


REPORT ON OPERATIONS 2006

EDISON

EDISON
IN ITALY

CONTENTS

REPORT ON OPERATIONS
2006

EDISON

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 2006			
New Italian demand		314,8	TWh
	- Deregulated market	150,2	TWh
Edison net sales (*)		65,3	TWh
Breakdown:	- Deregulated market (*)	33,6	TWh
	- Power exchange	6,0	TWh
	- Res. 34/05	0,8	TWh
	- CIP 6/92	20,0	TWh
	- Captive customers	4,9	TWh
Edison's sales (*) / Net Italian demand		20,8	%
Edison's sales (*) / Deregulated Italian market		22,4	%

Facilities and Production Capacity in 2006		
Edison's installed capacity	8.172	MW
Edipower's installed capacity (50%) (**)	3.514	MW
Total Italian net production of electric power	301,7	TWh
Edison's net production of electric power *(included 50% of Edipower)*	51,9	TWh
Share of total Italian production	17,2	%
Deregulated market customers	8,7	'000

(*) Includes sales to Wholesalers.

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

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

Hydrocarbons

Italian Market in 2006		
Italian total demand	83,5	Bil. mc
Edison's sales in Italy	13,1	Bil. mc
Edison's sales / Italian demand	15,7	%
Edison's sales outside Italy	0,5	Bil. mc

Facilities and production Capacity in 2006		
Total Italian production	11,0	Bil. mc
Edison's production in Italy	0,7	Bil. mc
Share of total production	6,5	%
Number of concessions and permits abroad	61	n.
Number of concessions and permits abroad	12	n.
Number of storage centers in Italy	2	n.
Riserve	30	Bil. mc eq.
Produzione estero	0,4	Bil. mc
Gas Transmission network (low - and medium-pressure pipelines)	3,22	'000/Km
Number of customers	168,3	'000

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

SIMPLIFIED STRUCTURE OF THE GROUP AT DECEMBER 31, 2006

Energy

Electric Power Operations	Hydrocarbons Operations	Energy Management/ Gas Supply & Logistics	Marketing & Sales

EDISON Spa [1]

Edison Energie Speciali Production of electric power	**Edison International** Hydrocarbon Expl. & Prod.	**Edison Trading** Energy management	**Edison Energia** Sales of Energy & Gas
Edipower [2] Production of electric power	**Edison Stoccaggio** Natural gas Storage		
	Edison DG Natural gas Distribution		

Other operations

IWH [2]
Water

- Electric Power Operations
- Hydrocarbon 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.

Umberto Quadrino, CEO and Giuliano Zuccoli, Chairman.

A LETTER TO THE SHAREHOLDERS

Dear Shareholders:
In 2006, the Company reported record results and established a strong foundation for its future growth. In the year just ended, Edison, which reinstated its dividend after a four-year hiatus, posted results that enable it to reaffirm its commitment to remunerate invested capital.

The growth achieved in 2006 is reflected in all of the indicators of operating performance: sales, operating results and net profit increased between 20% and 30%, compared with the previous year. Total revenues exceeded 8.5 billion euros, or 28.6% more than in 2005. Unit sales by the electric power operations rose to 65.4 billion kilowatt-hours (+24.1%), while sales of natural gas were unchanged at 13.6 billion cubic meters due to the reduction in the availability of imports, which caused the natural gas emergency that affected Italy.
The Company made even greater sales gains in the deregulated markets, in which Edison has now become a reference point, particularly in the electric power segment. Sales to customers in these markets were up almost 50%, confirming the effectiveness of the marketing strategies deployed by the Company.
EBITDA rose to more than 1,500 million euros and net profit grew to 654 million euros, for a 30% gain compared with the record 504 million euros earned by Edison in 2005.
On the Stock Exchange, the Edison shares appreciated by more than 21%, outperforming the Mibtel Index, which grew by 18%.

The main factors that contributed to this performance are the new and highly efficient power plants in Candela, Altomonte and Piacenza (Edipower), which completed their first year of commercial operation, and the commissioning of the Torviscosa facility. With the completion of these power plants, the Company made impressive gains in the implementation of its expansion plan, one of the most ambitious to be carried out in Europe in this decade. In 2007, when the power plants that are being built in Simeri Crichi and Turbigo (Edipower) go on stream, the implementation of the Company's growth plan in Italy will be virtually completed, with the construction of eight latest-generation, combined-cycle power plants fueled with natural gas. With the additional capacity of about 7,000 Megawatts brought by these facilities, the Company's overall generating capacity will rise to 13,000 Megawatts (counting 50% of Edipower).

