a strong foundation for the Company's future growth. In addition, the Company streamlined its portfolio of CIP6 facilities and took its first significant step beyond Italy's borders, agreeing to establish a joint venture in Greece that will have an initial installed capacity of about 800 Megawatts.

The Group's hydrocarbons operations made decisive progress in the development of the large-scale infrastructures for the importation of natural gas that it is currently building. These projects are of fundamental importance also for Italy, which has chosen natural gas as its primary source for the production of electric power. These infrastructures will enable the Group to achieve full supply independence and will help diversify its sources of supply, thereby making the entire system more reliable.

In this area, work continued on the Rovigo regasification terminal, which is being built jointly with ExxonMobil and Qatar Petroleum. This facility, the only one of its kind currently under construction, will have a capacity of 8 billion cubic meters a year when it becomes operational at the end of 2008. It will allow liquefied natural gas to be imported into Europe from Qatar for the first time, thereby opening a new strategically important route for the importation of competitively priced natural gas. In addition, an intergovernmental agreement signed by Italy and Algeria acknowledged the strategic significance of the Galsi natural gas pipeline, a project in which Edison is the main Italian partner. As for the IGI natural gas pipeline, which will link Italy with the reserves in the Caspian Basin by way of Greece and Turkey, Italy and Azerbaijan signed a Protocol of Understanding acknowledging the importance of this project and pledging to support its development. Edison takes great pride in the fact that the European Union designated both IGI and Galsi Projects of European Interest, attesting to the wisdom of the Group's strategic choices.

Strengthened by these achievements, the Group is ready to face new challenges: consolidation of its position in the Italian market and further expansion in the natural gas business, outside Italy and in the area of renewable energy sources. These are the key areas targeted by the new 2008-2013 Industrial Plan, which was launched at the end of 2007 with the full support of the shareholders. It is an ambitious plan that calls for capital investments totaling 6.2 billion euros — the largest amount ever invested by Edison to develop its operations.

In Italy, the focus will be on consolidating Edison's position as the second largest operator both in the electric power and natural gas markets. The electric power operations will also continue to pursue their international expansion, seeking new opportunities not only in Greece, but also in Turkey and the Balkans, where the Group intends to become a significant player.

The hydrocarbons operations will significantly increase exploration and production activity in North Africa and the Middle East. These projects, coupled with the new importation infrastructures and the long-term supply contracts it has signed with suppliers in the producing countries, will enable Edison to achieve a leadership position at the international level.

The renewed concern that has developed throughout the world for issues related to the environment and climate change, two areas in which Edison has traditionally had a significant interest, is providing fresh momentum for investments in renewable energy sources. The Group has the most efficient and environmentally-friendly portfolio of thermoelectric plants in Italy, ranks at the top in terms of installed wind power capacity (more than 270 Megawatts) and is aiming to become the operator with the lowest ratio of carbon dioxide emissions to kilowatt hour produced. In pursuit of this goal, it will invest as much as 1 billion euros in renewable energy facilities between 2008 and 2013.

In 2007, despite a difficult environment, the Company posted highly gratifying results and launched an ambitious expansion plan that includes a very large commitment to carry out the capital investments needed to bolster its position as a leading operator both in the electric power and hydrocarbon markets.

We are aware of the challenges that lay ahead. Nevertheless, we look forward to these challenges with the confidence derived from the knowledge that we have built a strong industrial and financial foundation and the belief that our people, emboldened by the successes of the past, will help us achieve and surpass any objective.

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]
	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]
		Ivan Strozzi [3]
		Gerard Wolf

Board of Statutory Auditors

Chairman	Sergio Pivato
Statutory Auditors	Salvatore Spiniello
	Ferdinando Superti Furga

Indipendent 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, 2007

Common shares	5,181,072,080
Savings shares	110,592,420

Shareholders with Significant Holdings at December 31, 2007

	% of voting rights	% interest held
Transalpina di Energia Srl	61.282%	60.001%
EDF Eléctricité de France Sa [1]	19.360%	18.955%
Carlo Tassara Spa [1]	10.025%	9.816%

[1] Interest held directly and indirectly.

REPORT
ON OPERATIONS

KEY EVENTS IN 2007

GROWING OUR BUSINESS

Edison Is Awarded Five New Hydrocarbon Exploration Licenses in Norway

On February 12, 2007, Edison International, an Edison Group subsidiary, was awarded five new hydrocarbon exploration licenses in the Norwegian Continental Shelf, which had been put out for bids by the Norwegian Oil and Energy Ministry.

Specifically, the Company acquired three licenses in the North Sea and two in the Norwegian Sea. Edison's interest in these blocks, which it owns through joint ventures with major international operators, varies between 50% and 15%. The contracts call for an initial exploration period of five to six years that will be divided into three to four operating phases. If no commercial deposits are discovered at the end of each phase, the joint ventures will have the right to relinquish their licenses.

Edison Closes the Sale of Its Interest in Serene to BG Italia

On February 14, 2007, after the transaction was approved by the relevant antitrust authorities, Edison closed the sale of its 66.3% interest in Serene Spa to BG Italia, which already owned the remaining 33.7%. The price paid by BG Italia to Edison for the Serene shares, which amounted to 98 million euros, was substantially the same as the value at which Edison carried this investment. The price includes a component, which may not exceed 13 million euros, the payment of which is predicated on the enactment of certain changes to the CIP6/92 regulations that concern Kyoto emission rights. This transaction improved the consolidated net financial position of the Edison Group by about 117 million euros.

Edison and Petrobras Form an Alliance for a Hydrocarbon Exploration Project in Senegal

On February 27, 2007, Edison International, an Edison Group subsidiary, and Petrobras, Brazil's national hydrocarbon company, signed an agreement according to which Petrobras will join Edison in a project to explore the Rufisque Offshore Profond block, off the Senegal coast, acquiring a 40% interest in the project. Following this transaction, the interest held by Edison, the project's operator, will decrease to 55%, while Petrosen, Senegal's national hydrocarbon company, will continue to own a 5% interest. Under the agreement, Petrobras will help defray the exploration costs incurred until the end of 2006 and will bear 70% of the cost of acquiring and processing new seismic data for the permit.

The Facility that Will Produce LNG for the Rovigo Terminal Is Inaugurated in Qatar

On March 20, 2007, a natural gas liquefaction train that will produce LNG for Edison's LNG Adriatic Terminal, a regasification facility with a capacity of 8 billion cubic meters per year that is being built offshore Porto Levante (RO), in the Adriatic, was inaugurated in Qatar.

Ras Laffan Liquefied Natural Gas Company II (RasGas II) - a joint venture of Qatar Petroleum and ExxonMobil, who are also Edison's partners in the development of the regasification terminal - will operate the newly commissioned facility, called Train 5, and will supply LNG to Edison. Train 5, one of the most technologically advanced systems of its kind in the world, has a capacity of 4.7 million tons of LNG per year, equal to about 6.4 billion cubic meters of natural gas per year.

Under existing agreements, Qatar will supply Edison with 6.4 billion cubic meters of natural gas per year for 25 years, thus significantly diversifying and increasing the reliability of Italy's natural gas sources.

Edison is investing in hydrocarbon projects to increase its reserves and production sufficiently to cover 15% of its hydrocarbon needs.
In the photo, the Rospo offshore platform in the Adriatic Sea.

Business Expansion in Electric Power Generation for the Greek Market

On May 9, 2007, Edison's Board of Directors approved an investment project of about 250 million euros for the construction of a combined-cycle power plant of about 400 MW in Thisvi, in central Greece. The Greek authorities have already issued an installation permit for this project, which will be built by Edi-

son (65% interest) in partnership with Hellenic Energy & Development and Viohalco, two local energy development companies.
Subsequently, on July 11, 2007, Edison's Board of Directors authorized the signing of a *Memorandum of Agreement* between Edison and Hellenic Petroleum, the largest operator in Greece's hydrocarbon industry, for the creation of a 50-50 joint venture to operate in Greece's electric power market.
Pursuant to the agreement, Hellenic Petroleum will convey to the new joint venture its T-Power subsidiary, which owns a 390-MW, combined-cycle power plant fueled with natural gas that is already operational in Thessaloniki; Edison will convey its 65% equity investment in the project described above and in a project, currently in the study phase, for the construction of a coal-fired, 600-MW power plant in an industrial park in the Greek port of Astakos (Etoloakarnania Prefecture).
The joint venture's objective is to develop a generating capacity of more than 1,400 MW (including 390 MW already operational), an output equal to about 12% of the Greek market.

Edison: Intergovernmental Agreement to Develop a Turkey-Greece-Italy Natural Gas Transmission Corridor

On July 26, 2007, at a meeting in Rome, Italy's Minister of Economic Development, Greece's Minister of Development and Turkey's Minister of Energy and Natural Resources signed an Intergovernmental Agreement for the development of a system of pipelines to import natural gas from the Caspian Basin and the Middle East, where over 20% of the world's reserves are located (30,000 billion cubic meters of natural gas), passing through Turkey and Greece.
By this official document, the three governments recognized the strategic importance of this natural gas transit corridor and undertook to support the efforts of the industrial enterprises involved in the construction of the required infrastructure - Edison in Italy, Depa and Desfa in Greece and Botas in Turkey - with the goal of shortening construction time and achieving completion by 2012. Specifically, the new agreement defines the tasks and responsibilities of the industrial enterprises involved, identifies the manner in which the agreements for the transmission of natural gas through Turkey will be finalized and establishes a special intergovernmental coordination committee to monitor and facilitate construction of the different parts of the Turkey-Greece-Italy corridor.
The natural gas pipeline that links Turkey and Greece was inaugurated on November 19, 2007, bringing natural gas from the Caspian Sea basin to Greece for the first time. When fully operational, this 296-kilometer pipeline will have a transmission capacity of 11.5 billion cubic meters a year.

Successful Completion of the Industrial Plan Calling for the Addition of 7,000 MW of New Installed Capacity by 2007

In the second half of 2007, Edison commissioned a thermoelectric power plant located at Simeri Crichi, in the province of Catanzaro. This new 800-MW facility, one of the most efficient and environmentally compatible power plants in Italy, produces competitively priced energy for the deregulated market.
The Simeri Crichi power plant, a combined-cycle, cogenerating facility fueled with natural gas, uses the most efficient and environmentally compatible technology available today. As a result, it is able to achieve a yield in excess of 56% with a minimal impact on the environment.
During the closing months of the year, Edipower completed construction in Turbigo (MI) of a new combined-cycle power plant with a capacity of about 850 MW. In order to improve further the performance of this facility, its turbogas burners were replaced with new, latest-generation systems.

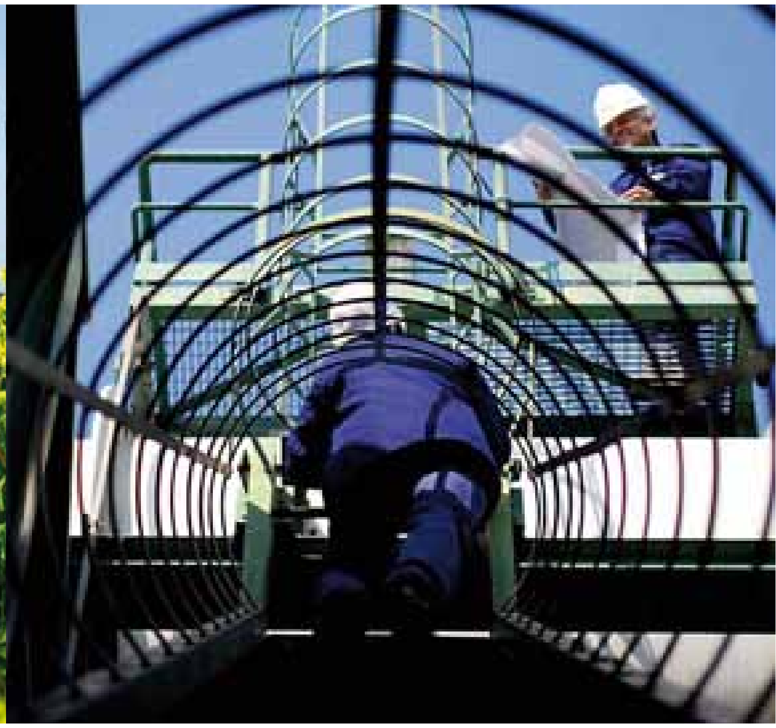
Edison and Dolomiti Energia: A Joint Venture in the Province Of Trent

On November 14, 2007, Edison and Dolomiti Energia signed an agreement to establish a joint venture that will operate hydroelectric facilities in the province of Trent. The purpose of the agreement is to strengthen the bonds between Edison and the local community, in an area where the Group has a historical presence, by sharing ownership of the power plants with Dolomiti Energia, a company with a strong local presence in the Trentino region.
Under the agreement, Edison will convey to a newly established limited liability company the business

operations consisting of three hydroelectric power plants (Taio-Santa Giustina, Mezzocorona/Mollaro and Pozzolago). These facilities, which operate by virtue of concessions expiring in 2008, 2017 and 2016, respectively, have a combined installed capacity of about 180 MW and an average annual potential output of more than 500 million KWh. Subsequently, 51% of the new company's capital will be sold to Dolomiti Energia, with Edison retaining a 49% interest.
Pursuant to the terms of the agreement, the sales price for a 51% interest in the new company (53.75 million euros, which was arrived at based on a total value of 105 million euros for all of the conveyed business operations) is subject to change. However, any change will not be material and will be based in part on the date of conveyance. The abovementioned consideration reflects the fact that Edison will continue to manage the dispatching of and, until the existing concessions expire, will take delivery of all of the energy produced by the conveyed power plants. The preset price at which the produced energy will be supplied must be sufficient to cover the costs incurred by the company and compensate invested capital. If the concessions are extended, during the period subsequent to the original expiration date the partners will receive a share of the electric power produced proportionate to their interest in the company's capital.
If the concessions are not extended, Edison will have the right to buy back (and Dolomiti Energia will have the right to sell) the 51% interest owned by Dolomiti Energia during the period from June 30, 2008 to December 31, 2014. The criteria for determining the exercise price of these options, which are set forth in the terms of the agreement, are based on the consideration paid for a 51% interest in the company and take into account the benefits received in the intervening years by managing the company.

Edison: Intergovernmental Agreement for the Galsi Pipeline from Algeria to Italy

On November 14, 2007, at a meeting in Alghero attended by Italy's Prime Minister and the president of Algeria, the Algerian Minister of Energy and the Italian Minister of Economic Development signed an Intergovernmental Agreement between Italy and Algeria for the development of the Galsi Pipeline. This pipeline, which will connect Algeria to Italy by way of Sardinia, will contribute in a significant way to increasing the reliability of Italy's supply of natural gas.
By this official action, both governments underscored the strategic significance of the Galsi project, in which Edison is the main Italian partner, and agreed to support the efforts of all industrial parties involved in the development of this infrastructural project, with the goal of shortening construction time and bringing the pipeline on stream by 2012. Specifically, the Agreement defines a reference regulatory framework applicable to the project's industrial participants and establishes an intergovernmental coordination committee with the specific duty of monitoring and facilitating the construction of the various segments of the pipeline.



We completed one of the most ambitious capital investment programs ever carried out in Europe by an electric utility, bringing our total installed capacity in Italy to 12.5 GW.

STREAMLINING THE CORPORATE ORGANIZATION AND CHANGING OUR PORTFOLIO OF BUSINESSES

Edison Sells to Cofathec Seven CIP6/92 Thermoelectric Power Plants for More Than 220 Million Euros

On December 6, 2007, Edison signed an agreement selling to Cofathec Servizi, a company of the Cofathec Group, seven thermoelectric power plants that operate within the framework of CIP6/92 contracts with a total installed capacity of about 540 MW. The total value of the transaction, amounting to 226 million euros, is substantially consistent with the carrying value of the divested assets.

Specifically, Edison will transfer to a new company, which will then be sold to Cofathec Servizi, five power plants located in Castelmassa (RO), Nera Montoro (TR), Pomigliano (NA), Settimo Torinese (TO) and Spinetta Marengo (AL), which are wholly owned by Edison. In addition, Edison will sell directly to Cofathec Servizi its 70% interests in the company that controls the Boffalora (MI) power plant. The minority shareholder (Seci Energia Srl) chose to exercise its preemptive right to purchase Edison's 70% interest in the company that controls the Celano (AQ) power plant.

All power plants are located within compounds that house industrial facilities and operate under CIP6/92 contracts that are scheduled to expire between 2008 and 2014. In 2006, these seven power plants produced about 3.3 TWh of power and generated revenues of about 360 million euros.

This transaction, which is expected to close once it is cleared by the relevant antitrust authorities (presumably in the first quarter of 2008), will have a positive impact of about 220 million euros on the Edison Group's consolidated net financial position. The final sales price will be adjusted to reflect any changes in the net financial position of the divested businesses.

OTHER KEY EVENTS

The Company's Share Capital Increases by 1,019 million euros

A total of 1,018,525,047 "2007 Edison Spa Common Share Warrants," issued in April-May 2003 and exercisable until December 31, 2007, were exercised in 2007 at a subscription price of 1 euro per share. As a result, Edison collected proceeds of 1,018,525,047 euros and the Company's share capital increased to 5,291,664,500.00 euros.

Overall, 99.992% of the 1,094,832,730 warrants originally issued have been exercised. Pursuant to the Warrant Regulations, the remaining unexercised 91,877 warrants have expired.

Standard & Poor's Upgrades the Outlook from "Stable" to "Positive" and Reaffirms the Company's BBB+ Credit Rating

On May 31, 2007, after completing its annual review, the rating agency Standard & Poor's upgraded from "Stable" to "Positive" Edison's outlook and reaffirmed its BBB+ long-term credit rating. These assessments reflect Edison's improved balance sheet and strong position in the Italian energy industry and take into account its favorable growth outlook and the support that the shareholders are providing to the Company's development.

The Shareholders' Meeting Approves Amendments to the Bylaws

On June 26, 2007, following an earlier review by the Board of Directors, the Extraordinary Shareholders' Meeting agreed to amend the Bylaws in accordance with the requirements of the Investment Protection Act. The main amendments involve the introduction of slate voting to elect the Board of Directors in a manner that will enable minority shareholders to elect one Director, which would then require increasing to 13 the number of Directors.

Edison: The Edipower Put and Call Options Are Exercised

On July 16, 2007, in accordance with the agreements executed in 2002 and 2003, Edison Spa exercised its call option for the Edipower shares held by Interbanca Spa and Albojo (a wholly owned subsidiary of The Royal Bank of Scotland), who were Edipower's financial shareholders, acquiring 72,065,000 shares, equal to 5% of Edipower's share capital. The shares were transferred on July 31, 2007.
In addition, Edison was informed that Unicredit Spa exercised its put option selling to Edison Spa 72,065,000 shares, equal to 5% of Edipower's share capital. The transfer of the shares was completed in January 2008.
The total outlay required by these transactions amounted to about 266 million euros. Once the share transfers are completed, Edison's interest in Edipower's share capital will increase from 40% to 50%.

FINANCIAL HIGHLIGHTS
FOCUS ON RESULTS

In order to help the reader obtain a better understanding of the Group's operating and financial performance, the tables below contain alternative performance indicators that are not included among those provided in the IFRS-EU accounting principles. The methods used to compute these indicators, consistent with the guidelines of the Committee of European Securities Regulators (CESR), are described in the footnotes to the tables.

Edison Group

(in millions of euros)	2007	2006	% Change
Sales revenues	8,276	8,523	(2.9%)
EBITDA	1,605	1,536	4.5%
as a % of sales revenues	*19.4%*	*18.0%*	
EBIT	896	752	19.1%
as a % of sales revenues	*10.8%*	*8.8%*	
Profit before taxes	687	559	22.9%
Group interest in net profit	497	654	(24.0%)
Capital expenditures	431	489	(11.9%)
Investments in exploration	58	41	41.5%
Net invested capital (A + B)	10,838	11,146	(2.8%)
Net borrowings (A) (1)	2,687	4,256	(36.9%)
Shareholders' equity before minority interest (B)	8,151	6,890	18.3%
Group interest in shareholders' equity	8,004	6,743	18.7%
ROI (2)	8.30%	6.81%	
ROE (3)	6.74%	10.05%	
Debt/Equity ratio (A/B)	0.33	0.62	
Gearing (A / A+B)	25%	38%	
Number of employees (4)	3,277	2,923	12.1%
- including: employees of discontinued operations	93	6	n.m.

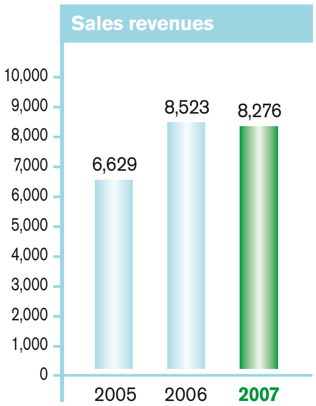
(1) A breakdown of this item is provided in the "Net Borrowings" section of the consolidated financial statements.
(2) EBIT/Average net invested capital. Net invested capital does not include the value of equity investments held as fixed assets and is computed as the arithmetic average of the net invested capital at the end of the period and at the end of the previous year.
(3) Group interest in net profit/Average Group interest in shareholders' equity.
Average Group interest in shareholders' equity is the arithmetic average of the Group interest in shareholders' equity at the end of the period and at the end of the previous year.
(4) Companies consolidated line by line and Group interest in companies consolidated by the proportional method.