Obviously, the Company will continue to be mindful of the challenges posed by the environment and by climate change. Edison was the first company to introduce gas-fired thermoelectric power plants with combined-cycle technology to Italy (this is the most efficient and ecocompatible technology available today). In the future, it intends to become a benchmark for lowering the ratio of carbon dioxide emissions per kilowatt-hour generated, for the development of renewable energy sources and for the adoption of concrete energy conservation measures. The 260 Megawatts generated by wind farms, which is the highest wind power capacity in Italy, will be more than doubled over the next six years.

Even though this year's mild weather prevented a recurrence of a "gas crisis," the issue of Italy's supply of natural gas will continue to be a source of concern until new infrastructures provide the country with access to additional suppliers. Italy, which has chosen to use natural gas as its main fuel for electric power generation, needs new importation infrastructures to diversify its sources of supply and improve the reliability of its system.

In this field, too, Edison was guided by a long-term strategic vision, choosing to launch a plan of capital investments in new infrastructures that is nothing short of breathtaking. The Rovigo terminal, which is being built in partnership with Exxon Mobil and Qatar Petroleum, is currently the *only regasification terminal under construction in Italy. This facility, which will be operational by the end of 2008, will have a capacity of 8 billion cubic meters of natural gas a year. In a first for Europe, it will make it possible to import LNG from Qatar, thereby opening a strategically and financially attractive alternative supply channel.*

In order to further increase the reliability of the supply base, Edison is also involved in the development of two new natural gas pipelines: one between Algeria and Italy (Galsi) and another between Italy and Greece (IGI). During the year, the Company made good progress on both fronts: the Galsi pipeline was allocated its transmission capacity (Edison will have access to two billion cubic meters a year) and, in the early days of 2007, Mr. Bersani, Italy's Minister of Economic Development, and Mr. Sioufas, Greece's Minister of Development, signed an important Protocol of Understanding on behalf of their respective countries. The signing of this Protocol was a prerequisite for the development of the IGI project, will provide access, through Turkey, to the substantial reserves that exist in the Caspian Sea Basin. Edison takes great pride in the fact that both the IGI and Galsi pipelines have been classified as Projects of European Interest by the European Union, thus validating the wisdom of the Company's strategic vision. In 2006, Edison also signed a long-term contract with Sonatrach of Algeria for the importation of two billion cubic meters of natural gas through an upgraded Transmed natural gas pipeline starting in 2008.

Clearly, Edison intends to play a leading role in the natural gas field as well, with infrastructures and contracts that will make it a member of the exclusive club of major international operators. During the year, Edison significantly broadened its hydrocarbon exploration and production activities, increasing its reserves by more than 10%, thanks mainly to new discoveries in Algeria.

In 2006, in addition to reporting outstanding results, the Company's long-term strategic choices enabled it to lay the foundations for its future growth. At the end of the year, Edison presented its 2007-2012 Industrial Plan, which calls for growth-oriented investments of more than 4 billion euros. These investments will help the Company strengthen its position as a leading operator in the electric power and hydrocarbon industries.

Over the years, Edison has proven that it is capable of achieving even the most challenging objectives, thanks to the commitment of its people and the enthusiasm and positive energy that we strive to project both internally and externally. Edison is a company founded in such strong values as integrity, innovation, team spirit, respect for excellence, service and speed. These values are a springboard for the future success of the Company and its shareholders.

Giuliano Zuccoli
Chairman

Umberto Quadrino
Chief Executive Officer

BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDIPENDENT AUDITORS

Board of Directors

Chairman		Giuliano Zuccoli (1)
Chief Executive Officer		Umberto Quadrino (1)
Directors		Marc Boudier (1)(2)
		Daniel Camus (3)
	Independent Director	Giovanni De Censi (2)
		Pierre Gadonneix
	Independent Director	Gian Maria Gros-Pietro (2)(3)
		Mario Mauri (1)(2)
		Renato Ravanelli
		Klaus Stocker (3)
		Ivan Strozzi (3)(4)
		Gerard Wolf

Board of Statutory Auditors

Chairman	Sergio Pivato
Statutory Auditors	Salvatore Spiniello
	Ferdinando Superti Furga

Independent Auditors

PricewaterhouseCoopers Spa

(1) Member of the Strategy Committee.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.
(4) Coopted on December 6, 2006 to replace Uris Cantarelli, who resigned.