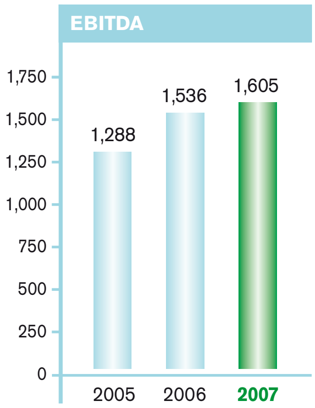
Edison Spa

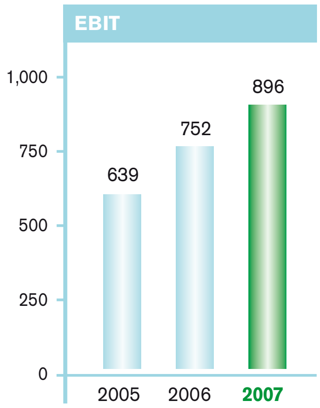
(in millions of euros)	2007	2006	% Change
Sales revenues	4,747	4,855	(2.2%)
EBITDA	760	783	(2.9%)
as a % of sales revenues	*16.0%*	*16.1%*	
EBIT	343	321	6.9%
as a % of sales revenues	*7.2%*	*6.6%*	
Net profit for the period	449	632	(29.0%)
Capital expenditures	201	301	(33.2%)
Net invested capital	8,238	9,021	(8.7%)
Net borrowings	1,391	3,412	(59.2%)
Shareholders' equity	6,847	5,609	22.1%
Debt/Equity ratio	0,20	0.61	(67.2%)
Number of employees	1,861	1,801	3.3%

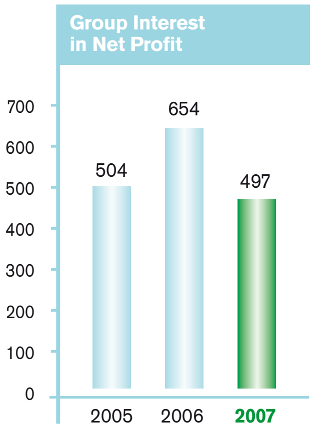
Key Group Data

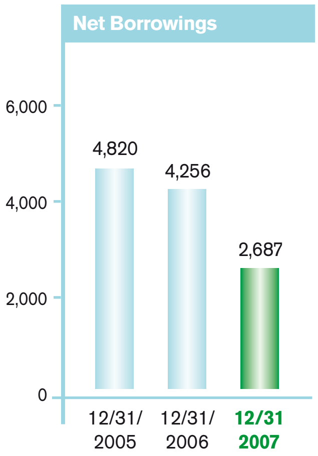
(in millions of euros)











Sales Revenues and EBITDA by Type of Business

(in millions of euros)	2007	2006	2006 (net of the sale of Edison Rete and Serene)	% change vs. 2006	% change vs. 2006 (net of the sale of Edison Rete and Serene)
Core business					
Electric Power Operations [1]					
Sales revenues	6,783	6,945	6,749	(2.3%)	0.5%
EBITDA	1,238	1,162	1,125	6.5%	10.0%
as a % of sales revenues	*18.3%*	*16.7%*	*16.7%*		
Hydrocarbons Operations [2]					
Sales revenues	3,937	4,171	4,171	(5.6%)	(5.6%)
EBITDA	427	434	434	(1.6%)	(1.6%)
as a % of sales revenues	*10.8%*	*10.4%*	*10.4%*		
Corporate Activities					
Sales revenues	44	43	43	2.3%	2.3%
EBITDA	(67)	(70)	(70)	4.3%	4.3%
as a % of sales revenues	*n.m.*	*n.m.*	*n.m.*		
Eliminations					
Sales revenues	(2,517)	(2,670)	(2,599)	5.7%	(3.1%)
EBITDA	-	-	-		
Total core business					
Sales revenues	**8,247**	**8,489**	**8,364**	**(2.9%)**	**(1.4%)**
EBITDA	**1,598**	**1,526**	**1,489**	**4.7%**	**7.3%**
as a % of sales revenues	***19.4%***	***18.0%***	***17.8%***		
Other operations					
Continuing Operations					
Water					
Sales revenues	29	34	34	(14.7%)	(14.7%)
EBITDA	7	10	10	(30.0%)	(30.0%)
as a % of sales revenues	*24.1%*	*29.4%*	*29.4%*		
Eliminations					
Sales revenues	-	-	-	-	-
EBITDA	-	-	-	-	-
Total other operations					
Sales revenues	**29**	**34**	**34**	**(14.7%)**	**(14.7%)**
EBITDA	**7**	**10**	**10**	**(30.0%)**	**(30.0%)**
as a % of sales revenues	***24.1%***	***29.4%***	***29.4%***		
Edison Group					
Sales revenues	**8,276**	**8,523**	**8,398**	**(2.9%)**	**(1.5%)**
EBITDA	**1,605**	**1,536**	**1,499**	**4.5%**	**7.1%**
as a % of sales revenues	*19.4%*	*18.0%*	*17.8%*		

(1) Activities carried out by the following Business Units: Electric Power Operations, Energy Management and Marketing & Distribution.
(2) Activities carried out by the following Business Units: Hydrocarbons Operations, Gas Supply & Logistics and Marketing & Distribution.

PERFORMANCE AND RESULTS OF THE GROUP

Operating Performance

In 2007, the Group's revenues totaled 8,276 million euros, down slightly (-2.9%) compared with the previous year (8,523 million euros), reflecting the impact of decreases of 2.3% for the electric power operations and 5.6% for the hydrocarbons operations. If the data are restated to eliminate the effect of the change in the scope of consolidation that resulted from the sale of Serene Spa and Edison Rete Spa in 2007, Group revenues show a negative change of 1.5%.

In the case of the electric power operations, the abovementioned change in the scope of consolidation accounts for most of this shortfall. Net of this factor, revenues and unit sales would be up 0.5% and 0.2%, respectively. As for the hydrocarbons operations, the decrease reflects primarily a reduction in the average prices charged to CIP 6/92 thermoelectric power plants. Prices were adjusted to the new benchmarks provided in Resolution 249/6, which introduced a new method for computing the avoided-fuel-cost component applicable to CIP 6/92 power plants. The impact of this Resolution, which is discussed in greater detail in the "Regulatory Framework" section of this Report, was felt almost exclusively during the second half of 2007. Unit sales were up 1.3% compared with the previous year.

The gains in unit sales reported by the electric power (net of Serene Spa volumes) and hydrocarbons operations were achieved against the background of a particularly challenging environment, with the growth rate of electric power and natural markets falling far short of historical trends and demand showing little or no sign of improvement.

Group EBITDA increased from 1,536 million euros to 1,605 million euros (+4.5%, but 7.1% net of the abovementioned divestitures). The electric power operations contributed 76 million euros to this improvement (+6.5%), as sales to customers in the deregulated markets produced better results than in 2006, with gains in unit sales and higher profit margins. These positive developments more than offset a reduction of profitability in the CIP 6/92 business segment, caused by the expiration of incentives, and the impact of the abovementioned change in the scope of consolidation. The hydrocarbons operations reported a decrease of about 7 million euros in EBITDA (-1.6%), due mainly to the abovementioned impact of Resolution No. 249/06, offset in part by an improvement in the margins earned in the Company's target markets and by the positive impact of the reversal of about 56 million euros in provisions set aside to comply with Resolution No. 248/04 (a charge of about 53 million euros had been recognized in 2006 for this purpose). Additional information is provided in the "Regulatory Framework" section of this Report.

As a result of these factors, EBIT rose to 896 million euros, or 19.1% more than the 752 million euros reported in 2006, reflecting the contribution of higher EBITDA and a decrease in depreciation, amortization and writedowns.

The profit before taxes totaled 687 million euros, for a gain of 22.9% compared with 559 million euros earned the previous year.

The net profit for the year, which totaled 497 million euros (654 million euros reported in 2006), benefited from the reversal of 135 million euros in provisions for deferred taxes, which were recognized to take into account the new tax rates introduced by the 2008 Budget Law.

In 2006 the Group's bottom line included 112 million euros contributed by the discontinued operations and a net gain of about 200 million euros on the realignment of the taxable base of a significant portion of Edison Spa's power plants to the higher amount at which they are carried in the statutory financial statements.

At December 31, 2007, the Group's net borrowings totaled 2,687 million euros, down from 4,256 million euros owed at the end of 2006. More detailed information about the individual components of this item is provided in the *"Net Borrowings"* section of the Group's Consolidated Financial Statements.

The table below provides a breakdown of the changes that occurred in net borrowings:

(in millions of euros)	2007	2006
A. Net borrowings at January 1	**(4,256)**	**(4,820)**
EBITDA	1,605	1,536
Change in operating working capital	244	(121)
Income taxes paid (-)	(220)	(93)
Change in other assets (liabilities)	34	(30)
B. Cash Flow from operating activities	**1,663**	**1,292**
Investments in property, plant and equipment and intangibles (-)	(494)	(548)
Investments in non-current financial assets (-)	(337)	(85)
Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	175	373
Dividends received	3	0
C. Free Cash Flow	**1,010**	**1,032**
Financial income (expense), net	(198)	(246)
Contributions of share capital and reserves	1,019	-
Dividends declared (-)	(248)	(196)
D. Cash Flow after financing activities	**1,583**	**590**
Change in the scope of consolidation	(14)	(26)
E. Net Cash Flow for the period	**1,569**	**564**
F. Net borrowings at December 31	**(2,687)**	**(4,256)**

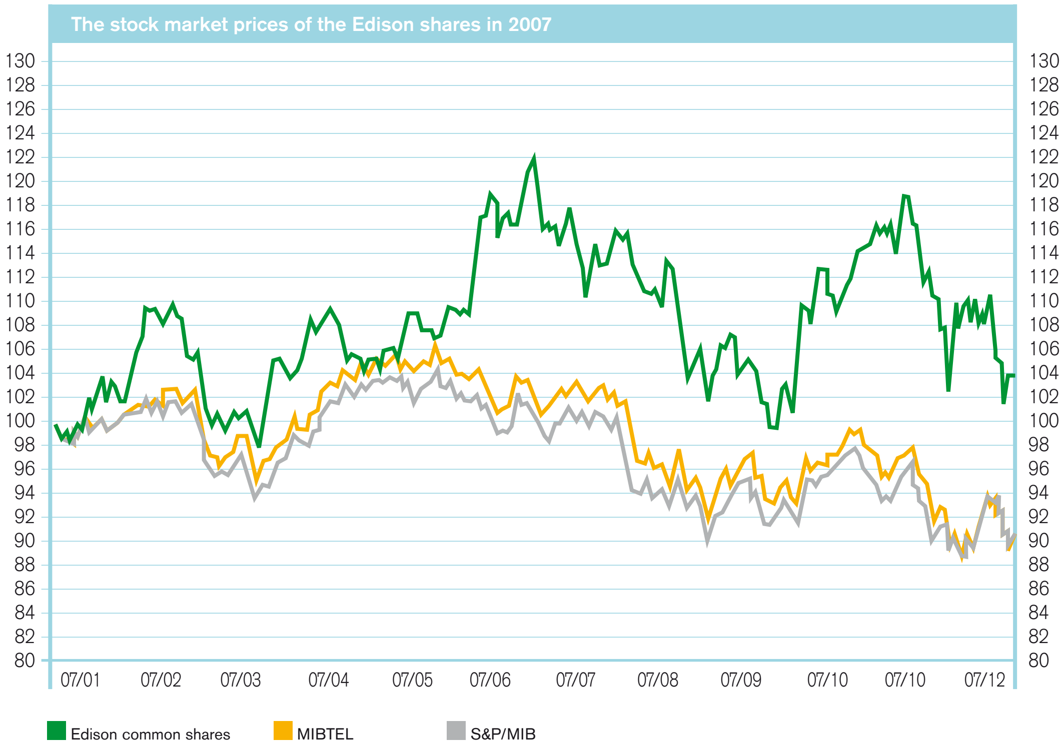
Outlook for 2008

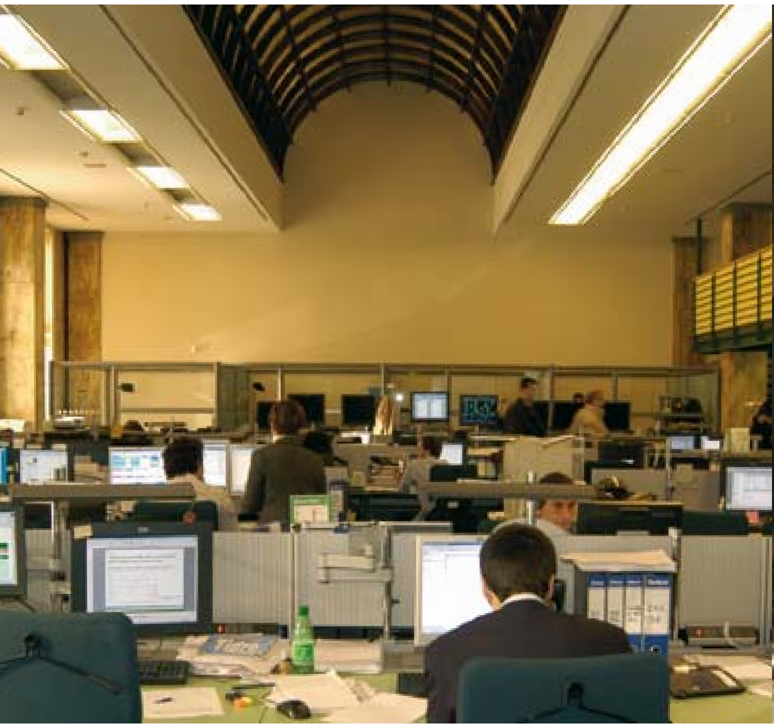
The full availability of the Simeri Crichi and Turbigo power plants, coupled with the Group's ongoing focus on optimizing its energy portfolio, should produce 2008 industrial results comparable with those reported in 2007.

We strive with the utmost determination to provide customers with effective and flexible solutions for their needs, building strong partnerships with them.

EDISON AND THE FINANCIAL MARKETS

Chart of the stock market prices of the Edison shares in 2007.





Stock Market Price and Other Per Share Data

(in euros)	December 31, 2007	December 31, 2006
Edison Spa		
Stock market price [1]		
- common shares	2.1932	1.9483
- savings shares	2.0389	2.2385
- warrants	1.1926	1.1132
Number of shares (at end of period)		
- common shares	5,181,072,080	4,162,547,033
- savings shares	110,592,420	110,592,420
Total shares	**5,291,664,500**	**4,273,139,453**
Warrants	-	1,018,616,924
Edison Group		
Earnings per share:		
basic earnings per common share [2]	0.1040	0.1522
basic earnings per savings share [2]	0.1340	0.1822
diluted earnings per common share [2]	0.0976	0.1377
diluted earnings per saving share [2]	0.1340	0.1822
Group interest in shareholders' equity per share (in euros)	1.513	1.578
Price/Earnings ratio (P/E) [3]	20.72	13.62

(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, 2006
Standard & Poor's		
Medium/long-term rating	BBB+	BBB+
Medium/long-term outlook	Positive	Stable
Short-term rating	A-2	A-2
Moody's		
Rating	Baa2	Baa2
Medium/long-term outlook	Stable	Stable

Edison intends to play a leading role in the field of renewable energy by investing in wind farms, photovoltaic systems and biomass facilities.

EVOLVING SCENARIO
MARKETS AND LAWS

ECONOMIC FRAMEWORK

In 2007, the expansion of the global economy was driven by the contribution of newly industrialized countries, which grew faster than the old industrialized nations (Europe, America and Japan).
The rate of global growth was adversely affected primarily by the absence of a contribution by the U.S. economy, as the *subprime* mortgage crisis and the related real estate crisis, which became more pronounced in the fourth quarter, continued to restrict economic expansion.

The U.S. Central Bank was forced to pursue the conflicting goals of controlling inflation and avoiding the recession that many economists are forecasting for 2008. In 2007, the Fed took action repeatedly on the interest rate front - a reduction of 50 basis points in September, followed by two additional cuts of 25 basis points each in October and December - with the net result of lowering short-term rates to 4.25%. These monetary policy decisions, which were implemented against the background of resurgent inflation driven mainly by high energy and raw material prices, were aimed at countering the risk of slower economic growth.

The euro continued on its upward path. The strength of the European currency is not merely a reflex of the weakness experienced by the U.S. dollar. On the contrary, it is also the product of structural reasons, chief among them the ongoing restructuring of international portfolios, in which the EU's single currency is being used as a reserve currency alongside the greenback. At the beginning of 2007, the exchange rate was US$1.32 for one euro and, on average, held steady at this level during the first half of 2007. After the end of September, the exchange rate remained steadily above US$1.40 for one euro, peaking out at US$1.49 for one euro at the end of November. For the year as a whole, the average was US$1.37 for one euro, significantly higher than the average rate for 2006 (US$1.26 for one euro).

In the euro-zone countries, the performance of the economy was comparable to that of the United States. The annual growth rate averaged 2.6%, with the pace of expansion slowing in the latter part of the year due to financial turbulence in the international markets. The Italian economy grew by 1.9%, a rate lower than the average for the euro zone as a whole.

The annual inflation rate for the euro zone is estimated at 3.1%. This percentage, which is in line with expectations, reflects the impact of increases in the prices charged for oil and for food and agricultural commodities. The European Central Bank, responding to concerns about the near-term stability of consumer prices, held the cost of money during the second half of the year at the 4% level it set at the beginning of June.

Key Economic Data

	2007	2006	% change
Oil price US$/bbl(*)	72.5	65.1	11.3%
US$/euro exchange rate	1.37	1.26	9.2%
Oil price euro/bbl	52.9	51.9	2.0%

(*) Brent Dated

The increase in oil prices continued, with the annual average for 2007 reaching about US$72.50/bbl, up almost 11.3% over the average for 2006. Since 2005, the price of crude oil has risen by 33%. A weak U.S. dollar and strong demand from China and other recently industrialized countries are not the only reasons for this increase, which is also the product of major pressure from market speculators, geopolitical concerns arising from turmoil in the Middle East and supply unreliability.

The results reported in 2007 benefited from the availability of a new power plant in Altomonte (CS) (shown in the photo).

Moreover, crude oil was not the only raw material posting sharp price increases in 2007: the same was also the case for lead, aluminum and natural gas. Agricultural commodities were also in the limelight, with prices driven higher by a global push to produce alternative fuels.

Significant developments in other electric power markets included a sharp reduction of prices in Europe, compared with 2006, with the steepest declines occurring in France (-17%) and Germany (-25%). These decreases were the result of the exceptionally mild 2006/2007 winter and a collapse in the price of CO_2 emissions rights. It is also worth noting that 2007 marked the end of the first phase (2005-2007) in the implementation of the CO_2 Emissions Trading Scheme (ETS) in Europe. The price of CO_2 emissions rights decreased steadily during this first trading period, falling from an average of 17 euros per ton in 2006 to less than 1 euro per ton in 2007.

THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy

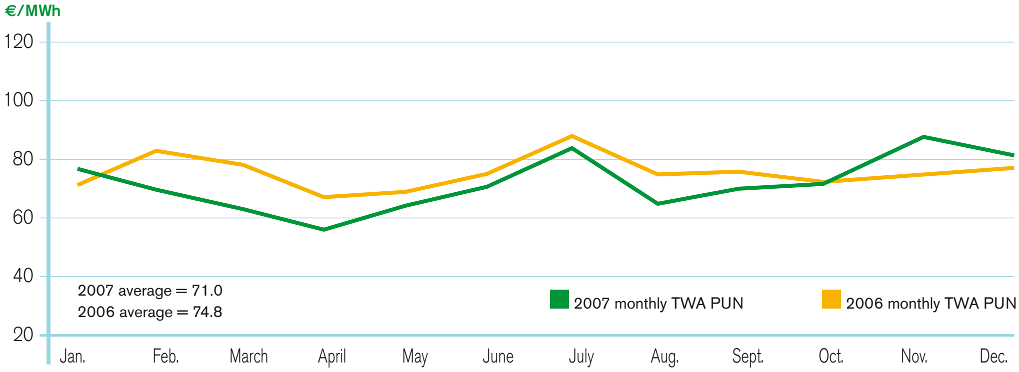
in TWh	2007	2006	% change
Net production	301.5	301.2	0.1%
Imports	45.9	45.0	2.1%
Surges	(7.6)	(8.7)	(12.7%)
Total demand	**339.8**	**337.5**	**0.7%**

Source: Analysis of official 2006 data and 2007 preliminary Terna and AU year-end data, before line losses.

In 2007, gross total demand for electric power from the Italian grid totaled 339.8 TWh (1 TWh = 1 billion kWh), or 0.7% more than in the previous year. On a seasonally adjusted basis (i.e., eliminating the impact of changes in average temperature and the number of business days), the increase is 0.5%, as against an average of 2.3% for the past 10 years.

The increase of 2.3 TWh in demand for energy was covered using the following sources: 0.3 TWh from domestic production, 0.9 TWh from net imports (net result of increases of 1.9 TWh in imports and 1 TWh in exports) and 1.1 TWh from a reduction in consumption used by surges. Net of surges, domestic production was sufficient to meet 86.5% of demand, compared with 86.7% in 2006, while net imports increased from 13.3% to 13.5%. When analyzing import patterns, it is important to keep in mind that, differently from historical trends, the significant price differentials that usually exist between Italy and the rest of continental Europe decreased in the first quarter of 2006 and the last quarter of 2007, producing a temporary but significant reduction in net imports. Moreover, between 2006 and 2007, net imports from France and Switzerland increased by 5.0 TWh (+13%), those from Austria and Slovenia decreased by 2.5 TWh, and there was a reversal of the import/export flow with Greece. Italy, which was a net importer of 0.5 TWh from Greece in 2006, became a net exporter of 1 TWh to Greece in 2007.
The increase of 0.3 TWh in domestic production was made possible by a substantial rise in thermoelectric output (+1.3%, equal to 3.4 TWh) and an impressive gain in power generated by wind farms (+40.7%, equal to 1.2 TWh), which more than offset a sharp drop in hydroelectric production (-10.1%, equal to 4.4 TWh) caused by a limited availability of water resources.
In the market served by the Single Buyer, demand continued to decrease steadily, falling to 124.9 TWh, a level equal to 36.7% of domestic demand (compared with 45.7% in 2006). On the other hand, the deregulated market continued to expand, reaching a level equal to 57.4% of total consumption. Internal consumption by producers accounts for the balance of domestic consumption (5.9%). It is important to keep in mind that until June 30, 2007, the market served by the Single Buyer was based on the demand from captive customers. As of July 1, 2007, following full deregulation of the electric power market pursuant to Directive No. 2003/54/CE, the customers served by the Single Buyer will be those in the so-called non-switched market who have not yet chosen a supplier in the deregulated market.

With regard to price trends, the time-weighted average for the Single National Price (abbreviated PUN in Italian) decreased to 71.00 euros per MWh at December 31, 2007, or about 5% less than in 2006 (74.80 euros per MWh). The chart below, which provides a monthly comparison of the PUN trend in 2006 and 2007, shows the peaks that occurred as a result of high demand in the summer and in November, which also coincided with periods of tension in foreign markets, with an attendant reduction of imports into Italy.



Demand for Natural Gas in Italy

in billions of m³	2007	2006	% change
Services and residential customers	27.8	30.2	(7.7%)
Industrial users	21.2	21.2	-
Thermoelectric power plants	34.1	31.6	7.9%
Transportation	0.5	0.5	-
Total demand	**83.6**	**83.5**	**0.1%**

Source: Official 2006 data and preliminary 2007 data provided by the Ministry and Edison estimates, net of system usage and leaks.

In 2007, Italian demand for natural gas followed a pattern that, overall, was consistent with the trend in the previous year. It totaled about 83.6 billion cubic meters (net of system usage and leaks), or about 0.1 billion cubic meters more than in 2006.

This increase is the net result of the following factors:

- A sharp drop in demand from households (-7.7%) caused mainly by unusually warm temperatures in the first quarter of 2007, offset only in part by a more favorable performance during the fourth quarter of the year.
- Higher demand from thermoelectric power plants (+7.9%), driven by the commission of new combined-cycle generating facilities.
- A performance comparable to that of 2006 in the demand from industrial users and for transportation applications.

Overall, about 41% of natural gas supplies are currently used for thermoelectric production, 33% for residential uses and 25% for industrial applications. Demand from transportation users accounts for less than 1% of the total.

With regard to supply sources, the following developments characterized 2007:

- A steady reduction in domestic production (-11.3% compared with 2006), consistent with the downward trend of recent years, which is expected to continue in the future.
- A decrease in imports (-4.1% compared with 2006) attributable to mild weather during the 2006/2007 winter, which required smaller withdrawals from the storage system. This reduction was also made possible by the early suspension (as of February 2007) of the obligation to maximize imports, which in 2006 was in effect until the end of March.
- A significant change in gas storage volume patterns, caused by the reasons explained above (smaller withdrawals from the storage system during the winter and, consequently, a reduction in add-back requirements between April and September 2007).

REGULATORY FRAMEWORK

A number of legislative and regulatory measures with an impact both at the domestic and transnational level were implemented in 2007.
The salient aspects of the most important issues addressed by changes in the regulatory framework that occurred during the year are reviewed below with reference to each of the Group's businesses.

Electric Power

Production

The long standing dispute that has been taking place both at the EU and domestic level concerning the regulations governing the award of concessions for large-scale diversion of public water for hydroelectric power plants came to a conclusion in 2007.
At the EU level, as a result of amendments to the disputed provisions of the Bersani Decree No. 79/99 and to the implementation provisions of the Special Constitution of the Trentino Alto Adige Region, the European Commission dropped the violation proceedings it launched in 1999 and 2002.
In Italy, the action pending before the Constitutional Court following a complaint filed by the Autonomous Provinces of Trent and Bolzano against Law No. 266/05 (2006 Budget Law) was dismissed. At the same time, in the action filed against the abovementioned 2006 Budget Law by the regions of Italy governed by uniform constitutions, the Court ruled that certain provisions of the law were unconstitutional, causing a blanket repeal of the 10-year extension of the concessions provided in the 2006 Budget Law.
Additional information about the abovementioned decision, which the Court handed down on January 18, 2008, is provided in the section of the consolidated financial statements entitled *"Significant Events Occurring Since December 31, 2007."*

With regard to issues related to CIP 6/92 power plants, the Regional Administrative Court of Lombardy ruled in Edison's favor in the complaint filed against Resolution No. 249/06, by which the Electric Power and Natural Gas Authority (abbreviated AEEG in Italian) introduced a new criteria to compute and update avoided fuel costs (AFC), which is one of the components defined in the CIP 6/92 Resolution for the purpose of determining the price at which electric power may be sold. The AEEG has appealed before the Council of State the court's decision. The merit hearing was held on January 22, 2008.
On this occasion, Edison argued, among other issues, that the provision of the 2008 Budget Law that provides the AEEG, effective retroactively to January 1, 2007, with the authority to determine average natural gas prices for AFC updating purposes, taking into account the actual cost structure in the natural gas market, is unconstitutional.
Nevertheless, the Court granted the appeal filed by the AEEG. While the Court has not yet published the detailed text of its decision, the decision will not have an impact on the 2007 income statement because Edison made the conservative choice of recognizing a provision to cover the impact of Resolution No. 249/06.

Wholesale Market

In 2007, the process of developing a forward market for electric power made considerable progress, as the projects for the establishment of the Italian Power Exchange and the Electric Power Market Operator (abbreviated GME in Italian) have reached an advanced phase.
At the same time, concerning a spot market for dispatching services, the AEEG issued Resolution No. 130/07 approving Terna's proposal for a series of forward products designed to meet the dispatching service needs of specific production units. According to the AEEG, the introduction of a voluntary mechanism of forward products on the Dispatching Services Market will help reduce and stabilize Dispatching Services Market costs for the benefit of end users.
This review process started in 2006 and is still ongoing. The AEEG has established a work group with the operators specifically for this purpose. This work group is expected to complete a full review of the dispatching services market sometime in 2008.

Retail Market

In the second half of 2007, acting in accordance with the provisions of EU Directive No. 2003/54/CE, the Italian government enacted Decree Law No. 73 of June 18, 2007, which contains provisions governing the process of completing the deregulation of the electric power market starting on July 1, 2007, with the goal of carrying out a gradual and transformative transition.
The final objective is to create a market that, when fully operational, will be sufficiently pluralistic and competitive to make the appointment of parties with specific service oversight authority and the setting of prices by the AEEG superfluous.
In order to guarantee that residential users and small businesses are supplied electric power with quality service and at reasonable prices, the abovementioned Decree Law introduced the "greater protection service," which is provided by distributors, who will continue to purchase power from the Single Buyer at prices managed by the AEEG.
A second level of guaranteed supply is provided by the "safeguard service," which can be accessed by means of a competitive bidding process with prices that encourage switching to the deregulated market. This market segment is reserved for customers who do not qualify for the "greater protection service," but are still being supplied by the incumbent provider or are temporarily without a provider.

Rates

With Resolution No. 156/07, issued as a result of the enactment of Decree Law No. 73/07, the AEEG published an amended version of the provisions governing the sale of electric power to end users in accordance with the greater protection and safeguard services, which contain provisions that protect end users. Specifically, the abovementioned Decree Law orders the immediate adoption of new methods of selling electric power to end users, starting on July 1, 2007 until the provisions of Directive 2003/54/CE are fully incorporated into the Italian legal system.
In the second half of 2007, following a period of consultation (Document No. 48/07), the AEEG published Resolution No. 349/07 defining the price that should be charged by distribution operations (abbreviated as PCV component in Italian), which is commensurate to the remuneration the should be earned by a party engaged exclusively in the sale of energy, and the remuneration that should be earned by distribution operations (abbreviated as RCV component in Italian), as they apply to the provider of "greater protection service."
At the end of the year, with the start of the Third Regulatory Period (2008-2011), the AEEG updated the rates applicable to the transmission, distribution and metering of electric power. New features include additional remuneration for new investments in the national transmission network that is no longer differentiated and is, instead, tied to the type and effectiveness of the investment.

Lastly, a Presidential Decree issued on April 13, 2007 voided Resolution No. 48/04, which was being challenged in an appeal filed by Edison Trading. With this resolution, published in April 2004, the AEEG, as part of the introduction of a zone-based mechanism for determining energy sales prices, required the payment of a fee for the use of transmission capacity when executing bilateral contracts, without taking into account the possible occurrence of anticompetitive behavior. As a result, Edison is now entitled to a refund for the amounts improperly paid between April and July 2004.

Access to the Transmission Network

The *2008 Budget Law* introduced the obligation for the network operator to provide priority access to the electric power network, in accordance with the guidelines provided by the AEEG, to facilities producing energy from renewable sources that request such access.

Environment

Renewable Sources: with the enactment of the *2008 Budget Law*, the regulatory framework for promoting the production of electric power from renewable sources has become clearer.
For the period from 2007 to 2012, the annual increase in the minimum quantity of this type of electric

The Rovigo terminal is currently the only regasification facility at an advance stage of construction in Italy (in the photo, the construction site).

power that must be fed into the national grid was raised from 0.35% to 0.75%.
Moreover, a new incentive mechanism has been introduced alongside the system based on green certificates (applicable to facilities with an average annual rated capacity of more than 1 MW). This new mechanism, which is based on an all-inclusive tariff (so-called *feed-in tariff*) differentiated by the facility's technology, is applicable to facilities with an average annual rated capacity of up to 1 MW and is available to facilities operators as an alternative to green certificates.
Both the green certificates and the tariff described above are valid for 15 years.

Kyoto Protocol and Emissions Trading: the trial period (First Period) for the implementation of Directive No. 2003/87/CE, which established a system for trading CO_2 quotas within the European Union, ended at the end of December 2007.
The commitment period (Second Period) of the Kyoto Protocol, during which Italy will be required to reduce CO_2 emissions by 6.5% compared with its 1990 emissions level, will run from January 1, 2008 to the end of 2012. Accordingly, during 2007, the Italian government prepared a plan for the allocation of CO_2 quotas (Second Period National Allocation Plan) to the industries covered by Directive No. 2003/87/CE and the corresponding industrial facilities.
The current allocation plan was prepared taking into account the European Union's request that the total amount of CO_2 quotas set forth in the previous allocation plan for the 2008-2012 period, which was notified to the European Commission on December 15, 2006, be reduced by a further 13.25 million tons.
As a result of this change, the total average annual allocation of CO_2 quotas decreased from 209 million tons to 201.57 million tons.
Also at the end of 2007, the Italian government defined new regulations to regulate the allocation of CO_2 emission quotas to facilities that were commissioned or will be commissioned during the period from September 1, 2006 to December 31, 2012 (so-called "New Entrants").
CO_2 quotas totaling about 16 million tons were set aside for these facilities in a "New Entrant Reserve."

Efficiency in the end usage of energy: on December 21, 2007, the Ministry of Economic Development issued a decree amending and updating the provision of two previous decrees issued on July 20, 2004 to promote greater efficiency in the end usage of energy, which set forth the increase in energy efficiency and, consequently, the reduction in primary energy consumption that each distributor of elec-

tric power and natural gas with more than 100,000 customers is required to achieve over the 2005-2009 five-year period.
Specifically, the new decree lowers to 50,000, as of December 31, 2006, the minimum number of customers hooked up to a distributor's network, thereby increasing the number of distributors (which now include Edison Distribuzione Gas) who are required to reduce energy consumption.
In this area, the AEEG has issued Resolution No. 344/07 of December 28, 2007, which sets forth the guidelines for determining the targets applicable to distributors of natural gas and electric power to whom the abovementioned requirement applies.

Hydrocarbons

Rates

At the end of March 2007, in order to address the problems inherent in Resolution No. 248/04, which concerned the rates charged to end customers in the so-called "former captive market" (this Resolution was voided by the Council of State in January 2007), the AEEG published Resolution No. 79/07, which reset natural gas rates for the period from January 1, 2005 to March 30, 2007.
Specifically, the Resolution accomplished the following:

- For 2005, it applied the adjustments required by Resolution No. 195/02;
- For the first half of 2006, it applied the adjustment method introduced with Resolution 248/04 (i.e., a cut of the raw material quota compared with the amounts set forth in Resolution No. 195/02) and required a "consistent" renegotiation by wholesalers and retailers of contracts executed after January 1, 2005 that were outstanding in the first half of 2006.

The abovementioned renegotiations were completed during the first half of 2007 and Edison achieved a drastic reduction in the damage it estimated it would incur as a result of Resolution No. 284/04.

During the period between September and December 2007, the AEEG carried out a process that ended with the publication of Resolution No. 347/07, which revised the value assigned to the retail component (abbreviated as QVD in Italian).

In the area of transmission rates, the AEEG approved the revenue guidelines applicable to Edison Stoccaggio's transmission activities during the 2007/2008 thermal year, which take into account the in-

vestments made in the construction of the Cavarzere-Minerbio natural gas pipeline, which is essential for feeding into the national network of natural gas pipelines the LNG regasified at the Rovigo terminal. The AEEG also published Resolution No. 78/07, with which it approved the business fees and determined the uniform fees applicable nationwide for storage activities during the 2007/2008 thermal year, which are designed to promote the expansion and development of new fields and enable each company to recover the revenues to which it is entitled by introducing an equalization system managed by the Electrical Industry Equalization Fund.
In addition, AEEG Resolution No. 297/07 defined the fees payable for rebuilding the strategic storage reserves for the 2007/2008 thermal year, confirming the amounts set in the previous thermal year.
Lastly, the AEEG issued Resolution No. 261/07, which set the distribution rates for the current thermal year (September 2007 to October 2008).

Access to Infrastructural Facilities

Storage: the AEEG published Resolution No. 116/07 approving Edison Stoccaggio's Storage Code, after it approved Stogit's Storage Code at the end of 2006.
With the publication of Resolution No. 23/07, the AEEG began the process of determining the maximum admissible request of storage capacity allocation and daily peak referred to in Resolution No. 119/05. Also by Resolution No. 23/07, the AEEG extended to March 22, 2007 the final deadline for the allocation of modulation storage capacity for the 2007/2008 thermal year.
In response to the problems raised by industry operators with regard to procedural issues and the availability of the information needed to implement the proposed method, the AEEG issued Resolution No. 55/07, by which it confirmed the adoption of the guidelines provided in the regulations currently in force for the allocation of modulation storage capacity for the 2007/2008 thermal year, postponing to the publication of a subsequent resolution the determination of the maximum quantities. This issue has been the subject of consultation with industry operators.
In order to ensure a more efficient and rational handling of the overall supply capacity from storage, the AEEG issued Resolution No. 303/07 to govern the method applied to use capacity allocated to meet the modulation needs of end users with annual consumption of up to 200,000 standard cubic meters.

Pursuant to this Resolution, users who are holders of the abovementioned modulation capacity are required to make available, at the end of each month during the supply phase, a minimum stored inventory sufficient to meet the modulation needs of their end customers during the remainder of the supply period.

In 2007, the Regional Court of Lombardy voided the part of Resolution No. 37/06 that imposed a penalty for improper use of modulation storage capacity during the 2005/2006 thermal year, which Edison challenged in 2006. As a result, Edison was able to reverse a provision for risks established in 2006 (20 million euros). Edison had settled the penalty for the 2004/2005 thermal year through the voluntary payment of an amount equal to twice the minimum fines that could be imposed by the AEEG.

At the end of November 2007, the AEEG, acting in concert with the Italian antitrust authorities, launched a study of the storage business in Italy designed to determine if there are any financial or strategic obstacles to the development of new storage capacity, determine whether flexibility options other than storage exist and are available and whether new entrants have access to such options.

Transmission: on June 21, 2007, the Ministry of Economic Development issued a degree exempting the Poseidon natural gas pipeline (the offshore segment of the IGI project that Edison and DEPA are developing, which will link the Italian natural gas transmission network with the Greek network) from the requirement to allow third parties to have access to this infrastructural facility. The 25-year exemption covers all of the pipeline's rated transmission capacity, initially amounting to about 8 billion cubic meters a year.

Lastly, in July 2007, Edison Stoccaggio forwarded to the AEEG a draft of the Network Code governing access to the Cavarzere-Minerbio natural gas pipeline and is currently waiting for approval.

LNG: the AEEG issued Resolution No. 115/07, approving the Regasification Code prepared by Gnl Italia Spa, the company that operates the only regasification terminal currently existing in Italy, which is located in Panigaglia. This Code helps to establish transparent and non-discriminatory conditions for the use of the terminal by industry operators.
With regard to the construction of an offshore marine LNG terminal near Porto Viro, on July 18, 2007, the Ministry of the Environment issued a VIA Decree expressing a favorable opinion as to the environmental compatibility of a project to build, operate and subsequently decommission an artificial island used to lay a natural gas pipeline using the controlled horizontal drilling technique.

Distribution: the AEEG amended the Standardized Network Code by issuing Resolutions No. 247/07 and No. 324/07, which affected the sections of the Code concerning the adoption of standard profiles for drawing from and gaining access to the network, respectively, when switching from an existing supplier.

In 2007, the work group established at the end of December 2006 with Resolution No. 294/06 continued its efforts to develop a national communication standard that would be binding on distribution and sales companies and would further the goal of helping new sales companies gain access to distribution networks.

With regard to concessions for the distribution of natural gas, Decree Law No. 159/2007 (so-called *"tax revenue decree"*), in addressing the needs of companies for a clearer interpretation of this issue, established the requirement that the criteria governing competitive bidding processes and the evaluation of bids seeking the award of natural gas distribution services be defined within three months from the effective date of the law converting the abovementioned decree. In addition, the decree extended by two years the provisional duration of awards and concessions (as set forth in Article 15 of Legislative Decree No. 164/2000, the Letta Decree) in exchange for an increase in the concession fees to an amount equal to not more than 10% of the maximum allowed distribution revenues, but only when the existing fee is less than this amount and only for the duration of the extension.

In addressing an issue raised by the Italian antitrust authorities in a communication dated November 13, 2007, the *2008 Budget Law* amended the regulations governing the holding of calls for tenders for the award concessions. Specifically, this new provision requires that calls for tenders be announced, for each optimum user population, within two years from the identification of the corresponding geographic region, which, in turn, must be completed within one year from the effective date of the law converting the decree. Consequently, effective as of January 1, 2008, municipalities that are affected by new calls for tenders have the option of increasing the concession fee until a new award is made to an amount equal to not more than 10% of the maximum allowed distribution revenues and only for the duration of the extension.

Natural gas emergency: in 2007, in order to maximize imports of natural gas and contain its consumption, the Ministry of Economic Development approved two decrees that are part of a set of measures that are being implemented in anticipation of a potential natural gas emergency.
The first decree, which was published on August 31, 2007, sets forth the obligation to maximize imports at entry points on the national network that are connected with foreign natural gas pipelines during the period between November 5, 2007 and March 31, 2008. The decree further states that the total volume of natural gas that is not imported because of the failure to utilize the allocated capacity will be treated as virtual unauthorized withdrawals from strategic storage and, consequently, will require the payment of a corresponding fee. Lastly, during the maximization phase, the obligation to pay fees for

exceeding the allocated capacity to inject and store natural gas will be suspended. The second decree, published on September 11, 2007, states that all end users must contribute monetarily to the effort of containing consumption in order to compensate for potential gas shortages in the system. The decree further states that, if a gas emergency is declared, action can be taken to reduce consumption by certain types of end users, employing lines of action that can vary depending on whether the system's shortage is limited or severe. The decree delegates to the AEEG the task of defining the incentives for complying with the containment obligation and the penalties for failing to comply with this obligation. The AEEG complied with this obligation by issuing Resolution No. 277/07.

Lastly, on November 23, 2007, the Ministry of Economic Development issued a decree approving an Updated Emergency Procedure to face shortages in the supply of natural gas due to the occurrence of "unfavorable weather events," which sets forth the dispatching rules that should be applied in a weather emergency and the resulting obligations concerning the safe management of the natural gas system.

Issues Affecting Multiple Business Segments

Unbundling: AEEG has issued Resolution No. 11/07, approving the Integrated Regulation on Operational and Accounting Unbundling.

In accordance with this decree, which became effective on January 1, 2007, a vertically integrated energy company is required to convey independent decision-making and organizational authority, separate from any other business it operates in a given industry, to any activities that are deemed to be essential to achieve deregulation (in the natural gas industry: transmission, distribution, metering, storage and regasification; in the electric power industry: transmission, dispatching, distribution and metering).

A number of industry operators, including Edison, have filed complaints challenging this resolution. Initially, between October and December 2007, the AEEG sought to address their concerns issuing resolutions that reduce the scope of the original resolution in an attempt to resolve the legal dispute that had arisen.

Subsequently, at a hearing held on December 18, 2007, the Regional Administrative Court of Lombardy upheld in part the challenges filed by the operators, including Edison's complaint. The parties are currently waiting for the publication of the text of the decision to determine which sections of Resolution No. 11/07 have been voided. As a result of this development and differently from the approach followed in previous years, this Report on Operations does not include schedules that show separately the accounting data attributable to different business operations (unbundling), which were required by AEEG

Edison plans to grow in markets outside Italy and in the area of renewable energy sources, a business in which it will invest 1 billion euros between 2008 and 2013.

Resolution No. 310/01.

This is because, with regard to the unbundling of accounting data, Edison opted to comply, as of the year ended December 31, 2007, with the provisions of Resolution 11/07, as amended, which do not require the inclusion schedules with segregated accounting data in this document.

The new provisions concerning unbundling that were included in the Third Energy Package, which was approved on September 19, 2007 by the European Commission, are reviewed below in the paragraph

European Energy Policies

Internal market package and climate-energy package: on September 19, 2007, the European Commission presented the so-called "energy package," which includes two directives and two regulations that will amend the EU laws that apply to internal markets for electric power and natural gas (Directive No. 2003/54/CE and Regulation No. 1228/2003 and Directive No. 2003/55/CE and Regulation No. 1775/2005, respectively). A third regulation proposes the establishment of a European Agency for the Coordination of Energy Regulators, which will perform a consulting function and will have authority over issues related to the regulations concerning interconnections (specifically, with regard to evaluating decisions to exempt interconnectors from the obligation to provide access to third parties).

In 2007, the European Union adopted important strategic objectives with regard to policies that address sustainability and the struggle against climate change. Specifically, on March 28, 2007, the European Council adopted a European sustainability strategy based on three reference targets that must be achieved by 2020: a 20% reduction in CO_2 emissions (binding target, which automatically may be increased to 30% if the countries with the largest economies in the world agree to sign an international agreement that replaces the Kyoto Protocol); increase to 20% the penetration of renewable energy sources (binding target); and reduce demand by 20% (non-binding target). Detailed policies for the implementation of this "20-20-20" strategy are currently being defined.

OVERVIEW OF THE YEAR
BUSINESS PERFORMANCE

ELECTRIC POWER OPERATIONS

Quantitative Data

Sources

in GWh (*)	2007	2006	% change
Net production of the Edison Group:	**53,404**	**51,923**	**2.9%**
- Thermoelectric power plants	37,985	35,990	5.5%
- Hydroelectric power plants	2,966	3,050	(2.7%)
- Wind farms	510	458	11.6%
- Edipower	11,943	12,425	(3.9%)
Imports	**1,174**	**1,471**	**(20.2%)**
Other domestic purchases and swaps (1)	**9,195**	**12,006**	**(23.4%)**
Total sources	**63,773**	**65,400**	**(2.5%)**

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

Uses

in GWh (*)	2007	2006	% change
CIP 6/92 dedicated	18,092	19,964	(9.4%)
Industrial, captive and other customers	4,324	4,948	(12.6%)
Deregulated market	41,225	40,425	2.0%
Exports	132	63	n.m.
Total uses	**63,773**	**65,400**	**(2.5%)**

(*) One GWh is equal to one million kWh.

Financial Highlights

(in millions of euros)	2007	2006	% cange
Sales revenues	**6,783**	**6,945**	**(2.3%)**
EBITDA	1,238	1,162	6.5%
as a % of sales revenues	*18.3%*	*16.7%*	
Capital expenditures	234	347	(32.6%)
Number of employees (1)	1,944	1,962	(0.9%)
Including: employees of discontinued operations	93	6	n.m.

(1) End-of-period amounts.

Sales revenues totaled 6,783 million euros in 2007, for a modest year-over-year decrease of 2.3% that was consistent with the reduction that occurred in unit sales (-2.5%). Restated to eliminate the impact of the divestitures mentioned earlier in this Report (Edison Rete Spa and Serene Spa were deconsolidated as of June 30, 2006 and December 31, 2006, respectively), sales revenues show an increase of 0.5% and unit sales are up 0.2%.

Nevertheless, EBITDA grew to 1,238 million euros, for a 6.5% gain over the amount reported in 2006 (+10% net of the abovementioned divestitures).

As mentioned earlier in this Report, when reviewing the performance of the Group as a whole, this improvement was achieved by optimizing the sales channels in the deregulated markets and reflects the positive impact of an increase in internally generated supply made possible by an expansion of installed capacity, which more than offset lower profitability in the CIP 6/92 business.

Edison commissioned a new power plant in Simeri Crichi (CZ). This 800 MW facility is one of the most efficient and environmentally friendly power plants in Italy.

Sales and Marketing

In 2007, sales of electric power totaled 63,773 GWh, for a slight reduction of 2.5% (+0.2% net of the abovementioned divestitures) compared with the 65,400 GWh reported the previous year.
This shortfall is mainly the result of lower CIP 6/92 sales, which decreased to 18,092 GWh, or 9.4% less than in 2006, due mainly to the divestiture of Serene Spa.
Sales in the deregulated markets grew to 41,225 GWh, or 2.0% more than in 2006. A breakdown shows that physical sales on the Power Exchange rose by 128.4% to 13,680 GWh, while other market sales decreased by 20.0% to 27,544 GWh.

Ongoing trading activity on foreign power exchanges was profitable on balance in 2007. The volumes traded (about 3 TWh) are not included in the "Sources" and "Uses" tables shown on the previous page.

Production and Procurement

The Group's net production totaled 53,404 GWh, or 2.9% more than in 2006 (+6.5% net of the abovementioned divestitures). The increase of 5.5% in thermoelectric production reflects primarily the commissioning of the Simeri Crichi power plant and the availability for the full year of the Torviscosa power plant, which more than offset the absence of the production contributed by Serene Spa, which is being divested.
On the other hand, the output of the Edipower power plants decreased by 3.9% compared with 2006, when facilities that burn fuel oil maximized their output during the first half of the year in response to the natural gas emergency.
Compared with 2006, the power generated by the Group's hydroelectric power plants and wind farms decreased by 2.7% and increased by 11.6%, respectively.
Purchases and imports of electric power carried out in 2007 as part of a strategy to optimize the sources/uses portfolio totaled 10,369 GWh (-23.1 %).

Capital Investments

Capital expenditures by the electric power operations totaled about 234 million euros in 2007 (including about 53 million euros for 50% of Edipower's capital expenditures), down from 347 million euros in 2006.
A major achievement in the thermoelectric area was the commissioning of the Simeri Crichi (CZ) power plant, which required capital expenditures totaling about 88 million euros.
Investments in wind power technology amounted to about 22 million euros. They were focused primarily on developing the Lucito (CB) and Melissa-Strongoli (KR) wind farms.
Edipower's capital expenditures totaled 53 million euros (Edison's pro rata share) in 2007. The main projects included the repowering of the Turbigo (MI) power plant (about 19 million euros) and the San Filippo power plant (about 12 million euros).

HYDROCARBONS OPERATIONS

Quantitative Data

Sources

(in millions of m^3 of natural gas)	2007	2006	% change
Total net production:	**928**	**1,068**	**(13.2%)**
- Production in Italy	674	712	(5.3%)
- Production outside Italy	254	356	(28.8%)
Pipeline imports	**6,093**	**7,705**	**(20.9%)**
LNG imports	**25**	**62**	**(59.8%)**
Domestic and other purchases (1)	**6,771**	**4,804**	**41.0%**
Total sources	**13,817**	**13,639**	**1.3%**

(1) Includes inventory changes and pipeline leaks.

Uses

(in millions of m^3 of natural gas)	2007	2006	% change
Residential use	2,638	3,306	(20.2%)
Industrial use	1,098	1,164	(5.6%)
Thermoelectric fuel use	9,154	8,312	10.1%
Exports	254	356	(28.8%)
Other sales	673	501	34.3%
Total uses	**13,817**	**13,639**	**1.3%**

Financial Highlights

(in millions of euros)	2007	2006	% change
Sales revenues	**3,937**	**4,171**	**(5.6%)**
EBITDA	427	434	(1.6%)
as a % of sales revenues	*10.8%*	*10.4%*	
Capital expenditures	183	133	*37.6%*
Investments in exploration	58	41	*41.5%*
Number of employees (1)	460	433	*6.1%*

(1) End-of-period amounts.

In 2007, sales revenues totaled 3,937 million euros, or 5.6% less than in 2006. As explained earlier in this Report, this decrease is largely a direct consequence of the impact of Resolution No. 249/06.
At 427 million euros, EBITDA were little changed from the amount earned in 2006 (434 million euros). Specifically, the success of the hydrocarbons operations in maintaining profitability at a satisfactory level despite the severe negative effect of the reduction of sales prices required by Resolution No. 249/06 was achieved by optimizing their portfolio of sources and reflects the favorable impact of the reversal of a provision totaling about 56 million euros originally set aside to cover the potential effect of Resolution No. 248/04 (in 2006, a charge of about 53 million euros had been recognized in connection with this issue) and of another provision amounting to about 20 million euros established to cover charges that may be incurred under to Resolution No. 284/06 for the alleged improper use of storage capacity for uses different from those for which it had been allocated.

Sales and Marketing

In 2007, total unit sales of natural gas were about the same as in the previous year. They amounted to 13,817 million cubic meters, including intra-Group sales of 9,154 million cubic meters provided to the power plants of the electric power operations.
Specifically, sales to residential users were down 20.2%, due to an exceptionally mild winter and the priority given to thermoelectric users, and those to industrial users decreased by 5.6%. On the other hand, deliveries to thermoelectric users continued to increase (+10.1%), reflecting a rise in thermoelectric output. Wholesalers and volumes traded on the virtual exchange facility accounted for 673 million cubic meters of natural gas, compared with 501 million cubic meters in 2006.

Production and Procurement

Net production of natural gas decreased to 928 million cubic meters in 2007, down from 1,068 million cubic meters last year, due to the combined impact of a 5.3% reduction in Italy, caused by the natural depletion of natural gas deposits, and a 28.8% shortfall abroad that was due to technical problems at the Rosetta fields in Egypt.
On the procurement side, imports of natural gas under long-term contracts decreased to 6,118 million cubic meters, compared with 7,767 million cubic meters in 2006, but domestic purchases increased by 41.0%, consistent with the Group's strategy of optimizing its portfolio of sources.
Production of crude oil totaled 2,628,000 barrels in 2007, up from 2,168,000 barrels the previous year.

Capital Investments

Capital investments totaled about 183 million euros in 2007, compared with 133 million euros a year earlier.
The main projects carried out in Italy included 64 million euros for construction of the Cavarzere-Minerbio gas pipeline, 17 million euros to expand the Collalto (UD) storage facility, about 27 million euros and about 3 million euros, respectively, to drill new production wells in the Emma field and the Daria field in the Adriatic, and about 6 million euros to drill two new wells and for a workover in the Garaguso-Accettura (MT) onshore field. In addition, the pipeline linking two new wells in the Candela (FG) field was completed and put into service in November 2007. The natural gas produced from this field is used to fuel the Candela power plant.
Outside Italy, about 28 million euros were invested in Egypt for the additional work needed to continue the third phase in the development of the Rosetta concession. In addition, production tests of the Reggane Kalouche 2 and Sali wells continued in Algeria, and about 4 million euros were invested in Croatia for the pre-development and feed activities required to develop the Izabela concession.

Exploration Activities

In 2007, the Group invested about 58 million euros in hydrocarbon exploration. Of this amount, 3 million euros were used for projects in Italy and 55 million euros for projects outside Italy. The largest investments outside Italy involved exploration projects in Algeria (drilling of two new wells in the Reggane block and completion of one well in the Akabli M'Sari block), in the Ivory Coast (drilling of the Aries-1 well) and in Senegal (3-D seismic mapping). The Group was also awarded a new exploration block in Egypt (Sidi Abd el Rahman, with Edison as operator), a formal contract for which was signed in September, and, working through joint ventures with other partners, secured five exploration permits in Norway.

Hydrocarbon Reserves

At December 31, 2007, the Group's hydrocarbon reserves increased to 33.4 billion cubic meters of natural gas equivalents, up from 30 billion cubic meters of natural gas equivalents at the end of 2006. The increase of 3.4 billion cubic meters, net of 2007 production of 1,364 billion cubic meters of natural gas equivalents, in the reserves of the exploration permits located in Algeria and the Adriatic Sea (Rospo, Sarago and Giovanna permits) is due mainly to revisions of previous estimates that were recognized in accordance with a report provided by independent experts.

CORPORATE ACTIVITIES

Financial Highlights

(in millions of euros)	2007	2006	% change
Sales revenues	**44**	**43**	**2.3%**
EBITDA	(67)	(70)	4.3%
as a % of sales revenues	*n.m.*	*n.m.*	
Capital expenditures	1	1	-
Number of employees [1]	554	525	5.5%

[1] End-of-period amounts.

Corporate Activities 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.
Revenues totaled 44 million euros, about the same as in 2006.
EBITDA were negative by 67 million euros, but the loss was smaller than in 2006.

Capital Increases

The capital increases carried out in 2007, which totaled 1,018,525,047 euros, reflect conversions during the period of the 2007 Edison Spa Common Share Warrants, which were issued in April and May 2003 and were exercisable until December 31, 2007. Overall, 99.992% of the 1,094,832,730 warrants originally issued have been exercised. Pursuant to the Warrant Regulations, the remaining unexercised 91,877 warrants have expired. At December 31, 2007, the share capital of Edison Spa amounted to 5,291,664,500 euros.

OTHER CONTINUING OPERATIONS

Water Distribution and Treatment (IWH)

Financial Highlights

(in millions of euros)	2007	2006	% change
Sales revenues	**29**	**34**	**(14.7%)**
EBITDA	7	10	(30.0%)
as a % of sales revenues	*24.1%*	*29.4%*	
Capital expenditures	13	8	62.5%
Number of employees [1]	319	3	n.m.

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

In 2007, revenues totaled 29 million euros. They were generated by operations carried out in Guayaquil (Ecuador) under license. EBITDA were positive by 7 million euros, but were lower than the amount earned the previous year.
The substantial increase in the number of employees reflects the insourcing of operational staff required to comply with changes in local Ecuadorian laws.
The Group is in the process of divesting these operations.

SOCIAL RESPONSABILITY
FOCUS ON THREE AREAS

INNOVATION, RESEARCH AND DEVELOPMENT

In 2007, the Group's research and development activities focused on several issues linked by the common thread of technological innovation as a means to support sustainable development.
The projects pursued during the year dealt with the development of super-efficient electrical and power generation technologies and included studies of technological issues related to energy production from renewable sources and the development of new services for a more efficient use of energy by our customers.
The specific topics covered by these studies, which were carried out in part through participation in a European study group, included the capture and sequestration of carbon dioxide generated by power plants (carbon sequestration) and energy efficiency by end users.
Collaboration with EDF's research organization continued in 2007 with the goal of developing technological synergies that leverage the respective research competencies.

Hydrogen and Fuel Cells

A first set of tests of a 5 kW fuel-cell generator manufactured by Acumentrics fueled directly with natural gas was completed at a laboratory located at the Trofarello Research Center. As planned, now that the initial testing phase has been completed, the generator will be inspected by the manufacturer before proceeding with the testing process, which is expected to end sometime next year. Research on fuel cells was also carried out in cooperation with EDF's research organization, the EIFER Institute in Karlsruhe (Germany), the Chemistry and Energetics Departments of Turin's Politecnico University and the Industrial Chemistry Department of Milan's Politecnico University.
Edison's collaborative relationship with the EIFER Institute included work on two European projects: AUTOBRANE, wich focuses on the development of a new type of PEM (Proton Exchange Membrane) cells, and REALSOFC, which involves developing more efficient cells of the SOFC (Solide Oxide Fuel Cell) type.

Advanced Photovoltaic Technologies

Work is continuing on a research project for the development of concentration-based systems with third-generation cells, which can achieve an efficiency rating greater than 30%. Advances in this area included completing the design of a concentration module that will be built in the first quarter of 2008.
Progress was also made at an Edison location on preparing a facility to test photovoltaic systems.
Lastly, as part of the research carried out under the Seventh Framework Program, Edison collaborated with European research centers and businesses on a proposal for a demonstration thermodynamic solar-energy system.

Superconductivity

Work continued on the development of innovative Edison technologies for the production of a magnesium diboride superconductor. Also in this area, Edison is collaborating with ENEA, an institution based in Frascati, on a feasibility study of an engine/generator based on components manufactured with Edison technology. Among projects outside Italy, the Grenoble High Magnetic Field Laboratory, after assessing the potential of this technology, agreed to make available its outstanding research facilities to carry out magnetic measurements of Edison's materials.

At an Edison location, work is progressing on the preparation of facility to test photovoltaic systems.

Biomasses

The biomass international work group completed its activity in November. Within this group, Edison's Research and Development Department completed the process of mapping, for Italy as a whole and for each of its provinces, the development potential of the different types of biomass (solid, liquid and gaseous) based on an analysis of the supply sources. This project was carried out with the support of Milan's University (Agricultural Engineering Department) and the National Academy of Forestry Science.

Energy Storage

New research carried out on the efficient use of energy included monitoring and testing innovative, large-scale energy storage technologies.
In addition, the Edison Research Center completed the installation of a laboratory where, in 2008, a Redox Flow system will be installed and tested as part of a joint project carried out with EDF's research organization to compare this technology with other technologies that are being tested in EDF's laboratories.

Occupational safety and health have always been a key concern throughout the Edison Group.

HEALTH, SAFETY AND THE ENVIRONMENT

Edison addresses and manages environmental and safety issues taking an integrated system approach. Accordingly, it fosters the development and use of integrated management systems to drive continuous improvement of management activities, while promoting respect of and ongoing dialog with its host communities and the adoption of best international practices.

Consistent with this approach, the following environmental, occupational safety and quality certification objectives were achieved in 2007:

Electric Power Operations

- In 2007, following the UNI EN ISO 14001 certification of the Acerra thermoelectric power plant, which was already OHSAS 18001 certified for occupational safety, the electric power operations achieved 100% environmental and safety certification for its facilities.
- The EMAS registration was successfully extended to the entire Hydroelectric Division, which had already secured individual registrations for the organizational units that manage its facilities (Hubs). In

addition, the Staff Functions and Technical Services Department of the Hydroelectric Division was awarded environmental certification in accordance with the UNI EN ISO 14001 standard and OHSAS 18001 occupational safety certification.

Hydrocarbons Operations

- A project for the development of Health, Safety & Environment (HSE) guidelines for the definition of an integrated Environment and Safety Management System applicable to the oil and gas activities of the Hydrocarbons Business Unit in Italy and abroad was completed. In implementing this project, special attention was paid to the environmental impact of drilling activities.
- The multi-site integrated certification in accordance with the UNI EN ISO 14001 standard and the BSI OHSAS 18001 specification currently awarded to the Sambuceto Operating District was extended to the S. Stefano site.

- The occupational safety certification in accordance with the OHSAS 18001 specification currently awarded to the Pomezia operating unit of Edison Distribuzione Gas was extended to the Selvazzano and Taglio di Po operating units.

Marketing and Distribution Business Unit

- In 2007, following the completion of the requisite certification audit, the Business Unit began the process of obtaining UNI EN ISO 9001 quality certification for its electric power and natural gas sales organization and related services. Completion of this process is expected in the first quarter of 2008.

Edipower

- Edipower was awarded EMAS environmental registration for its Mese and Tusciano hubs and continued to file with the EMAS Committee the paperwork required to obtain EMAS registration for its Udine hub.
- Work continued on implementing the procedures applicable to areas with contamination or potential contamination of the soil and, in some instances, the aquifer that were identified in previous years at sites where some thermoelectric power plants are located.

- Among its 2007 environmental achievements, Edipower succeeded in reducing polluting emissions into the atmosphere compared with 2006, cutting sulfur dioxide by about 4% and nitrogen oxides by about 2%. Emissions of particulate matter and carbon monoxide were held at the previous year's level.
- In the area of occupational health and safety, Edipower defined a program to improve safety at companies that provide maintenance services and at new investment project jobsites.

In 2007, occupational safety data showed a significant improvement for Group employees and held at a satisfactory level for contractor personnel.
Specifically, the accident frequency index (Fi) for Edison personnel was 2.7 and the serious accident index (SAi) was 0.13. For employees of contractors, the Fi was 6.0 and the SAi was 0.13.
Safety indicators showed an improving trend also for Edipower (the Fi was 6.0 and the SAi was 0.20 in 2007) and for its contractors (the number of events decreased from 12 in 2006 to 8 in 2007).
As required by Law No. 123/07, which amended Legislative Decree No. 626/94, the Company issued guidelines governing the coordination and assessment of business risks.
During 2007, the Group began the implementation of the computerized Risk Assessment Document, which will help improve the planning and managing process with regard to safety issues. In addition, a new regulatory compliance support service is now available online.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Human Resources

At December 31, 2007, counting the staff of companies consolidated on a proportional basis, the Edison Group had 3,277 employees, up from 2,923 at the end of 2006, for a gain of 354 employees. Most of this increase (+317 employees) is due to the insourcing of the operational staff of water companies outside Italy (IWH) required to comply with changes in local Ecuadorian laws. The Group is planning to divest these activities with their employees.
Excluding the effect of this development, the staff of the Group's core businesses increased by 37 employees in 2007 as a result of the following changes:
- A decrease in the payroll of the electric power operations that reflects the impact of the sale of the investment in Serene Spa and was made possible by a steady increase in the level of efficiency achieved by Edipower's corporate functions and by exploiting the synergies that existed among the Group's business support activities.
- An expansion of the staff of the hydrocarbons operations, due mainly to the need to support foreign exploration activities and the opening of new branches in the Ivory Coast and Norway.

Total labor costs for the year amounted to 219 million euros, or 4% more than in 2006. The provisions set aside to cover the settlement of obligations arising from the elimination of the former Electrical Workers Fund and the expenses arising from the launch of the new Long-term Incentive Plan for management, which is explained below, account for a significant portion of the increase (about 1%).

With regard to issues related to Company-sponsored pension funds established in accordance with collective bargaining agreements and the enactment of Legislative Decree No. 252/2005, over 60% of the Group's employees chose to invest in the abovementioned Company funds their vested severance benefits. As for the number of new enrollments in 2007, the FIPREM funds sponsored by companies of the Edison Group had the largest increase (+37%, equal to 460 subscribers).

Industrial Relations

The main developments that occurred in 2007 are reviewed below:
- Renewal of the compensation portion of the national collective bargaining agreement for electrical industry employees, which applies to about 75% of the employees of the Edison Group. When fully

operational, the agreement will provide an increase of 116 euros (for the reference parameter) for the 2007-2009 financial two-year period. As for employee benefits, the agreement calls for an increase in the minimum contribution that companies are required to make to the Supplemental Industry-wide Retirement Funds, which amounts to 3 euros per month for each employee enrolled in such funds as of the 2009 fiscal year.

- Renewal of the benefit portion and compensation portion of the national collective bargaining agreement for water industry employees, which applies to about 5% of Group employees. The total increase (for the average parameter) is 105 euros for the 2006-2007 two-year period,
- In the first half of 2007, consistent with the plan to simplify and streamline the Group's corporate organization and in accordance with the harmonization agreement signed with the relevant unions, full integration of the employees of EDF Italia into the Edison staff and closure of EDF Italia's Milan head office.
- In November 2007, as part of the effort to strengthen Edison's industrial presence in the Trentino region, signing of an agreement with Dolomiti Energia Spa. The resulting joint venture will operate the Group's hydroelectric assets in the region and about 30 employees will be transferred to the new company in 2008.
- In December 2007, as part of the streamlining of the portfolio of CIP 6/92 facilities included in the Industrial Plan, signing of agreements to sell seven thermoelectric power plants in 2008. These facilities have a dedicated staff of about 90 employees.

Organization

The following significant developments affecting the Group's organization occurred in 2007:

- Establishment of the Business Segment Optimization and Portfolio Management Department. This Department, which reports directly to the Chief Operating Officer, is responsible for planning and optimization, over the short, medium and long term, with regard to the sources and uses of the electric power and hydrocarbons business segments, the CO_2 certificates and other environmental certificates.
- Redefinition of the main structures and responsibilities of the Hydrocarbons Business Unit. Specifically, this process involved establishing a separate system to monitor hydrocarbon development activities, providing greater organizational autonomy to the Italian regulated businesses (storage and distribution) and the establishment of a health, safety, environment and quality organization that will support the development of activities concerning occupational health, the environment and quality systems by the hydrocarbons operations.
- Concurrently, establishment of new foreign branches in Abidjan, Ivory Coast, and Stavanger, Norway, to support exploration activities.
- Development of a Company Antitrust Code and establishment of the Antitrust Compliance Office to guide employee behavior in this area.
- Development of a 262/2005 Accounting Control Model specifically designed to establish the guidelines that must be followed within the Group with regard to the production of corporate accounting documents.
- Development and implementation of the new "EDISON +" Intranet site, which is designed to improve internal communications.

The following developments occurred with regard to Edipower:

- Insofar as the organization is concerned, a number of changes were made to Edipower's system of procedures with the goal of improving the level of control and the efficiency of corporate processes. The most significant areas involved included: the Internal Audit Operating Manual, accounts payable and authorization and control of investments.
- During the second half of the year, the effectiveness of the 231 Protocol was tested with positive results.
- The Synergy Project was completed in December 2007. The purpose of this project was to integrate Edipower's organizations that handled real estate management, insurance, general services, external relations and communications with those of Edison Spa, while ensuring the delivery of quality services and rationalizing costs.

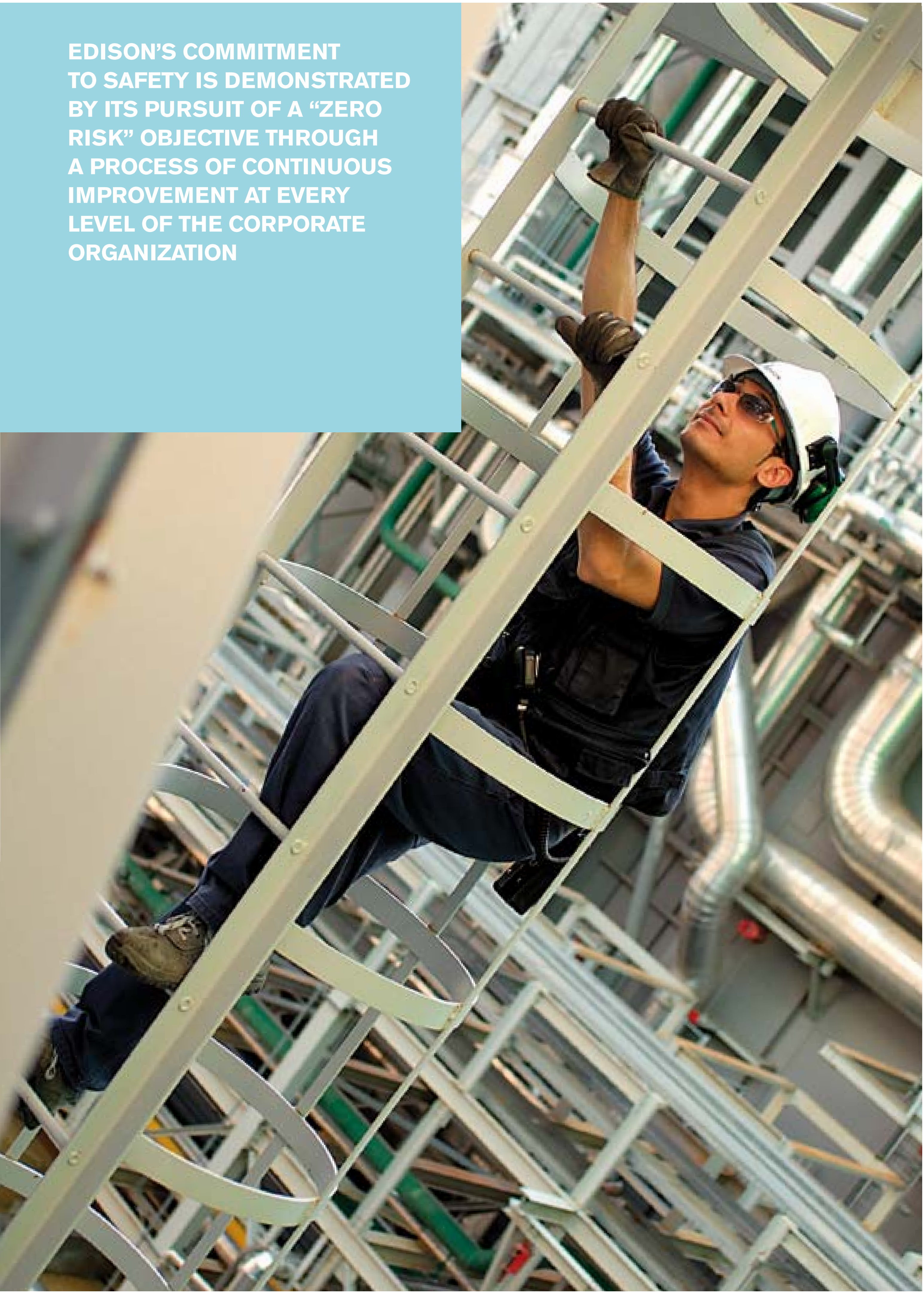
Training and Development

The training and development projects carried out in 2007 reflected a growing commitment to management training (extended to managers at all levels) and included the design and implementation of an advanced development path for professionals focused on teamwork, cross-functional integration and team leadership, with programs specifically designed for different groups of professionals.
Training programs also addressed issues related to corporate compliance requirements through internally developed and implemented cross-functional seminars designed to help Company managers and executives become familiar with the Company Antitrust Code and with Law No. 262/05 on the protection of investments and its impact at the organizational level.
Overall, the training programs provided by the Group, including technical training and special courses on safety and the environment, covered almost 11,000 days, more than 50% of which were devoted to training in occupational safety and environmental issues.

We want to earn our reputation as trailblazers by challenging conventional wisdom and always looking for new ways to produce and market energy.

Also in 2007, the Group defined and launched the Edison Professional System with the goal of mapping and assessing the technical competencies of the professional occupations practiced within the Group and, based on these findings, fine tuning training and competency management programs.
Lastly, a new Long-term Management Incentive Program was approved by the Board of Directors in 2007. This program is structured into three-year rolling cycles and is based on the achievement of targets and company performance indicators (EBITDA), compared against a panel of Italian and European utilities.
The training activity carried out by Edipower in 2007 included programs totaling about 57,000 hours (+17% compared with 2006). Specifically, 36% of the programs were of the continuing education type and covered such topics as occupational safety and hygiene, the environment and the updating of technical and professional skills. Professional development programs focused on systemic vision, strategy, employee management, problem solving and cross-functional cooperation. Focused development programs, which were part of projects involving technological or corporate innovation, provided training to technical employees both at the operational and staff level.

EDISON'S COMMITMENT TO SAFETY IS DEMONSTRATED BY ITS PURSUIT OF A "ZERO RISK" OBJECTIVE THROUGH A PROCESS OF CONTINUOUS IMPROVEMENT AT EVERY LEVEL OF THE CORPORATE ORGANIZATION



CORPORATE GOVERNANCE ANNUAL REPORT

CORPORATE GOVERNANCE ORGANIZATION

Consistent with international practice, 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 principles and implementation criteria promoted by the Code of Conduct published by Borsa Italiana (2006 version, the Code).

Moreover, the main rules of corporate governance are set forth in the Governance Agreements (as defined below) implemented to reflect the controlling shareholder structure adopted by the Company on September 16, 2005, when Transalpina di Energia Srl. (TdE), a joint venture of Electricité de France Sa (EDF) and Delmi Spa (Delmi), a 51% subsidiary of AEM Spa (which changed its name to A2A Spa, hereinafter referred to as A2A) became the Company's majority shareholder. These rules have been incorporated into Edison's Bylaws, as amended by Edison's Shareholders' Meeting on December 13, 2005 and again on June 26, 2007. Consistent with the Governance Agreements, 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 Company chose to postpone to 2007 the process of making its rules of corporate governance consistent with the Code and with the provisions of the relevant laws and the Bylaws in order to carry out a systematic and thorough revision that takes into account the changes that occurred in the regulatory framework and in the respective implementation regulations published by the Consob.

Consistent with its status as a company under Italian law with shares traded on a stock exchange that follows the guidelines of the Code, Edison has adopted a system of *corporate governance*, based on a conventional organizational model, that comprises: the Shareholders' Meeting, the Board of Directors (which operates through the Directors who have executive authority and are empowered to represent the Company, and is supported by an Audit Committee, a Compensation Committee and a Strategy Committee), the Board of Statutory Auditors and the Independent Auditors.

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.

The role of the Board of Directors is to define the strategic guidelines that must be followed by the Company and the Group under the Company's control and is responsible for governing its business operations. Accordingly, it enjoys the most ample powers to 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.

Edison's system of corporate governance is embodied in a series of standards and rules of conduct that the Company adopted to ensure that its governance bodies and control systems function effectively and transparently.

The Board of Statutory Auditors monitors the Company's compliance with the applicable laws and its Bylaws and has a supervisory function with regard to the actions of management, being specifically required to ensure that the principles of sound management are being followed, the structure of Company's organization is adequate, the Code's guidelines are effectively implemented, transactions with related parties are carried out fairly, and the subsidiaries have been given appropriate instructions concerning the obligation to disclose insider information to the market. 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.

The independent auditors ascertain whether the accounting records are properly maintained and record faithfully the results from operations. They also determine whether the statutory financial statements and the consolidated financial statements are consistent with the data contained in the accounting records and the results of their audits and comply with the requirements of the applicable statutes. They may also perform additional reviews required by industry regulations and provide additional services that the Board of Directors may ask them to perform, provided they are not incompatible with their audit assignment.

The Company's corporate governance structure also includes a system of internal controls, the Company's Code of Ethics and the procedures for allocating and delegating authority, which are described below.

This section of the Report on Operations incorporates an illustration of the corporate governance structure reviewed by the Board of Directors on February 12, 2008. It also lists, as they apply, the relatively few recommendations of the Code that the Board of Directors chose not to implement and explains the reasons why. Moreover, it provides the disclosures required by the laws and regulations that apply to *corporate governance* and ownership issues.

This *Corporate Governance Report*, which is also published as a separate document, and the Bylaws are available at the Company website (www.edison.it).

SHARE CAPITAL AND OWNERSHIP STRUCTURE

Structure of the Share Capital

The structure of Edison's share capital is summarized below.
On February 12, 2008, Edison's share capital totaled 5,291,664,500.00 euros, divided into 5,181,072,080 common shares, equal to 97.91% of the total share capital, and 110,592,420 savings shares, equal to 2.09% of the total share capital.

The period during which the 1,094,832,730 Edison warrants issued in 2003 could be exercised at any time to acquire through subscription an equal number of Edison common shares at a price of 1 euro per share ended on December 31, 2007. Virtually all of the warrants issued by the Company were exercised during their validity period, with just 91,877 expiring without being exercised.

As explained in greater detail in the Stock Option section of this Report and in the Prospectus issued in accordance with Article 84-bis of the Issuers' Regulations published by the Consob (which may be consulted on the "Governance - Stock option plans" page of the company website - www.edison.it), the Company's share capital can be increased further by up to 69,268 euros if unexercised stock options to acquire through subscription at a predetermined price Edison common shares that are outstanding at December 31, 2007 are exercised.

However, the authorization to increase the share capital for the purpose of allowing the exercise of stock options, which the Shareholders' Meeting granted to the Board of Directors pursuant to Article 2443 of the Italian Civil Code, expired on June 28, 2007.

The Shareholders' Meeting has not authorized the Board of Directors to purchase treasury shares.

Characteristics of the Shares

The common shares, which are registered shares, convey the right to vote at the Company's Ordinary and Extraordinary Shareholders' Meetings, in accordance with the applicable provisions of the law and the Bylaws, and provide their holders with any additional administrative and property rights attributed to voting shares pursuant to law.

The savings shares, which can be either bearer or registered shares at the holder's request, do not convey the right to vote. Pursuant to the Bylaws, they convey the benefits and have the characteristics that are listed below in addition to those provided pursuant to law:

- A reduction in the share capital to absorb losses does not cause the par value of savings shares to decrease, except for the amount in excess of the aggregate par value of the other shares.
- The expenses incurred to protect the common interests of savings shareholders shall be defrayed through the use of a fund established by a resolution approved by a Special Shareholders' Meeting. The Company shall contribute a maximum of 10,000.00 euros per year to this fund.
- If the savings shares are delisted, they will retain all of the rights attributed to them under the Bylaws and may be converted into common shares according to the terms and conditions determined by a Shareholders' Meeting, which must be held within 2 months from the date of delisting.
- If the common shares are delisted, the savings shares will become convertible, upon a simple request by the shareholder, into common shares on a one-for-one basis in accordance with deadlines and conditions to be determined by the Board of Directors.
- The remainder of the earnings shown in the financial statements, after allocating 5% to the statutory reserve, which must be set aside until the reserve reaches one-fifth of the share capital, are distributed to the savings shares up to an amount that may not be greater than 5% of their par value.
- If in a given fiscal year the savings shares receive a dividend that is less than 5% of their par value, the difference will be brought forward and added to the preferred dividend over the following 4 fiscal years.
- If no dividend is distributed to the savings shares for 5 consecutive years, these shares become convertible one for one into common shares, upon a simple request by the shareholder, during the period from January 1 to March 31 of the sixth year.
- Any remaining earnings that the Shareholders' Meeting decides to distribute are allocated to all of the shares such that the savings shares receive a total dividend that is greater than the dividend paid to the common shares by 3% of their par value.
- If reserves are distributed, the savings shares have the same rights as the other shares. However, if the Company has no earnings in a given year, the benefits listed above with regard to earning allocation may be provided by the Shareholders' Meeting through a resolution approving the distribution of reserves.
- Upon liquidation of the Company, the savings shareholders take precedence in the redemption of the share capital up to the full par value of their shares.
- Resolutions to issue savings shares with the same features as the savings shares outstanding, whether by way of a capital increase or the conversion of shares of another class, do not require the approval of the holders of the various classes of shares convened in Special Meetings.

Both the common shares and the savings shares are traded on the online stock market operated by Borsa Italiana Spa.

The Company Bylaws contain no restrictions with regard to the transfer of the shares or the exercise of the right to vote and the Company has not issued any securities that convey special control privileges.

Shareholders with Significant Equity Interests

The table that follows, which is based on the data in the Shareholder Register and reflects communications received pursuant to law and other information available as of February 12, 2008, 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 voting shares held	Percentage of share capital
- Transalpina di Energia Srl	3,175,053,827	61.282	60.001
- EDF Sa	1,003,055,065	19.360	18.955
broken down as follows:			
- held directly	15,210,131	0.294	0.287
- held indirectly (WGRM Holding 3 Spa and MTNC Holding Srl)	987,844,934	19.066	18.668
Carlo Tassara Spa	519,415,677	10.025	9.816
broken down as follows:			
- held directly	4,100,000	0.079	0.078
- held indirectly (Fincamuna Spa)	515,315,677	9.946	9.738

Controlling Shareholder and Management and Coordination Authority

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: WRGM Holding 4 (hereinafter referred to as WRGM, a wholly owned subsidiary of EDF) and Delmi, a subsidiary of A2A. Delmi's other shareholders are: Enìa Spa (hereinafter referred to as Enìa) (15%), Società Elettrica Altoatesina-SEL Spa (hereinafter referred to as SEL) (10%), Dolomiti Energia Spa (hereinafter referred to as Dolomiti Energia) (10%), Mediobanca Spa (hereinafter referred to as Mediobanca) (6%), Fondazione Cassa di Risparmio di Torino (hereinafter referred to as Fondazione Cassa di Risparmio di Torino) (5%), and Banca Popolare di Milano Scarl (hereinafter referred to as Banca Popolare di Milano) (3%).

TdE, the Company's controlling shareholder, does not exercise management and coordination authority over Edison Spa. Specifically, TdE has been configured as an equity investment holding company without an independent organizational structure. Consequently, it does not exercise single management authority over Edison, owing also to the fact that the Governance Agreements, by establishing TdE as a joint venture, granted to the parties to the agreements symmetrical and equal powers with regard to the composition and operating procedures of the corporate governance and oversight bodies of TdE and 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.

Change of Control Clauses

Information about stipulations that could become enforceable and agreements that could be subject to change or cancelled in the event of a change in Edison's control is provided below:

Financing Facilities

A change of control, which shall be understood to have occurred if control is gained by parties other than those included in the groups that comprise Edison's current chain of control, could have a material impact on the 1,500-million-euro financing facility provided to Edison by a pool of banks (see the notes to the financial statements). The occurrence of a change of control could trigger the enforcement of conditions requiring early repayment if a majority of the lender banks can reasonably prove that the new ownership structure would render Edison unable to perform its contractual obligations or, otherwise, impair the contract's validity and performance.

Commercial Agreements

If it resulted in a downgrading of Edison's credit rating, a change in the parties that exercise control over Edison could have a material impact on the following contracts:

- Annual natural gas transmission contract executed with Snam Rete on September 19, 2007: in order to maintain access to the transmission infrastructures, Edison would be required to provide a bank guarantee enforceable on sight for an amount equal to one-third of the maximum annual fee payable for transmission capacity;
- Regasification contract executed with Terminale GNL Adriatico Srl on May 2, 2005 for a term of 25 years counting from the date of the first LNG delivery to the terminal: in order to maintain access to the transmission infrastructure, Edison would be required to provide a bank guarantee enforceable on sight for an amount equal half the maximum annual fee payable.

Insofar as long-term natural gas supply contracts are concerned, two contracts to import natural gas signed with Sonatrach (an Algerian state company) on July 25, 2006 and November 15, 2006, respectively, are relevant with regard to change of control. The first contract will go into effect during the first half of 2008, upon completion of the first phase of the expansion of the natural gas pipeline that links Algeria with Italy by way of Tunisia. The second contract will become effective once Galsi (a company owned by Sonatrach, Edison and other partners) completes the construction of a pipeline linking Algeria with Sardinia and Tuscany, which is currently in the development phase (see the notes to the financial statements). Both contracts contain stipulations whereby Sonatrach can cancel the contract without being required to pay compensation if there is a change in Edison's control.

SHAREHOLDERS' AGREEMENTS

The Company is aware of the following Shareholders' Agreements, as defined in Article 122 of the Uniform Financial Code:

(i) A Framework Agreement executed on May 12, 2005 by EDF, its WGRM subsidiary, A2A (formerly AEM) and its Delmi subsidiary for the purpose of acquiring joint control of Edison through a 50-50 joint venture of Delmi and WGRM, subsequently identified as TdE (which is not a party to the Agreement).

(ii) A Shareholders' Agreement executed by the same parties concurrently with the abovementioned Agreement, which concerns the joint management and corporate governance of Edison and TdE.

Based on the communications provided by the contracting parties and the latest update of January 17, 2008, and taking into account the exercise in December 2007 of all of the warrants held by TdE, EDF and WGRM3, which were the subject of separate agreements, these Agreements (hereinafter referred to as the Governance Agreements), taken together, cover the following securities:

- 3,175,053,827 Edison shares held by TdE, equal to 61.28% of Edison's common share capital at December 31, 2007;
- 1,003,055,065 Edison shares held directly by EDF and indirectly through its MNTC and WGRM3 subsidiaries, equal to 19.36% of Edison's common share capital at December 31, 2007;
- 100% of the share capital of TdE, amounting to 3,146,000,000.00 euros, which is wholly owned on a 50-50 basis by WGRM and Delmi.

(iii) Investment and Shareholders' Agreement executed on July 7, 2005 by A2A (formerly 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 January 17, 2008 and taking into account the exercise of all of the Edison warrants held by TdE, which are covered by the Agreements at 50%, these Agreements, taken together, cover the following securities:

- 100% of Delmi's share capital (amounting to 1,466,868,500 euros) and, indirectly;
- the 50% interest in the equity capital of TdE held by Delmi;
- Edison common shares held indirectly by Delmi through TdE, equal to 50% of the total number of Edison shares held by TdE, which, at December 31, 2007, was equal to 1,587,526,913.5 Edison common shares (equal to 30.64% of the total number of Edison common shares outstanding at December 31, 2007);

(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 meetings 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. Following an increase in the company's share capital from 1,176,120,000 euros to 1,466,868,500 euros, the Agreement now covers 205,361,590 Delmi shares, equal to 14% of Delmi's share capital.

Abstracts of the abovementioned Shareholders' Agreements were communicated to the public within the deadlines and in the manner required by the applicable statutes and are available at the Consob website (www.Consob.it).

PROVISIONS GOVERNING ELECTIONS OF DIRECTORS AND STATUTORY AUDITORS AND AMENDMENTS TO THE BYLAWS

The election and the replacement of Directors is governed by Article 14 (Board of Directors) of the Bylaws, a copy of which is available at the company website (www.edison.it - *Governance - Bylaws*).

The election and the replacement of Statutory Auditors is governed by Article 22 (Board of Statutory Auditors) of the Bylaws, a copy of which is available at the company website (www.edison.it - *Governance - Bylaws*).

Pursuant to Article 11, the Bylaws may be amended only by a resolution adopted by an Extraordinary Shareholders' Meeting, which shall be deemed to have been duly convened on the first, second or third calling if it is attended by shareholders representing more than half of the Company's common shares, and resolutions may be adopted by a favorable vote of shareholders holding at least two-thirds of the share capital represented at the Meeting.

Severance Indemnities for Directors

The Company is not a party to any agreements with Directors calling for the payment of severance indemnities in the event or resignation or cancellation of appointment/assignment or if the relationship is terminated due to a tender offer.

BOARD OF DIRECTORS

Role and Attributions

The Board of Directors is responsible for managing the Company directly or by delegating some of its attribution to other governance bodies. Under the Bylaws, in order to strengthen the Board's management role, in addition to those attributions that are reserved for the Board pursuant to law and cannot be delegated to individual Directors, the Board of Directors has sole jurisdiction over the following particularly significant matters:

- Decisions concerning the Company's share capital;
- Approval of the Edison Spa and consolidated business plan and budget;
- Opening and closing of Edison secondary headquarters;
- Designation of the Directors authorized to represent Edison;
- Reduction of the Company's share capital when shareholders request redemption of their shares;
- Amending Edison's 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, contracts or transactions involving an amount that exceeds 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 exceeds 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 of encumbrances, pledges, collateral, sureties and other guarantees and similar rights on intangible and tangible assets involving an amount in excess of 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 transactions 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 in excess of 200 million euros per transaction or series of related transactions;
- Decisions concerning court proceedings involving an amount that exceeds 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 would include (as explained in greater detail in the sections that deal with Equity Investments of Directors and Transactions with Related Parties) 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."

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.

With regard to stock awards, we wish to point out that, as mentioned in previous Reports, pursuant to a power of attorney provided by the Shareholders' Meeting held on June 28, 2002, the Board of Directors was authorized to issue, until June 28, 2007, up to 20,948,327 shares earmarked for the Group's stock option plans and reserved for the exercise of these options by employees, within the limits of the applicable statutes. The Board availed itself of this authority to issue 7,819,269 shares. The options that were 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 during the year, as the Board of Directors chose not to exercise the abovementioned power of attorney, which, as explained above, expired.

In 2002, 2003 and 2004, the Board of Directors approved the issuance of bonds with a total par value of 2,029 million euros. Bonds totaling 1,200 million euros were outstanding at the end of 2007, reflecting the redemption of 829 million euros in bonds issued in 2002, and a 600-million-euro bond issue approved by the Board of Directors of Edison in 2000 prior to its absorption. The characteristics and maturities of the bond issues that are still outstanding are listed in the Notes to the Separate Financial Statements

The Board of Directors also has jurisdiction over the delegation of authority to Directors who perform executive functions and the determination of the compensation payable to Directors who perform special assignments or serve on Committees. It is also responsible for assessing the effectiveness of the Company's organization and its administrative and accounting system, with special emphasis on the system of internal controls (a task delegated by the Board to the Chief Executive Officer, as explained elsewhere in this Report), and for the resolution of conflicts of interest. Information about the actions and assessments of the Board of Directors with regard to these issues is provided in the comments listed in the corresponding sections of this Report.

Lastly, as required by the Code, it has been for a long time an established practice of the Board of Directors to review on a regular basis the Company's operating performance and compare actual and planned results. As a rule, this comparison is made when financial statements for a reporting period are approved.

Even though the professional expertise of the members of the current Board of Directors has made them fully capable of understanding the obligations and responsibilities inherent in the office they hold, the Directors receive regular updates about changes in the regulatory framework and their obligations.

In the area of non-compete obligations, we wish to point out that the Shareholders' Meeting (which under the Bylaws has the authority to activate such obligations when electing Directors, should it deem it necessary) did not avail itself of this right and that, in the course of the year, the Board of Directors did not uncover any issues worthy of the attention of the Shareholders' Meeting.

Composition

The Governance Agreements 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.

Consequently, the Shareholders' Meeting that elected the current Board of Directors chose a 12-member Board. Subsequently, the Extraordinary Shareholders' Meeting convened on December 13, 2005 amended the provisions of the Bylaws setting at 12 the required number of Directors that must sit on the Board.

The Directors currently in office are: Giuliano Zuccoli (Chairman), Umberto Quadrino (Chief Executive Officer), Marc Boudier, Daniel Camus, Giovanni De Censi, Pierre Gadonneix, Gian Maria Gros-Pietro, Mario Mauri, Renato Ravanelli, Klaus Stocker and Gerard Wolf (who were elected by the Shareholders' Meeting on October 28, 2005) and Ivan Strozzi, who was coopted by the Board of Directors on December 6, 2006 to replace Uris Cantarelli and was subsequently elected by the Shareholders' Meeting on April 5, 2007. Pursuant to the conditions of their appointments, the term of office of all of the abovementioned Directors will expire on the occasion of the Shareholders' Meeting convened to approve the 2007 Annual Report. The next Board of Directors will be elected in accordance with the new provisions of the Bylaws, as explained in greater detail in the Appointment of Directors section of this Report.

The Bylaws, as amended by the Shareholders' Meeting on June 26, 2007, require that the Company be managed by a 12 member Board of Directors. However, if one or more lists are filed by minority shareholders and voted by the Shareholders' Meeting pursuant to Article 147-ter of Legislative Decree No. 58/1998, the number of Directors may be increased to 13 in order to provide a seat on the Board of Directors for a Director elected by minority shareholders. The new Bylaws also requires that, at all times, at least two Directors meet the independence requirements set forth in the applicable laws and regulations.

The table that follows lists the Company's Directors in office at December 31, 2007 and the posts they held as of that date at publicly traded companies and in financial, banking and insurance companies of significant size.

Director	Posts held at other companies
Giuliano Zuccoli	Chairman and Chief Executive Officer of AEM Spa
	Director of Atel Sa
	Director of Banca Piccolo Credito Valtellinese Scpa
	Chairman of Delmi Spa
	Director of Edipower Spa
	Chief Executive Officer of Transalpina di Energia Srl
Umberto Quadrino	Director of Edipower Spa
	Director of Transalpina di Energia Srl
Marc Boudier	Director of Atel Sa
	Chairman of EDF Belgium
	Director and Chief Executive Officer of EDF International Sa
	Chairman of EDF Péninsule Ibérique
	Member of the Supervisory Board of EnBW Ag
	Director of Motor Columbus Sa
	Director of Transalpina di Energia Srl
Daniel Camus	Member of the Supervisory Board of Dalkia
	General Manager of EDF Sa
	Chairman of EDF Sa Energy Plc
	Chairman of EDF Energy Group Holdings Plc
	Chairman of EDF Energy UK Ltd
	Chairman of EDF International Sa
	Member of the Supervisory Board of EnBW Ag
	Member of the Supervisory Board of Morphosys
	Director of Transalpina di Energia Srl
	Director of Valeo

Director	Posts held at other companies
Giovanni De Censi	Deputy Chairman of Credito Artigiano 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
Pierre Gadonneix	Member of the Consulting Committee of Banque de France Chairman and Chief Executive Officer of EDF Sa Chairman of Transalpina di Energia Srl
Gian Maria Gros-Pietro	Chairman of Atlantia Spa (formerly Autostrade Spa) Chairman of Autostrade per l'Italia 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 Rcf Sa Director of Transalpina di Energia Srl
Renato Ravanelli	Chief Operating Officer Aem Spa Director of Edipower Spa Director of Transalpina di Energia Srl
Klaus Stocker	Director of Società Elettrica Altoatesina Spa Director of Delmi Spa Director of Transalpina di Energia Srl
Ivan Strozzi	Chief Executive Officer of Enìa Spa Director of Transalpina di Energia Srl
Gerard Wolf	Member of Supervisory Board of Dalkia Director of Dalkia International Deputy Chief Operating Officer of EDF Sa Director of EDF International Sa Director of EDF Trading Member of Supervisory Board of EnBW Ag Director of Transalpina di Energia Srl

Choosing not to adopt the Code's recommendations, the Board of Directors refrained from expressing an opinion on the maximum number of posts that may be held, compatibly with the effective performance of the duties of a Director of an issuer of securities, since it believes that such a determination is primarily a consideration that the shareholders should make when electing Directors and, secondarily, a decision incumbent on each Director when accepting an appointment.

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.

In 2007, the Board of Directors met nine times, with each meeting lasting about two hours. The average attendance of Directors at Board meetings was 92.59%. The average attendance of Statutory Auditors at Board meetings was 85.19%. A breakdown is provided below:

Directors	Number of meetings attended in 2007	Percentage
Directors in office		
Giuliano Zuccoli	9	100
Umberto Quadrino	9	100
Marc Boudier	8	88.89
Daniel Camus	9	100
Giovanni De Censi	7	77.78
Pierre Gadonneix	5	55.56
Gian Maria Gros-Pietro	8	88.89
Mario Mauri	9	100
Renato Ravanelli	9	100
Klaus Stocker	9	100
Ivan Strozzi	9	100
Gerard Wolf	9	100

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 - Investor Relations). The Company has scheduled the Board meetings convened to approve the Annual Report and Semiannual Report at an earlier date than in 2006. Thus far, a total of five meetings have been scheduled for 20008, including one that was already held.

Self Assessment by the Board of Directors and Its Committees

In 2007, the Board of Directors conducted for the first time a self assessment process, which was handled by the independent Directors with the support of the Secretary to the Board of Directors.

The self assessment was carried out by means of a questionnaire provided to the various Directors. The questionnaire, which covered a number of issues concerning the composition and operation of the Board of Directors and its Committees, was designed to identify areas in which improvement initiatives could be undertaken.

The main analysis profiles concerned the following areas: appropriate number of Directors and adequacy of the Board's composition; function of the independent Directors; organization of Board meetings; decision-making processes and recording of the corresponding minutes; responsibilities and issues reserved for the Board of Directors; rules governing transactions with significant parties and related parties; management of confidential and insider information; process for defining, approving and subsequently monitoring the budget and multi-year plan; roles, attributions and operation of the Board Committees; and information flows between the Board of Directors and top management.

The resulting analysis uncovered the following: the high level of the Directors' professional competence and the resulting benefit for the Company; the importance of the work performed by the various committees, which facilitates the Board's decision making process; a satisfactory flow of communication between the Board of Directors and the executive Directors. The Board of Directors also identified some actions that should be implemented to improve further the manner in which the Board and its Committees operate.

EXECUTIVE DIRECTORS

Pursuant to the Bylaws and 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.

Moreover, 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, as 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, who served in this capacity during the previous terms of office of the Board of Directors.

Consistent with the recommendations of the Code, 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.

At its February 19, 2007 meeting, the Board of Directors delegated to the Chief Executive Officer the task of overseeing the functionality of the system of internal controls, asking him also to identify the main corporate risks and ascertain that the system is adequate, effective and efficient, as explained in greater detail in the System of Internal Controls section of this Report.

At a meeting held on October 28, 2005, the Board of Directors appointed Renato Ravanelli Chief Financial Officer and delegated to the Chief Executive Officer the right to delegate to the CFO operating responsibility, within the boundaries of the powers attributed to the CEO. On July 27, 2007, as a result of the introduction into the Italian legal system of the obligation to appoint an Officer responsible for the preparation of corporate accounting documents pursuant to Law No. 262/2005 (Corporate Accounting Documents Officer) and of resulting amendments made to Article 21 of the Bylaw setting forth the criteria and professional qualification for appointment to this position, the Board of Directors, acting with the approval of the Board of Statutory Auditors, appointed Renato Ravanelli to the additional position of Corporate Accounting Documents Officer. On November 9, 2007, following Renato Ravanelli's decision to accept a new position at A2A, the Board of Directors appointed Marco Andreasi Chief Financial Officer and Accounting Documents Officer.

Therefore, based on the foregoing considerations, both Umberto Quadrino, the Company's Chief Executive Officer, and the Director Renato Ravanelli, the latter limited to the time during which he served as Chief Financial Officer, qualify as Executive Directors according to the Code.

Pursuant to law and the Code, the Bylaws require that the officers to whom power has been delegated report to the Board of Directors and the Board of Statutory Auditors on at least a quarterly basis to explain the work performed in the exercise of their powers. In addition, the Chief Executive Officer has been following for some time the specific practice of including in the Agenda of each meeting of the Board of Directors, irrespective of the time that elapsed from the previous meeting, a report by the CEO on the Company's operations and on major transactions executed by the Company and its subsidiaries that did not require the prior approval of the Board of Directors.

INDEPENDENT DIRECTORS

The current Board of Directors includes two Directors who meet statutory independence requirements and qualify as independent in accordance with the guidelines provided by the Code. They are: Giovanni De Censi and Gian Maria Gros-Pietro.

The presence of two independent Directors, both of whom possess the appropriate professional skills in view of the size of the Board of Directors and the activities pursued by the Company, is not sufficient to establish a majority presence of independent Directors in the Committees that the Code recommends the Board of Directors should establish using its own members. However, as explained in the relevant section of this Report, the number of independent Directors in the Committees is consistent with the provisions of the Governance Agreements that concern the composition of the Board of Directors and the criteria for the nomination of the members of the Board Committees. However, the seats on the Compensation Committee are divided equally between independent and non-independent Directors.

The Board of Directors chose not to designate a lead independent Director, since it did not believe that the Code's requirements for such a designation existed at this time.

In accordance with the procedure adopted by the Board of Directors to verify the independence of Directors, 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. An independent Director must also undertake to inform promptly the Board of Directors of any situation that could undermine his or her ability to meet the independence requirement. Upon approving the *Corporate Governance Report*, the Board of Directors renews the request for credentials from the independent Directors and reviews any additional information supplied by them. Starting in 2006, specific attention was paid to the new definition of independent Director provided by the Code.

The Board of Statutory Auditors verifies that the vetting criteria and procedures adopted by the Board of Directors to assess every year the independence of its members are properly applied and reports its findings in its Report to the Shareholders' Meeting.

As explained in greater detail in the System of Internal Controls section of this Report, three meetings reserved exclusively for independent Directors were held in 2007. These meetings were held for the following purposes: organize the self assessment process for the Board of Directors; analyze the results of this process; prepare a report, later adopted by the Board of Directors, that set forth findings and suggestions; and review a new procedure to handle transactions with significant parties and related parties. This new procedure is part of the protocols included in the 231 Model adopted by the Company.

APPOINTMENT OF DIRECTORS

In view of the current structure of the Company's shareholder base and considering the corporate governance rules adopted as a result, there appears to be no need for a Nominating Committee.

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 TdE, the Company's controlling shareholder which at that time owned 63.34% of the common shares, sufficiently in advance of the Shareholders' Meeting to comply with the recommendations contained in the Code in force at the time of their election and specified which Director qualified as independent. The curriculum vitae of each Director is available at the Company website (www.edison.it - *Governance - Board of Directors*).

As mentioned earlier in this Report when discussing the composition of the Board of Directors, the amendments to the Bylaws approved by the Shareholders' Meeting in June 2007 introduced the requirement that Directors be elected on the basis of slates of candidates, so as to allow minority shareholders to elect one Director. Only shareholders who, alone or in combination with other shareholders, represent in the aggregate a percentage of the common share capital equal at least to 1%, based on the Company's market capitalization, are entitled to file a slate of candidates, provided the filers are not linked directly or indirectly with the controlling shareholder, its direct or indirect shareholders or other companies in the various groups to which each company belongs.

As required by the amended regulations published the Consob and in accordance with the Code's recommendations, the new Bylaws also require that nomination proposals be filed at the Company's registered office at least 15 days before a Shareholders' Meeting. The proposals must be accompanied by the following documents: information disclosing the identity of the parties filing slates of candidates; if applicable, an affidavit stating that the filers are not linked to the controlling shareholder, its shareholders and group companies belonging to said shareholders; professional résumé of each candidate, listing any management and control posts held at any other companies and indicating whether a candidate qualifies as an independent Director pursuant to the applicable laws; affidavits by which the candidates attest that there are no issues that would make them incompatible or unelectable or would cause them to be removed from office, that they meet the requirements for election as Directors pursuant to current law and the Bylaws and that they accept the nomination. In any case, individuals who do not meet the requirements of the applicable law and the Bylaws or would be unelectable or would be subject to removal from office pursuant to the relevant laws and regulations may not be elected.

COMPENSATION OF DIRECTORS

The compensation of the Directors was determined by the Shareholders' Meeting that elected them on October 28, 2005. It consists of a fixed annual fee payable to each Director and a supplemental fee paid for each meeting attended by each Director. 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 and based on the input of the Board of Statutory Auditors.

Currently, the Chairman receives exclusively a fixed compensation. Given the nature of the Chairman's current tasks and functions, 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 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. In addition, the Board of Directors offered the Chief Executive Officer a long-term bonus, which will be payable at the end of his term of office if certain strategically significant objectives are achieved and will be based on a comparison of the Company's performance vis-à-vis that of other appropriately selected companies.

The compensation of the Chief Financial Officer, who is a Company employee serving under the terms of an employment contract, was determined by the Chief Executive Officer according to the proposals received by the Compensation Committee. In this case as well, the compensation consists of a fixed portion and a variable portion tied to the achievement of predetermined annual objectives.

The compensation of the abovementioned Directors is listed in the table provided in the section of this Report entitled "Compensation Received by Directors and Statutory Auditors."

ESTABLISHMENT AND RULES OF OPERATIONS OF THE COMMITTEES OF THE BOARD OF DIRECTORS

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 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.

A broad outline of the powers attributed to each Committee is defined in the Governance Agreements. They were later specified and formally established by the Board of Directors at a meeting held on October 28, 2005, when it elected the members of the various Committees. The process of updating the powers of the Committees to make them consistent with the Code's guidelines and changes in the regulatory framework will be completed after the election of the next Board of Directors.

All Committees serve merely as a source of recommendations and assist the Board of Directors in studying subjects that fall within their area of expertise.

Committees may adopt resolutions only with an absolute majority of the votes cast by its members (i.e., at least three of its members). Each Committee relies on the support of the appropriate corporate department for the purpose of organizing its meetings. A Secretary of the Committee must draw up minutes of each Committee meeting.

Committee members are entitled to have access to any information and corporate department that they may need to perform their duties and, if appropriate, may retain outside consultants.

Even though the Board of Directors did not approve a specific budget for each Committee, the Committees must have access on each occasion to the financial resources needed to discharge their duties.

Each Committee must provide regular reports to the Board of Directors on the work they are performing.

STRATEGY COMMITTEE

The Strategy Committee established on October 28, 2005 comprises four Directors, three of whom do not have executive authority. Its members are: Giuliano Zuccoli (Chairman), Marc Boudier, Mario Mauri and Umberto Quadrino (Director with executive authority).

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. When appropriate, the Committee may rely on the support of external consultants paid by the company.

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 2007, the Committee met five times, focusing on studying strategic issues related to the planning cycle, reviewing and discussing the Budget and Business Plan and evaluating the Company's principal investments and strategic projects, the Group's international expansion strategy, projects to dispose of assets or transfer/reallocate equity investments and significant issues pertaining to the preparation of financial statements.

The average attendance of Directors at Committee meetings was 95%. A breakdown is provided below:

Committee members	Number of Committee meetings attended in 2007	Percentage
Giuliano Zuccoli	4	80
Marc Boudier	5	100
Mario Mauri	5	100
Umberto Quadrino	5	100

As a rule, the Strategy Committee reports to the Board of the Directors at the first Board meeting held after each Committee meeting.

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 (independent) and Gian Maria Gros-Pietro (independent).

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 or share allocation plans. When appropriate, the Audit Committee can perform all of these tasks using the support of external consultants paid by the company.

From time to time, the Chairman of the Committee, may invite employees and independent experts to attend meetings 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 2007, the Compensation Committee met five times. On those occasions it defined the objectives the achievement of which will be tied to the variable portion of the compensation payable to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer in 2007 and verified whether the objectives set for 2006 had been achieved. In addition, it developed a proposal for a long-term bonus for the Chief Executive Officer, key executives and some high potential professionals who serve in important positions. In the case of senior managers, the long-term bonus would provide an alternative to the stock option plan used in the past. Both proposals and the respective regulations were reviewed and approved by the Board of Directors and became applicable.

The average attendance of Directors at Committee meetings was 100%. A breakdown is provided below:

Committee members	Number of Committee meetings attended in 2007	Percentage
Giuliano Zuccoli	5	100
Marc Boudier	5	100
Giovanni De Censi	5	100
Gian Maria Gros-Pietro	5	100

All Committee meetings were attended by a Statutory Auditor (normally the Chairman of the Board of Statutory Auditors).

The Committee submits its proposals for approval to the Board of Directors when they concern the Chief Executive Officer and the Chairman and to the Chief Executive Officer when they concern the Chief Operating Officer, the Chief Financial Officer and management in general.

AUDIT COMMITTEE

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

Its current membership is consistent with the guidelines of the Code, which recommends that at least one of its members should be experienced in accounting and financial issues.

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 checks 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 management 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 paid by the Company.

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. From time to time, the Chairman of the Committee may also invite employees and independent experts, including a representative of the Independent Auditors, to attend meetings in a consulting capacity.

The Committee met five times in 2007 and once during the first two months of 2008. On those occasions it reviewed the following:

- The 2006 and 2007 Consolidated Annual Reports; 2007 Semiannual Report and Quarterly Reports for the first and third quarters of 2007, as well as the Independent Auditors' findings on the Annual Report and Semiannual Report;
- The financial aspects of the 2007 projected data and the 2008-2013 Plan prior to their submission to the Board of Directors;
- The main risk limit, the Energy Risk Procedures, the results of the Enterprise Risk management project and the main risks uncovered by this project;
- The progress made in implementing the 2007 Audit Plan, the audit findings and the 2008 Audit Plan;
- The new requirements introduced by Law No. 262/2005 on the protection of investments; a project to make the accounting control procedures and the accounting control model consistent with these new requirements, prior to submission of the project to the Board of Directors; and changes in the duration of the auditing assignment in accordance with Law No. 262/2005.

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.

The average attendance of Directors at Committee meetings was 95%. A breakdown is provided below:

Committee members	Number of Committee meetings attended in 2007	Percentage
Daniel Camus	5	100
Gian Maria Gros-Pietro	5	100
Klaus Stocker	5	100
Ivan Strozzi	4	80

SYSTEM OF INTERNAL CONTROLS

Edison's System of Internal Controls is a structured and organic set of rules, procedures and organizational structures designed to prevent or minimize the impact of unexpected results and allow the achievement of the Company's objectives in terms of operating performance (effectiveness and efficiency in conducting its operations and protecting corporate assets), compliance with applicable laws and regulations, and accurate and transparent internal and market communications (reporting).
This system permeates every aspect of the Company's operations and involves different parties who perform specific functions and discharge specific responsibilities.

The Board of Directors, working with the support of the Audit Committee, defines the guidelines of the System of Internal Controls; regularly reviews the main risks faced by the Company, as defined by the Chief Executive Officer; and assesses the adequacy, efficacy and effectiveness of the system of internal controls at least once a year. As part of the responsibility entrusted to him by the Board of Directors, which involves overseeing the functionality of the System of Internal Controls, the Chief Executive Officer maps key corporate risks and implements the guidelines of the System of Internal Controls.

The Internal Control Systems Department is responsible for performing internal audits, with the goal of assisting the Board of Directors, the Audit Committee and the Company's management in discharging their responsibilities with regard to the System of Internal Controls and risk management. In February 2004, the Board of Directors appointed the manager of the Internal Control Systems Department to serve as Internal Control Officer. In this capacity, he is responsible for assessing the adequacy and effectiveness of the overall system of internal controls. Organizationally, the Internal Control Systems Department is under the direct supervision of Edison's Chairman and does not perform any operational functions. At least once every six months, it reports to the Chairman, the Chief Executive Officer, the Audit Committee and the Board of Statutory Auditors.

The compensation of the Department's manager is determined in a manner consistent with the Group's management compensation policies, in accordance with general guidelines reviewed by the Compensation Committee.

Edison's Risk Officer reports to the Chief Financial Officer and is responsible for coordinating the risk management process. The Risk Officer also provides management with support in defining the overall risk strategy and policies and in analyzing, identifying, evaluating and managing risk and defining and managing the corresponding control and reporting system.
Acting within the framework defined by the guidelines provided by the Board of Directors and the instructions provided to implement those guidelines, the managers in charge of each Business Unit or department are responsible for designing and managing the System of Internal Controls for the operations under their jurisdiction and for monitoring that the system is operating effectively. All employees, each within the scope of his or her responsibilities, must contribute to ensuring that the System of Internal Controls is operating effectively.

Elements of the Control Environment That Have a Pervasive Impact

- *Code of Ethics* - In September 2003, Edison approved a Code of Ethics that is consistent with best international practices. The Code, which defines the principles and values that are the foundation of corporate ethics and the rules of conduct that derive from them, is an integral part of the Organizational, Management and Control Model that has been implemented to shield the Company from administrative liability pursuant to Legislative Decree No. 231/2001.
- *Antitrust Code* - The Company has adopted an Antitrust Code.
- *Organizational Structure* - The Group's overall organizational structure is defined by a set of Organizational Memoranda issued by the Chief Executive Officer consistent with the corporate governance model. These Memoranda identify the managers who are responsible for the various departments and Business Units. In turn, the managers who are responsible for the various departments and Business Units develop similar Organizational Memoranda, which, once they are published following a review by the Chief Executive Officer, define the Group's organization at the operational level. The Board of Directors is informed on a regular basis of any organizational changes.
- *Delegations of Power and Authority* - Executive powers are conveyed to managers through general or special powers of attorney that convey powers commensurate with their management responsibilities.
- *Human Resources* - In the area of human resources, Edison has adopted an official procedure to manage employee recruitment and hiring. It also uses a structured, multi-year system to plan for human resource needs and manage their training requirements. A process to evaluate the performance and professional potential of executives, professionals and newly hired employees with college de-

grees and formal compensation policies that are based on an ongoing comparison with best practices and on market conditions are also in use. In the case of executives and middle managers with significant business responsibilities, a portion of their compensation is variable and is commensurate with the achievement of objectives that are set each year in accordance with a structured performance management system.

Tools to Ensure the Achievement of Operational Objectives

- *Management Planning and Control* - Edison has adopted a structured management planning and control system that it uses at regular intervals to define the Company's strategies and objectives and develop its Budget and Business Plan.
- *Financial Risk Management* - With the specific objective of managing the financial risks to which it is exposed (mainly commodity and foreign exchange rate risks), the Group has adopted a governance structure that includes the following: (i) approval of the overall risk ceiling for the Group by the Board of Directors of Edison Spa; (ii) creation of a Risk Committee that comprises Edison's Chief Executive Officer, CFO, COO and Risk Officer, and the Chief Executive Officers of the Edison Trading and Edison Energia subsidiaries and is responsible for reviewing, at least once a month, the levels of assumed risks, comparing them with the ceiling approved by the Board of Directors, and approving the hedging strategies that may be appropriate if the approved ceiling has been exceeded; (iii) separation of the organization responsible for measuring and controlling risk exposure and defining risk-hedging strategies, which is located at Edison Spa under the supervision of its CFO, for financial market transactions, at Edison Trading Spa for commodity transactions and at Finance departments for foreign currency transactions. In 2006, consistent with best industry practices, Edison's Audit Committee approved an Energy Risk Policy that defines the objectives and guidelines of the Group's risk management policy.
- *Enterprise Risk Management (ERM)* - In 2006, the Group launched a project to revise and update at the Group level the risk management system in accordance with the *Enterprise Risk Management* (ERM) principles. In 2007, this project resulted in the development of a map of the main corporate risks, which was the result of a comprehensive risk mapping and risk scoring activity carried out by means of a *Risk Self Assessment* cycle that involved department and Business Unit managers.
- *System of Corporate Operating Procedures* - In order to ensure that corporate directives are properly implemented and the risks entailed by the achievement of corporate objectives are minimized, Edison has adopted a set of procedures that regulate internal processes, governing both activities that are carried out internally by each organizational entity and transactions with other entities.

Tools to Ensure the Achievement of Compliance Objectives

- *Legislative Decree No. 231/2001* - In July 2004, Edison Spa adopted the Organizational Model required pursuant to Legislative Decree No. 231/2001. The Model is designed to prevent the perpetration of the unlawful acts referred to in the abovementioned Decree and, consequently, shield the Company from administrative liability. The Model, which was adopted following a detailed analysis of the Company's operations to identify activities with a risk potential, includes a series of general principles, rules of conduct, control tools, administrative procedures, training and information programs, and disciplinary systems that are designed to prevent, as much as possible, the occurrence of the abovementioned crimes. The Board of Directors also established an Oversight Board (OB), which is responsible for ensuring that the Model is functioning effectively and is kept up to date, and is required to report to the Board of Directors and the Board of Statutory Auditors at least every six months. The members of the OB include an outside professional (Umberto Tracanella), who serves as Chairman, and two independent Directors (De Censi and Gros-Pietro). The OB met six times in 2007 and again in January 2008. The Organizational Model used by Edison and its subsidiaries is being updated to take into account an increase in the number of unlawful acts that give rise to a corporate liability and the numerous changes that have occurred in the Group's organization and in its businesses.
- *Law No. 262/2005 on the Disclosure of Accounting and Financial Information* - In 2006, follow-

ing the enactment of Law 262/2005 on the protection of investments, Edison launched a project designed to revise, where necessary, the accounting procedures that the Group uses to prepare financial disclosures, define the governance rules of the accounting model it was adopting, establish the rules that would be applied on an ongoing basis for the purpose of assessing and certifying at regular intervals that the adopted model was adequate and operated effectively, and assign the respective responsibilities within its organization. Additional information is provided in the section of this Report entitled "Accounting Control System and Corporate Accounting Documents Officer."

- *Safety, Environment and Quality* - Edison has adopted a system of procedures and organizational structures specifically designed to manage data security issues (including those related to compliance with privacy statutes), the protection of the environment, the safety of its facilities and employees, and the quality of the services it provides.
- *Other Laws and Regulations* - The task of monitoring changes in and compliance with laws and regulations has been assigned to the *General Counsel* Department (for general legal and corporate issues) and to the Institutional and Regulatory Affairs Office (for issues related to industry regulations).

Tools to Ensure the Achievement of Reporting Objectives

- *Accounting Reports and Annual Financial Statements* - The preparation of accounting reports and annual statutory and consolidated financial statements is governed by the Manual of the Group's Accounting Principles and by additional administrative and accounting procedures, which were recently updated and upgraded as part of a project to comply with the requirements of Law No. 262/2005, which is discussed in a separate section of this Report. The Company also adopted a *Fast Closing* procedure.
- *Insider Information* - In 2006, the procedures that govern the internal handling and external communication of insider information were updated to make them compliant with the new regulations set forth in the EU Directive on market abuse. An outline of the new procedure, which is an integral part of the Organizational Model adopted pursuant to Legislative Decree No. 231/2001, is provided in the section of this Report entitled "Handling of Information Concerning the Company."
- *Internal Communications* - Edison has adopted an internal communications system that facilitates and encourages the exchange of information within the Company and the Group and involves the use of a comprehensive system of management and coordination committees.

Tools to Monitor Internal Controls

The effectiveness of the control tools outlined above is monitored directly by corporate managers, each in the area under his or her jurisdiction, and, independently, by Edison's Internal Control Systems Department, which carries out risk-based auditing and assessment activities. The findings of each audit are presented the Chairman, the Chief Executive Officer and the Company's managers and are submitted on a regular basis to the Audit Committee and the Board of Statutory Auditors.

Overall Assessment of the Effectiveness of the System of Internal Controls

Based on the information and the evidence collected with the support of the investigative work performed by the Audit Committee and the contribution provided by management and the Internal Control Officer, the Board of Directors believes that, overall, the existing System of Internal Controls allows a reasonable achievement of the Group's objectives.

This assessment, insofar as it refers to the System of Internal Controls in its entirety, reflects the limitations inherent in such a system. Specifically, even a system of internal controls that is well designed and operates properly can ensure the achievement of corporate objectives only with "reasonable certainty."

ACCOUNTING CONTROL SYSTEM AND CORPORATE ACCOUNTING DOCUMENTS OFFICER

As mentioned earlier in this Report, in July 2007, the Board of Directors appointed a Corporate Accounting Documents Officer, who is responsible for developing adequate administrative and accounting procedures for the preparation of the accounting information that the Company discloses to the financial markets and for ensuring that the abovementioned procedures are effectively complied with, and provided this Officer with the authority and resources required to perform these tasks.

Moreover, in light of the responsibilities assumed by the Board of Directors, both directly and through the Chief Executive Officer and the Corporate Accounting Documents Officer, with regard to the implementation and monitoring of a 262 internal control accounting system (Accounting Control System), at a meeting held on July 27, 2007, the Board of Directors approved an "Accounting Control Model Pursuant to Law No. 262/2005," the purpose of which is to establish the guidelines that must be applied within the Edison Group to satisfy the obligations set forth in Article 154-bis of Legislative Decree No. 58/1998 with regard to the preparation of corporate accounting documents and comply with the resulting certification requirements, and authorized the Chief Executive Officer, acting through the Corporate Accounting Documents Officer, to implement the abovementioned Model.

The purpose of the Accounting Control System and of its Model is to provide reasonable certainty that the accounting information published by the Company provides its users with a truthful and fair presentation of the Company's operating results, thereby permitting the issuance of the attestations and declarations required pursuant to law indicating that the Company's filings and communications that are disclosed to the market, including interim accounting disclosures, are consistent with the data in the corresponding supporting documents, accounting records and other accounting documents, and that the Company's administrative and accounting procedures are adequate and were applied effectively during the period covered by the accounting documents (Annual Report and Semiannual Report).

Specifically, the Model accomplishes the following:
- It defines the roles and responsibilities of the Organizational Units involved in the overall process of preparing, publishing and verifying the accounting information disclosed to the market;
- It sets forth the operating methods that should be used to carry out the activities to comply with the abovementioned statutory requirements;
- It provides support to the Corporate Accounting Documents Officer and the Chief Executive Officer in the issuance of the attestations and declarations required pursuant to law by requiring that the managers of the Company's Operating Units that are responsible for implementing the Accounting Control Model use the internal communication process to provide an internal attestation that the Internal Control System established pursuant to Law No. 262/2005 is functioning effectively, insofar as the accounting processes and flows under their management jurisdiction are concerned, that the information flows are complete and reliable, and that the key controls listed in the relevant matrices are applied effectively;
- It assigns responsibility for conducting Model-related testing to the Internal Auditing Department.

The Model applies to "accounting information," which includes all of the documents and information disclosed to the market that contain actual accounting data concerning the balance sheet, income statement and financial position of Edison Spa and of the companies included in the scope of consolidation. The Model applies to all Organizational Units of Edison Group companies over which Edison Spa exercises management and coordination authority, including Organizational Units that are not directly responsible for maintaining the accounting records and exercising operational control, and to all consolidated companies over which Edison Spa does not exercise management and coordination authority that, for various reasons, are involved in developing the accounting information disclosed by the Group.

In addition, an Organizational Memorandum issued with the signature of the Chief Executive Officer provides a detailed list of the managers of Group Departments, Business Units and Corporate Functions that report directly to top management, who have been appointed "Operating Unit Officers Responsible for Implementing the Accounting Control Model Pursuant to Law No. 262/2005."

EQUITY INVESTMENTS OF DIRECTORS AND 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 (i) TdE; (ii) shareholders of TdE; (iii) shareholders of shareholders of TdE; (iv) other companies or entities that control, are controlled by or are under 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, revised in 2007, 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 significant parties and 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 significant parties and related parties; the general rules and the principles of conduct that apply to such transactions; the types of transactions that require the prior approval of the Board of Directors and the rules governing the approval of such transactions; and the obligations to report to the Board of Directors, providing information also on transactions that did not require the Board's prior approval. 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 valuation process applied, 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 significant parties, of any transactions that are not negotiated on standard terms and atypical or unusual 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 a transaction with a significant party or 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. The Board of Directors can also ask for the input of the Audit Committee. Transactions with related parties and significant parties are reviewed in the notes to the financial statements.

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 submitted to the Board of Directors. 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 about his interest in the transaction, explaining the nature, terms, origin and scope of said interest. If a transaction does not 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 at-

torney 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.
Due to the composition of the Board of Directors and the fact that the Directors who are not independent belong to companies that are part of Edison's chain of control and operate, for the most part, in the same businesses as the Company, the Board of Directors has established a practice whereby, at the beginning of each meeting, it reviews the posts held by non-independent Directors in their respective companies and the criteria by which they were appointed to those posts.

HANDLING OF INFORMATION CONCERNING THE COMPANY

The Company has been using for some time an internal procedure for the internal management and external communication concerning its status as an issuer of securities, with special emphasis on insider information. This procedure, which is an integral part of Model 231, was revised in 2006 by the Board of Directors, acting upon a proposal by the Oversight Board and based on the findings of a preliminary review by the Audit Committee, in order to make it more responsive to changes in statutory requirements introduced by the inclusion in the Italian legal system of EU regulations on market abuse.

One of the functions of this procedure was to specify the functions, responsibilities and operating procedures that apply to the management of insider information (including both insider information "in process" and those for which a market communication obligation already exists), taking into account how insider information should be verified and data should be entered in the Insider Register; the treatment, internal circulation and communication to outsiders (when certain conditions are met) of insider information; and the communication of insider information to the market in accordance with the deadlines and methods set forth in current regulations.

All members of the corporate governance bodies, employees and associates of Edison and its subsidiaries who have access to insider information are required to comply with the abovementioned procedure.

All of the abovementioned parties are required to comply with the following obligations:
- They shall safeguard the confidentiality of documents and information obtained in the course of their work and, more specifically, make sure that the sharing of documents containing insider information, whether internally or with third parties, is handled will all necessary attention and care.
- They shall never communicate to anyone, unless required to do so for work reasons, insider information of which they may become aware in the course of their work.
- They shall require that the owners of a project and/or a significant asset (normally the manager in charge of a department or office) and third parties to whom insider information is disclosed in connection with an assignment sign a confidentiality agreement, which, among other covenants, may require them to maintain an Insider Register, if applicable.
- They shall promptly inform the applicable Company Compliance Office of any act, action or omission that may constitute a violation of this Procedure.

Insofar as roles and responsibilities are concerned, Senior Management has Group-wide responsibility for distributing to the market press releases that contain insider information and for activating the procedure used to embargo the disclosure of insider information to the market, when applicable.

Heads of departments, offices, business units or subsidiaries are responsible for identifying the existence of insider information and implementing all security measures required to ensure that insider information is treated confidentially and segregated, limiting its circulation only to those parties who need access to it to perform their job or assignment.

In addition, senior managers and other management personnel (each for the information over which he or she has jurisdiction) must inform employees and outsiders who possess insider information concerning the Group of the nature of the information they possess and must ensure that all outsiders who receive insider information are required pursuant to law, Company Bylaws or contract to respect the confidentiality of the documents and information they are receiving, verifying, when applicable, the existence of secrecy/confidentiality clauses or commitments.

Prior to being placed into circulation, paper and electronic documents that contain insider information must be labeled “Confidential” and must be appropriately safeguarded. The electronic transmission of these documents must be protected with access keys. In all cases, the senior managers and other management personnel with whom the “Confidential” documents originated must keep track of the parties (employees and outsiders) to whom the documents were provided.

Specific provisions of the procedure deal with the method for entering data in and updating the register of parties who have access to insider information. Specifically, parties may be entered in the register on a permanent or on an occasional basis and Edison’s senior managers and other management personnel are responsible for identifying the parties whose names should be communicated to the office charged with keeping the register for entry therein on a permanent or occasional basis. The procedure also deals with the method for informing the parties entered in the register, updating their information and deleting their names.

Entry in the register on a permanent basis is used for those parties who, because of their function, the position they hold or the specific responsibilities entrusted to them, have access to insider information on a regular and continuing basis. Entry on an occasional basis is used for those parties who, because of their involvement in certain nonrecurring projects or activities and/or their temporary performance of certain functions/responsibilities, or because of a specific assignment, have access for a limited period of time to potential insider information.

The data of all Directors and Statutory Auditors were entered in the abovementioned register on a permanent basis at the time the register was established and were informed about their duties and responsibilities.

All Edison Directors and Statutory Auditors have been informed of any changes that have occurred in the regulatory framework regarding internal dealing issues and the communication obligations that they are required to comply with through the Company. Without prejudice to the obligation to comply with the provisions governing market abuse, the Board of Directors has introduced, for specific periods of the year, the additional obligation of refraining from executing transactions that involve financial instruments issued by the Company.

BOARD OF STATUTORY AUDITORS

Pursuant to the Company’s Bylaws, as amended by the Shareholders’ Meeting on June 26, 2007, the Board of Statutory Auditors must comprise three permanent Auditors and three alternates, who are elected from slates of candidates. Only shareholders who, alone or in combination with other shareholders, represent in the aggregate a percentage of the shares conveying the right to vote at Ordinary Shareholders’ Meetings equal as a minimum to the percentage required for filing slates of candidates for the post of Directors, which, based on the Company’s market capitalization, is equal to 1% of the common share capital, are entitled to file a slate of candidates, provided the filers are not linked directly or indirectly with the controlling shareholder, its direct or indirect shareholders or other companies in the various groups to which each company belongs. Nomination proposals must be filed at the Company's registered office at least 15 days before a Shareholders' Meeting. The proposals must be accompanied by the following documents: information disclosing the identity of the parties filing slates of candidates; if applicable, an affidavit stating that the filers are not linked with the controlling shareholder, its shareholders and group companies belonging to said shareholders; professional résumé of each candidate, listing any management and control posts held at any other companies; affidavits by which the candidates attest that there are no issues that would make them incompatible or unelectable or would cause them to be removed from office, that they meet the requirements for election as Statutory Auditors pursuant to current law and the Bylaws and that they accept the nomination. Moreover, pursuant to 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. In no case may individuals who fail to meet the requirements of independence, integrity and professionalism established in the pertinent laws or the Bylaws or who already serve on the maximum number of management and control bodies allowed pursuant to the applicable laws be elected to the Board of Statutory Auditors.

Lastly, if no slate is filed during the 15 days that precede the Shareholders' Meeting or if only one slate is been filed or if multiple slates are filed by shareholders who are linked with each other, the deadline for filing slates is reduced to 10 day and the percentage required to file them is halved to 0.5% of the common share capital.

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 next Shareholders' Meeting convened to approve the 2007 Annual Report. The résumés of the Statutory Auditors are available at the Company website (www.edison.it - Governance - Board of Statutory Auditors). No Statutory Auditors were elected by minority shareholders because only one slate of candidates was filed at the time of the election by Italenergia-bis, which at that time was the Company's controlling shareholder owning 63.34% of the common shares.

The Statutory Auditors currently in office meet statutory independence requirements, as well as the Code's independence requirements for Directors. The Board of Statutory Auditors verified that these requirements were still being met on the occasion of the meeting during which it reviewed the Company's corporate governance system.

The compensation of the Directors was determined by the Shareholders' Meeting that elected them. Additional information is provided in the section of this Report that deals with the compensation of Directors and Statutory Auditors.

The table below shows only the posts held by the Company's Statutory Auditors in other publicly traded companies. In the interim period before the Consob regulation on the maximum number of governance posts that may be held goes into effect, reference was made to the provision of the Bylaws in force at that time, which required the removal from office of anyone who served as Statutory Auditor in more than five publicly traded Italian companies, not counting Edison subsidiaries.

Sergio Pivato	Chair. Board of Statutory Auditors Chair. Board of Statutory Auditors	UBI BANCA Scpa Reno De Medici Spa
Salvatore Spiniello	Director Director Statutory Auditor Statutory Auditor	Fondiaria Sai Assicurazioni Spa Immobiliare Lombarda Spa Telecom Italia Spa Telecom Italia Media Spa
Ferdinando Superti Furga	Chair. Board of Statutory Auditors Director Statutory Auditor	Arnoldo Mondadori Editore Spa Parmalat Spa Telecom Italia Spa

In 2007, the Board of Statutory Auditors met eight times. The average attendance of the Statutory Auditors at these meetings was 87.50%. A breakdown is provided below:

Statutory Auditors	Number of meetings attended in 2007	Percentage
Sergio Pivato	8	100
Salvatore Spiniello	6	75
Ferdinando Superti Furga	7	87,50

In addition, the Statutory Auditors attended meetings of the Board of Directors. Their attendance percentages are shown in the section of this Report that discusses the meetings of the Board of Directors. A Statutory Auditor, usually the Chairman of the Board of Statutory Auditors, also attended the meetings of the Compensation Committee and of the Oversight Board. Lastly, the exchange of information between the Board of Statutory Auditors and the Audit Committee takes place through the regular attendance to Committee meetings by a Statutory Auditor and a representative of the Independent Auditors is invited on a regular basis to attend meetings of the Board of Statutory Auditors to report on the findings of the audits they performed.

As explained in greater detail in the "Independent Auditors" section of this Report, the Board of Statutory Auditors submitted to the Shareholders' Meeting convened on April 5, 2007 to approve the financial statements for the 2006 fiscal year a motion to extend the duration of the assignment originally awarded to PricewatherhouseCoopers for the maximum length of time then allowed pursuant to law. In addition, it provided an opinion on the additional assignments that the Board of Directors awarded to the independent auditors and to other entities belonging to the same network, verifying that the abovementioned assignments and those awarded by the subsidiaries were within the statutory limitations of exercisable activities and ascertained the auditors' independence.

The Board of Statutory Auditors adopted the Code's recommendation requiring that its members disclose any direct or third-party interest they may have in specific transactions submitted to the Board of Directors for approval. No situations that would have required the members of the Board of Statutory Auditors to provide such a disclosure occurred in 2007.
In discharging its duties, the Board of Statutory Auditors relies on the support of a dedicated Company unit that reports to the office of the Secretary to the Board of Directors.

According to the provisions of the Governance Agreements that apply to the Board of Statutory Auditors, which were executed after the election of the Board of Statutory Auditors currently in office, 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.

With regard to this issue, the Shareholders' Meeting of June 26, 2007 amended the Bylaws to make them consistent with the law that requires that the Chairman of the Board of Statutory Auditors be filled with one of the Statutory Auditors elected from a minority slate. With this change, the election of the entire Board of Statutory Auditors and of its Chairman will be carried out in accordance with the amended Bylaws.

RELATIONS WITH SHAREHOLDERS

The Board of Directors strives to provide promptly the Company's shareholders with all relevant information and documents. In 2006, in pursuit of this goal, the Company restructured its website, changing its overall structure and creating a section devoted to corporate governance issues, which contains the Reports on Corporate Governance and other information, and a section entitled Investor Relations. Both sections are easily accessible from the home page.

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 dissemination of insider 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 annual, semiannual 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. It 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 or otherwise provided to the public, so as to ensure that its shareholders 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.

Edison has created an office responsible for handling relations with shareholder and assigned to the manager of the Investor Relations Department responsibility for managing relations with institutional investors.

SHAREHOLDERS' MEETING

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 Directors and 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 the share capital represented at the Meeting (Article 11 of the Bylaws).

Pursuant to Article 9 of the Bylaws, Shareholders' Meetings are convened by means of a notice published in the newspaper Il Sole 24 Ore 30 days prior to the date of the Meeting, or within any shorter deadline that may be required for special situations or items on the Agenda pursuant to the relevant laws. The notice, which must be posted concurrently on the Company website, must explain the requirements for attending the Shareholders' Meeting, as set forth in the Bylaws. In addition, the Company must make available to the public within the statutory deadline copies in Italian and English of the documents relevant to the items on the Meeting's Agenda by depositing them at the Company's head office, sending them to Borsa Italiana through the NIS system and publishing them on its website.

Pursuant to Article 10 of the Bylaws, only holders of voting shares who have proven their rights by producing an attestation, issued by an intermediary authorized to maintain the book of accounts, that their shares were deposited in dematerialized form with the centralized clearing system at least two business days prior to the Shareholders' Meeting and filing the attestation with the Company accordingly, pursuant to law, will be allowed to attend a Shareholders' Meeting. The Bylaws do not require that the shares be frozen. Consequently, the shares are freely transferable during the two days that precede a Shareholders' Meeting, but buyers will not be allowed to attend the Shareholders' Meeting.

The Board of Directors reserves the right to change the methods and requirements for attending Shareholders' Meetings and exercising the right to vote, once the relevant EU regulations have been incorporated into the Italian legal system.

The Company has not adopted Shareholders' Meeting regulations because it believes that the power attributed by the Bylaws to the chairman of the Meeting (who is responsible for managing the Meeting), which include determining the Meeting's Agenda and the voting method, are sufficient to maintain an orderly performance of Shareholders' Meetings, thereby avoiding the risks and inconveniences that could result, should a Shareholders' Meeting fail to comply with Meeting regulations.

Two Shareholders' Meetings were held in 2007. The items on the Agenda of the first Meeting, which took place on April 5, 2007, included approval of the financial statements for the 2006 fiscal year, election of a Director and extension of the assignment awarded to the Independent Auditors. The second Meeting, held on June 26, 2007, amended the Bylaws to make them consistent with changes in the regulatory framework.

All Directors who could provide a useful contribution to the discussion because of the duties they perform within the Board of Directors or its Committees were present at these Shareholders' Meetings. At these Shareholders' Meetings, the Chairman and the Chief Executive Officer, responding when necessary to specific questions by shareholders and in accordance with the rights of the shareholders to participate in the discussion and receive the desired information, reported on the work performed and on future plans.

The Board of Directors did not deem it necessary to promote initiatives that would encourage greater attendance at the Shareholders' Meetings, since the percentage of the share capital that is being represented at those Meetings is already quite high.

During 2007, due to the exercise of most of the outstanding warrants, which, as explained in the Share Capital and Ownership Structure section of this Report, expired at the end of the year, there was a significant change in the market capitalization of the Company's shares. However, no significant change occurred in the Company's shareholder base.

As explained earlier in this Report, the Bylaws have been amended to make them consistent with new statutory requirements and with the guidelines provided Consob with regard to the minimum ownership thresholds required of minority shareholders who wish to file slates of candidates to positions on the

Company's governance bodies. The Board of Directors believes that, at this juncture, it would not be advisable to ask the Shareholders' Meeting to amend further the provisions of the Bylaws that concern the percentages required to exercise the rights conveyed by the Company's shares and the prerogatives provided to protect minority shareholders.

INDEPENDENT AUDITORS

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.

In the remaining cases, in which 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 and the separate financial statements that are prepared annually for the Electric Power and Hydrocarbons operations and to perform the special audit required by the Electric Power and Gas Authority or needed to comply with contractual requirements. As in previous fiscal years, the independent auditors carried out separate audits related to the adoption of the International Financial Reporting Standards (IFRS).

Edison's independent auditors, *PricewaterhouseCoopers Spa* and its international network (PwC), working in accordance with assignments they received directly, audited more than 99% of all asset and revenue accounts. Other independent auditors were retained exclusively by some foreign subsidiaries.

Insofar as Edison is concerned, the audit assignment awarded to PwC will expire with the Shareholders' Meeting convened to approve the 2010 annual financial statements. As allowed under the current temporary provisions of Legislative Decree No. 303/2006, the new expiration date reflects the approval by the Shareholders' Meeting held on April 6, 2007 of a motion submitted by the Board of Statutory Auditors to extend for an additional three years the duration of the existing audit assignment, originally scheduled to expire with the Shareholders' Meeting convened to approve the 2007 annual financial statements, so that the total duration of the audit assignment will be the allowed maximum of nine years. When applicable, the Boards of Statutory Auditors of Group subsidiaries submitted similar motions to the Shareholders' Meetings convened to approve the annual financial statements of the corresponding subsidiaries, provided that the duration of the assignment complied with the nine-year limit and its ending date matched that of Edison Spa, the Group's Parent Company.
Edison's Shareholders' Meeting that granted the audit assignment, which includes auditing the statutory financial statements, the consolidated financial statements and performing regular reviews 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 required by the industry rules. The same was also true for the Group's subsidiaries that granted audit assignments to PwC or extended their duration.
The total cost of the Group audit for 2007 amounts to 1,767,000 euros, broken down as follows:

Description	Main Auditors: PwC		Other Auditors		Total	
	Hours	Fee	Hours	Fee	Hours	Fee
Audit of the statutory financial statements	4,700	373,267			4,700	373,267
Audit of the consolidated financial statements	800	63,535			800	63,535
Limited audit of the Semiannual Report	1,420	112,744			1,420	112,744
Regular reviews of the accounting records	620	49,229			620	49,229
Audit of separate annual statements	600	47,652			600	47,652
Coordination with other auditors	100	7,943			100	7,943
Additional review and certification activities	880	79,904			880	79,904
Total for Edison Spa	**9,120**	**734,274**			**9,120**	**734,274**
Italian subsidiaries and joint ventures	10,253	811,655			10,253	811,655
- amount for review and certification activities	20	1,500				
Foreign subsidiaries and joint ventures	1,474	174,789	739	46,505	2,213	221,294
Total Edison Group	**20,847**	**1,720,718**	**739**	**46,505**	**21,586**	**1,767,223**

STOCK OPTION PLANS

In February 2003, as already announced, the Company approved a stock option plan and related regulations providing for the award of options to buy Edison shares at predetermined prices during predetermined periods. The options available under this plan were awarded in November 2003 and December 2004. No additional options were awarded in later years. Most of these options were exercised ahead of scheduled, as allowed by the regulations, following a change in Edison's control on September 16, 2005 and the shares acquired through the exercise of the abovementioned options were tendered in response to the tender offer for Edison shares and warrants launched by TdE in October 2005. As can be seen in the table provided below, which shows the number of Edison stock options outstanding at the beginning and at the end of 2007, no change occurred during the year.

	2007 fiscal year - Number of shares	Average exercise price
Options outstanding at January 1	69,268	1,465
Options that expired or were surrendered/cancelled during the year	-	-
Options exercised during the year	-	-
Options awarded during the year	-	-
Options outstanding at December 31	**69,268**	**1,465**

At December 31, 2007, one executive held all of the stock options listed in the table below:

Award period	Number of shares that can be bought/subscribed	Exercise price per share	Exercise period
2003	36,171	1.360	11/1/2006-10/31/2010
2004	33,097	1.580	12/1/2007-11/30/2011
Total	**69,268**		

Please note that with regard to the options outstanding, the Extraordinary Shareholders' Meeting held on June 28, 2002 authorized the Board of Directors to carry out capital increases earmarked for the exercise of options that may be awarded in the future, as allowed under Article 2443 of the Italian Civil Code and within the applicable statutory limits. The abovementioned authorization, which expired on June 28, 2007 as expected, 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, 2007, 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

There are no Directors who hold stock options exercisable to acquire Edison shares.

EQUITY INVESTMENTS OF DIRECTORS AND STATUTORY AUDITORS

The equity investments held in Edison Spa and its subsidiaries at December 31, 2007 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, 2006 to December 31, 2007, are presented in the table that follows. This information is based on the entries in the Shareholder Register, communications received and other data.

Reference Period: January 1, 2007 to December 31, 2007

First and last Name	Investee company		Number of shares held at the end of the previous year (12/31/2006)	Number of shares bought	Number of shares sold	Number of shares held at the end of the current year (12/31/2007)
Directors in office						
Giuliano Zuccoli						
Umberto Quadrino						
Marc Boudier						
Daniel Camus						
Giovanni De Censi	Edison Spa	Common Share	500	-	-	500
Pierre Gadonneix						
Gian Maria Gros-Pietro	Edison Spa	Common Share	30,000	-	-	30,000
Mario Mauri						
Renato Ravanelli						
Klaus Stocker						
Ivan Strozzi						
Gerard Wolf						
Statutory Auditors						
Sergio Pivato						
Salvatore Spiniello						
Ferdinando Superti Furga						

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, 2007. Non-cash benefits are shown at their taxable value. Variable compensation packages are listed under Bonuses and other incentives. The item "other compensation" refers to earned income; the figure shown is the taxable amount, net of social security and benefit costs and of the amount added to the provision for severance indemnities

Reference Period: January 1, 2007 to December 31, 2007
(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
Directors in office							
Giuliano Zuccoli	Board Chairman (a)	01/01/07	12/31/07	12/31/07			806
Umberto Quadrino	Chief Executive Officer (a)	01/01/07	12/31/07	12/31/07			3,042
Marc Boudier	Director (a) (b)	01/01/07	12/31/07	12/31/07	131		
Daniel Camus	Director (c)	01/01/07	12/31/07	12/31/07	103		
Giovanni De Censi	Director (b) (d)	01/01/07	12/31/07	12/31/07			139
Pierre Gadonneix	Director	01/01/07	12/31/07	12/31/07	60		
Gian Maria Gros-Pietro	Director (b) (c) (d)	01/01/07	12/31/07	12/31/07			178
Mario Mauri	Director (a) (b)	01/01/07	12/31/07	12/31/07			133
Renato Ravanelli	Director	01/01/07	12/31/07	12/31/07	100	(e)	310
Klaus Stocker	Director (c)	01/01/07	12/31/07	12/31/07			103
Ivan Strozzi	Director (c)	01/01/07	12/31/07	12/31/07	44		57
Gerard Wolf	Director	01/01/07	12/31/07	12/31/07	68		
Total					**506**		**4,768**
Statutory Auditors							
Sergio Pivato	Chair. Board Stat. Aud.	01/01/07	12/31/07	12/31/07			60
Salvatore Spiniello	Statutory Auditor	01/01/07	12/31/07	12/31/07			40
Ferdinando Superti Furga	Statutory Auditor	01/01/07	12/31/07	12/31/07			40
Total					**506**		**4,908**

(*) The term of office ends when the shareholders's Meeting approves the financial statements for the year ended on the date shown.
(**) Non-cash benefits consist of insurance policies taken out by the Company on behalf of the beneficiary and the conventional value of the automobile used by the beneficiary(ies).
(a) Member of the Strategy Committee.
(b) Member of the Compensation Committee.
(c) Member of the Audit Committee.
(d) Member of the Oversight Board.
(e) This amount has been paid by Aem Spa (now A2A Spa), the beneficiary's new employer, until August 31,2007, which billed Edison Spa for the cost attributable to the employee's service as Chief Financial Officer at Edison Spa between August 1, 2007 and November 8, 2007.
(f) Variable compensation for 2007. It will be increased by the long-term bonus applicable to the current term of office, which cannot be determined at this time because the official 2007 data needed to determine the average EBITDA growth rate for the utility companies that are used as benchmarks are not yet available.

Breakdown				
Compensation for post held at the company preparing the Annual Report	Non-cash benefits (**)	Bonuses and other incentives		Other compensation
806				
1,308	18	1,716	(f)	
131				
103				
139				
60				
178				
133				
68	8			334
103				
101				
68				
3,198	**26**	**1,716**		**334**
60				
40				
40				
3,338	**26**	**1,716**		**334**

SYNTESIS TABLES

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

Board of Directors							Audit Committee		Compensation Committee		Strategy Committee	
Post held	**Members** *	Executive powers	Non exec. powers	Independent	**	No. of other posts held ***	****	**	****	**	****	**
Directors in Office												
Chairman	Giuliano Zuccoli		X		100	6					X	80
Chief Executive Officer	Umberto Quadrino	X			100	2					X	100
Director	Marc Boudier		X		88.89	7			X	100	X	100
Director	Daniel Camus		X		100	10	X	100				
Director	Giovanni De Censi		X	X (b)	77.78	4			X	100		
Director	Pierre Gadonneix		X		55.56	3						
Director	Gian Maria Gros-Pietro		X	X (b)	88.89	5	X	100	X	100		
Director	Mario Mauri		X		100	6			X	100	X	100
Director	Renato Ravanelli	(a)	X		100	3						
Director	Klaus Stocker		X		100	3	X	100				
Director	Ivan Strozzi		X		100	2	X	80				
Director	Gerard Wolf		X		100	7						

Number of meetings held in 2007

Board of Directors: 9	Audit Committee: 5	Compensation Committee: 5	Strategy Committee: 5

Quorum required to file minority slates for the election of one Director: 1% of the shares that convey the right to vote at the Ordinary Shareholders' Meeting.

NOTES

- * An asterisk indicates whether a Director was designated through a slate filed by minority shareholders.
- ** This column shows the attendance percentages of Directors at meetings of the Board of Directors and Committees, respectively.
- *** 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 Report, these positions are listed in detail.
- **** An "X" marked in this column indicates that the listed Director is a member of the applicable Committee.
- (a) Chief Financial Officer until November 8, 2007.
- (b) Director who meets the independence requirements of Article 148, Section 3, of the Uniform Financial Code and Principle No. 3 of the Code of Conduct.

Board of Statutory Auditors

Post held	Name of member *	Independent as per Code	Percentage of attendance at meetings of the Board of Statutory Auditors	Number of other posts held **
Chairman	Sergio Pivato	X	100	2
Statutory Auditor	Salvatore Spiniello	X	75	4
Statutory Auditor	Ferdinando Superti Furga	X	87.50	3

Number of meetings held in 2007: 8

Quorum required to file minority slates for the election of one Statutory Auditor:
1% of the shares conveying the right to vote at Regular Shareholders' Meetings.

NOTES

* An asterisk indicates whether a Statutory Auditor 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 Report, these positions are listed in detail.

Milan, February 12, 2008

The Board of Directors
by Giuliano Zuccoli
Chairman

UNBUNDLING

Differently from the approach followed in previous years, this Report on Operations does not include schedules that show separately the accounting data attributable to different business operations (unbundling), which were required by AEEG Resolution No. 310/01.
This is because, with regard to the unbundling of accounting data, Edison opted to comply, as of the year ended December 31, 2007, with the provisions of Resolution 11/07, as amended, which do not require the inclusion schedules with segregated accounting data in this document.

MOTION FOR A RESOLUTION

Dear Shareholders,

Your Company's separate financial statements at December 31, 2007 show a net profit of 448,886,399.86 euros, rounded to 448,886,400 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:

" The Shareholders' Meeting,

- having reviewed the separate and consolidated financial statements at December 31, 2007 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 separate and consolidated financial statements at December 31, 2007;
- 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 Bylaws concerning the dividends payable to the savings shareholders;
- considering that, as a result of the transition to the IFRS principles, the shareholders' equity at December 31, 2007 includes reserves that are available pursuant to Articles 6 and 7 of Legislative Decree No. 38/2005 amounting to 566,365,171.17 euros, 467,109,286.99 euros of which are subject to the requirements set forth in Section 6 of the abovementioned Article 7;
- considering the provisions of Article 109, Section 4, of Presidential Decree No. 917/1986, insofar as they apply to the determination of taxable income for the 2007 fiscal year;
- considering that, as a result of the exercise of warrants as of the final deadline of December 31, 2007, the share capital amounts to 5,291,664,500.00 euros, divided into 5,181,072,080 common shares and 110,592,420 savings shares;

resolves to:

(i) approve the Report on Operations in 2007 submitted by the Board of Directors;
(ii) approve the separate financial statements for the year ended December 31, 2007, and the individual items contained therein;
(iii) set aside 5% of the year's net profit of 448,886,399.86 euros by adding to the statutory reserve the amount of **22,444,319.99 euros**
(iv) appropriate the 426,442,079.87 euros in net profit that remains after the partial appropriation made to the statutory reserve referred to in item (iii) above as follows:

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

- 5% of the shares' par value, i.e., 0.05 euros per share, as a preferred dividend for the 2007 fiscal year, for a total of	5,529,621.00 euros
- 3% of the shares' par value, i.e., 0.03 euros per share, as a preferred dividend premium for the 2007 fiscal year, as required as a consequence of the motion set forth in item b) below	3,317,772.60 euros
for a combined amount of 0.08 euros per savings share, which is equal to a total of	**8,847,393.60 euros**

b) to the 5,181,072,080 common shares, a dividend as follows:

- 0.05 euros per share, equal to 5% of each common shares' par value	
for a total of	**259,053,604,00 euros**

c) to bring forward the balance as retained earnings, which, after deducting the amounts referred in item (iii) and letters a) and b) above, amounts to **158,541,082.27 euros**

The dividend will be payable on April 17, 2008 (coupon presentation date April 14, 2008).

Moreover,

- Making reference to the 2006 Budget Law (Section 469, Law No. 266/2005), which allowed companies to increase the amounts at which they carry depreciable assets for tax purposes, raising these amounts to match those recognized in the financial statements at December 31, 2004 (so-called "realignment"), while at the same time requiring that a special reserve be recognized in the financial statements and, if no reserves were available or the reserves were insufficient, restrict a portion of the share capital;

- Making reference to the resolution approved by Edison's Shareholders' Meeting on October 11, 2006, which allowed the realignment transaction and placed a tax-related restriction on the available reserves and a portion of the share capital for a total amount of 703,508,704.52 euros;

- Considering that the relevant provisions of the tax law called for the effectiveness of the higher amounts recognized for tax purposes to be suspended for two years (2006 and 2007) and that the effects of the realignment transaction no longer applied to realigned assets that were divested during the two-year suspension period, which, in turn, makes it possible to release the portion of the restricted reserves that corresponds to the divested assets;

- Considering that the realigned amount attributable to the assets divested in 2006 and 2007 totaled 7,822,603.94 euros and that, therefore, a corresponding portion of the reserve (net of a substitute tax amounting to 938,712.47 euros) can be released;

the Shareholders' Meeting

resolves to:

(v) release a portion amounting to 6,883,891.47 of the restricted "retained earnings" reserve, which totals 79,829,276.66, so that the reserves and the portion of Edison's share capital that are restricted pursuant to Law No. 266/2005 amounts to 696,624,813.05 euros, of which 17,500,000.00 euros redeemed by payment of the substitute tax; the remaining 679,124,813.05 euros broken down as follows:

- Retained earnings	72,945,385.19	euros
- Statutory reserve	17,552,676.35	euros
- Share capital	588,626,751.51	euros."

Milan, February 12, 2008

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 the 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.
In performing our work, we complied with the requirements of Article 149 of Legislative Decree No. 58 of February 24, 1998. Insofar as the task of auditing the financial statements is concerned, we remind you that, pursuant to Legislative Decree No. 58/1998, it has been assigned to the Independent Auditors PricewaterhouseCoopers, whose report should be consulted for additional information.
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 operations, financial performance and asset base pf the Company and its subsidiaries, and those involving potential conflicts of interest and third-party interest. We ascertained that all actions that were approved and implemented complied with current law and the Company Bylaws.
The Board of Statutory Auditors adopted the recommendation of the Code of Conduct requiring its members to disclose a personal or third-party interest in specific transactions submitted to the Board of Directors for approval. In 2007, there were no instances in which the members of the Board of Statutory Auditors were required to make such a disclosure.
The drafts of the separate and consolidated financial statements at December 31, 2007, 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/1025564 of April 6, 2001 and No. DEM/3021582 of April 4, 2003.
We list below in chronological order some of the key event of 2007, all of which are discussed accurately and exhaustively in the Report on Operations by the Board of Directors:

- The award of five new hydrocarbon exploration licenses in Norway;
- The sale of Edison's interest in Serene to British Gas Italia;
- The agreement between Edison International, an Edison Group subsidiary, and Petrobras, Brazil's national hydrocarbon company, to develop a project to explore the Rufisque Offshore Profond block, off the Senegal coast;
- The inauguration in Qatar of a natural gas liquefaction facility that will produce LNG for the Rovigo Terminal;
- The expansion into electric power generation for the Greek market with an investment of 250 million euros for the construction (through Thisvi S.A., a 65% subsidiary) of a combined-cycle power plant and the signing of a Memorandum of Agreement between Edison and Hellenic Petroleum (the largest operator in Greece's hydrocarbon industry) calling for the creation of a 50-50 joint venture (to which Edison will convey its 65% interest in the abovementioned project) to operate in Greece's electric power market;
- The intergovernmental agreement to develop a Turkey-Greece-Italy natural gas transmission corridor;

- The commissioning of the Simeri Crichi thermoelectric power plant in Calabria, which marked the successful completion of the industrial plan calling for the addition of 7,000 MW of new installed capacity by 2007;
- The signing of an agreement with Dolomiti Energia to establish a joint venture in the province of Trent;
- The signing of an intergovernmental agreement for the Galsi pipeline from Algeria to Italy;
- The sale to Cofathec of seven CIP6/92 thermoelectric power plants for more than 220 million euros;
- The successful completion of the "2007 Edison Spa Common Share Warrants" plan approved in 2003, which resulted in the exercise of 99.992% of the warrants issued, with Edison collecting proceeds of 1.019 million euros and the Company's share capital increasing to 5,291,664,500.00 euros;
- The reaffirmation of Edison's BBB+ long-term credit rating, and upgrading of the outlook from "stable" to "positive," by Standard & Poor's;
- The approval by the Extraordinary Shareholders' Meeting of amendments to the Bylaws in accordance with the requirements of the Investment Protection Act;
- The exercise of call options for Edipower shares held by Edipower's financial shareholders and purchase of 72,065,000 shares, equal to 5% of Edipower's share capital.

All of the transactions listed above and other transactions that are described in the minutes of the meetings of the Board of Directors, were reviewed by the Board of Directors on the basis of adequate information and analyses. In the opinion of the Board of Statutory Auditors, they 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 potential 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 representatives of the Independent Auditors, we are not aware of any atypical or unusual transactions carried out by the Company in 2007 or since the end of that year.
The disclosures 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.
The Independent Auditors issued today their report, which contains no qualifications or requests of specific disclosures.
The Board of Directors asked the Independent Auditors 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 the costs incurred in connection with the feasibility study for the Rosignano LNG terminal	7,000 euros
• Review performed in connection with a bid submitted by Edison in response to a call for tenders in Romania	4,000 euros

Based on available information, 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.
The Board of Statutory Auditors monitored the independence of the Independent Auditors, ascertaining that they were in compliance with the provisions of the relevant statutes and that, in providing Edison and its subsidiaries with services other than accounting audits, they did not violate the restrictions that the applicable statute places on such services.
The Board of Statutory Auditors ascertained that its members met the same independence requirements as the Directors and that the Board of Directors applied properly its chosen criteria and procedures to assess each year the independence of some of its members. The outcome of this process was positive.

In 2007, the Board of Directors conducted for the first time a self assessment process, which was handled by the independent Directors with the support of the Secretary to the Board of Directors. The resulting analysis highlighted the following: the high level of the Directors' professional competence; the importance of the work performed by the various committees, which facilitates the Board's decision making process; and a satisfactory flow of communication between the Board of Directors and the executive Directors. The Board of Directors also identified some actions that should be implemented to improve further the manner in which the Board and its Committees operate.
The term of office of the current Board of Directors will end with the Shareholders' Meeting convened to approve the 2007 Annual Report. The election of a new Board of Directors will be carried out in accordance with the Bylaws, as amended by the Shareholders' Meeting on June 27, 2007, which require that the Company be managed by a twelve-member Board of Directors or, if one or more minority slates are filed and voted on in accordance with Article 147-ter of Legislative Decree No. 58/1998, by a thirteen-member Board of Directors so as to ensure that the Board of Directors includes a Director elected by the minority shareholders. Only shareholders who alone or in combination with other shareholders represent in the aggregate at least 1% of the shares that convey the right to vote at an Ordinary Shareholders' Meeting are entitled to file slates of candidates. The new Bylaws require that at least two Directors meet the independence requirements set forth in the applicable provisions of the relevant laws and regulations.
In 2007, the Board of Statutory Auditors met eight times and attended the nine meetings held by the Board of Directors.
The Chairman of the Board of Statutory Auditors attended the meetings of the Audit Committee, of the Oversight Board and of the Compensation Committee.
The Board of Statutory Auditors found no cause to take issue with any failure to comply with the principles of sound management.
In keeping with the requirements of Article 2389, Section 3, of the Italian Civil Code, the Board of Statutory Auditors issued an opinion approving the variable component of 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.
The Group's organizational structure is defined by a set of service orders issued by the Chief Executive Officer. These orders identify the managers who are responsible for the various functions, departments and Business Units. The Board of Director is informed on a regular basis about any significant changes to the organization.
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.
Using the information we obtained by attending meetings of the Audit Committee and through discussions with managers of the relevant Company departments and representatives of the Independent Auditors, we monitored the effectiveness of the System of Internal Controls.
Edison's System of Internal Controls is a structured and organic set of rules, procedures and organizational structures designed to prevent or minimize the impact of unexpected results and allow the achievement of the Company's objectives in terms of its operations (effectiveness and efficiency in conducting its operations and protecting corporate assets), compliance with applicable laws and regulations, and accurate and transparent internal and market communications (reporting). This System permeates every aspect of the Company's operations and involves different parties who perform specific functions and discharge specific responsibilities. The Board of Directors, working with the support of the Audit Committee, defines the guidelines of the System of Internal Controls; regularly reviews the main risks faced by the Company, as defined by the Chief Executive Officer; and assesses the adequacy, efficacy and effectiveness of the System of Internal Controls at least once a year. As part of the responsibility entrusted to him by the Board of Directors, the Chief Executive Officer has oversight over the functionality of the System of Internal Controls and implements the guidelines of the System of Internal Controls.
The Internal Control Systems Department is responsible for performing internal audits, with the goal of

assisting the Board of Directors, the Audit Committee and the Company's management in discharging their responsibilities with regard to the System of Internal Controls and risk management. The manager in charge of the Internal Control Systems Department, whom the Board of Directors has appointed to the post of Internal Control Officer, is responsible for assessing the adequacy and effectiveness of the overall System of Internal Controls. This Department reports directly to Edison's chairman and has no operational responsibility. At least once every six months, it is required to provide a report to the Chairman, the Chief Executive Officer, the Audit Committee and the Board of Statutory Auditors.
Edison's Risk Officer reports to the Chief Financial Officer and is responsible for coordinating the risk management process. The Risk Officer also provides management with support in defining the overall risk strategy and policies and in analyzing, identifying, evaluating and managing risk and defining and managing the corresponding control and reporting system. Acting within the framework defined by the guidelines provided by the Board of Directors and the instructions provided to implement those guidelines, the managers in charge of each Business Unit or department are responsible for designing and managing the System of Internal Controls for the operations under their jurisdiction and for verifying that the system is operating effectively. All employees, each within the scope of his or her responsibilities, must contribute to ensuring that the System of Internal Controls is operating effectively.
We remind you that, 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 (revised in 2007) that governs transactions between Edison and all significant and 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 significant and related parties, the general rules and the principles of conduct that apply to such transactions, the types of transactions that require the prior approval of the Board of Directors and the rules governing the approval of such transactions, and the obligation to report to the Board of Directors also with regard to transactions that do not require the Board's prior approval. In accordance with this procedure, the Board of Directors must be provided with adequate information about the nature of the relationship with the significant or related party, the manner in which the transaction will be implemented, the timing and financial terms of the transaction, the assessment process applied, the interests in and the underlying reasons for the transaction, and any risks to which the Company and its subsidiaries could be exposed as a result of the abovementioned transactions with significant parties or of transactions that are not executed on standard term and atypical or unusual transactions executed directly or indirectly with other related parties.
The Company has been using for some time an internal procedure for the internal management and external communication concerning its status as an issuer of securities, with special emphasis on insider information. This procedure, which is an integral part of the 231 Model, was revised in 2006 by the Board of Directors, acting upon a proposal by the Oversight Board and based on the findings of a preliminary review by the Audit Committee, in order to make it more responsive to changes in statutory requirements introduced by the inclusion in the Italian legal system of EU regulations on market abuse. One of the functions of this procedure was to specify the functions, responsibilities and operating procedures that apply to the management of insider information (including both insider information "in process" and those for which a market communication obligation already exists), taking into account how insider information should be verified and data should be entered in the Insider Register; the treatment, internal circulation and communication to outsiders (when certain conditions are met) of insider information; and the communication of insider information to the market in accordance with the deadlines and methods set forth in current regulations.
In the area of internal dealing, in addition to the obligations that already exist pursuant to the regula-

tions concerning market abuse, the Board of Directors introduced an obligation to refrain, during certain periods of the year, from executing transactions that involve financial instruments issued by the Company.
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.
Edison's separate financial statements at December 31, 2007 were prepared in accordance with the International Financial Reporting Standards ("IFRS international accounting principles") issued by the International Accounting Standards Board, as published in the Official Journal of the European Union (OJEU). The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards since 2005.
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. In 2007, the Company completed the process of revising its system of corporate governance to make it consistent with the latest edition of the Code of Conduct and recent amendments to applicable provisions of the relevant statutes and the Bylaws. The Corporate Governance Report lists the limited number of recommendations of the Code of Conduct that the Board of Directors chose not to adopt and explains the reasons for these choices.
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. The Extraordinary Shareholders' Meeting of June 26, 2007 amended the Company Bylaws, making them compliant with new statutory requirements, in accordance with the regulatory guidelines published by the Consob and some recommendations contained in the new Code.
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 adopted the Organizational Model required pursuant to Legislative Decree No. 231/2001. The Model is designed to prevent the perpetration of the unlawful acts referred to in the abovementioned Decree and, consequently, shield the Company from administrative liability. The Model, which was adopted following a detailed analysis of the Company's operations to identify activities with a risk potential, includes a series of general principles, rules of conduct, control tools, administrative procedures, training and information programs, and disciplinary systems that are designed to prevent, as much as possible, the occurrence of the abovementioned crimes. The Board of Directors also established an Oversight Board (OB), which is responsible for ensuring that the Model is functioning effectively and is kept up to date, and is required to report to the Board of Directors and the Board of Statutory Auditors at least every six months. The members of the OB include an outside professional, who serves as Chairman, and two independent Directors. The Organizational Model used by Edison and its subsidiaries is being updated to take into account an increase in the number of unlawful acts that give rise to a corporate liability and the numerous changes that have occurred in the Group's organization.
In July 2007, the Board of Directors appointed a Corporate Accounting Documents Officer, who is responsible for developing adequate administrative and accounting procedures for the preparation of the accounting information that the Company discloses to the financial markets and for ensuring that the

abovementioned procedures are effectively complied with, and provided this Officer with the authority and resources required to perform these tasks.
Moreover, in light of the responsibilities assumed by the Board of Directors, both directly and through the Chief Executive Officer and the Corporate Accounting Documents Officer, with regard to the implementation and monitoring of a 262 internal control accounting system (Accounting Control System), at a meeting held on July 27, 2007, the Board of Directors approved an "Accounting Control Model Pursuant to Law No. 262/2005," the purpose of which is to establish the guidelines that must be applied within the Edison Group to satisfy the obligations set forth in Article 154-bis of Legislative Decree No. 58/1998 with regard to the preparation of corporate accounting documents and comply with the resulting certification requirements, and authorized the Chief Executive Officer, acting through the Corporate Accounting Documents Officer, to implement the abovementioned Model.
The term of office of the current Board of Statutory Auditors, which was elected on April 19, 2005, when the Shareholders' Meeting reelected the Statutory Auditors then in office, will end with the Shareholders' Meeting convened to approve the 2007 Annual Report. The election of a new Board of Statutory Auditors and its Chairman will be carried out in accordance with the Bylaws, as amended, according to which only shareholders who alone or in combination with other shareholders represent in the aggregate at least 1% of the shares that convey the right to vote at an Ordinary Shareholders' Meeting are entitled to file minority slates of candidates.
In January 2008, the Board of Statutory Auditors received a complaint, in response to which it carried out the necessary inquiries and verifications but found no irregularities that would require disclosure or corrective action.
The Report on Operations provides a comprehensive presentation of the circumstances that enabled the Company to report a net profit from operations. Based on the foregoing considerations, we concur with the information provided in the Report on Operations and with the motion put forth by the Board of Directors for the appropriation of net income, after satisfaction of the rights of the holders of savings shares.

Milan, February 29, 2008

The Board of Statutory Auditors
Sergio Pivato
Salvatore Spiniello
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