INFORMATION ABOUT THE COMPANY'S SECURITIES

Number of shares at December 31, 2006

Common Share	4,162,547,033
Savings Share	110,592,420
Warrant outstanding	1,018,616,924

Shareholders with Significant Holdings at December 31, 2006

	% of voting rights	% interest held
Transalpina di Energia Srl	71.231%	69.388%
EDF Eléctricité de France Sa (1)	17.333%	16.885%

(1) Interest held directly and indirectly.

KEY EVENTS OF 2006

GROWING OUR BUSINESS

A new 16-MW Wind Farm Inaugurated at Ripabottoni (Campobasso)

On February 9, 2006, Edison commissioned the Ripabottoni Wind Farm. Located in the province of Campobasso, this new facility has 24 aerogenerators with a total generating capacity of 16 MW, which are expected to produce about 32 million kWh of power a year.

Acquisition of EDF Italia

At a meeting held on February 21, 2006, Edison's Board of Directors approved the acquisition of EDF Italia's operations. The transaction closed in October 2006, after being approved by the antitrust authorities; subsequently, by a deed of merger dated November 27, 2006, EDF Italia was merged into Edison Energia Spa.
This transaction is consistent with Edison's strategy of leveraging all available commercial and organizational synergies with its industrial shareholders.

Agreement with Unione del Commercio of Bassano del Grappa

On March 16, 2006, Edison and Unione del Commercio of Bassano del Grappa (Vicenza) signed a framework agreement that will enable the 1,700 retailers who are members of Unione del Commercio to buy energy from Edison on favorable terms.

Natural Gas Discovered in Algeria

In April, a joint venture of Edison, Repsol YPF, RWE Dea and Sonatrach successfully completed its first two exploratory wells in the Reggane Basin of Algeria. Both wells yielded natural gas at rates of more than 630,000 cubic meters and 100,000 cubic meters a day, respectively. A third exploratory well was completed in May. In this case as well, the results were extremely encouraging: during production tests, natural gas flowed at a rate of 763,000 cubic meters a day. Edison has a 25 % interest in this joint venture.

Edison Adds an Additional Four Billion Cubic Meters of Algerian Natural Gas a Year to Its Supply Base

In 2006, the Group continued to aggressively pursue transactions that would support its expansion in the natural gas business. First, on September 21, 2006, Edison and Sonatrach (the national Algerian hydrocarbons company) signed an agreement for the supply of two billion cubic meters of natural gas a year. This new supply of natural gas will flow through the Transmed natural gas pipeline, thanks to an upgrade of the TTPC (Trans Tunisian Pipeline Company) pipeline. This pipeline links Algeria with Italy via Tunisia. Provided the upgrade project proceeds on schedule, deliveries of natural gas are expected to start in October 2008 and will run through 2019.
Subsequently, on November 15, 2006, Edison and Sonatrach signed an agreement for the supply of an additional two billion cubic meters of natural gas a year. This capacity will be made available through the Galsi natural gas pipeline. This pipeline, which will link Algeria with Sardinia and Tuscany, is currently being developed. Deliveries of natural gas are expected to start as soon as the pipeline project is completed and will continue for 15 years. On December 20, 2006, in a significant development concerning the construction of this pipeline, Galsi's Extraordinary Shareholders' Meeting approved a 30-million-euro capital increase and amended the company's Bylaws to transform Galsi from a research company into a development, guidance and management company.

Opposite page: construction phase of Altomonte (CS) power plant.

Edison is developing new importing infrastructures in order to diversify the supply sources and give Italy a safe gas availability. In the first picture, gas production off-shore platform, in the third the LNG terminal under construction at Algeciras (Spain).

STREAMLINING THE CORPORATE ORGANIZATION AND CHANGING OUR PORTFOLIO OF BUSINESSES

Edison Sells Its High Voltage Network to Terna

On November 24, 2006, after receiving the approval of the relevant antitrust authorities, Edison Spa completed the sale of 100% of Edison Rete Spa to Terna Spa.

This sale, which was valued at more than 320 million euros, improved the Group's consolidated net financial position by an equal amount and generated a net gain of more than 100 million euros on Edison's consolidated balance sheet.

Edison Sells Its Interest in Serene to BG Italia for 98 Million Euros

On December 14, 2006, Edison and BG Italia Spa signed an agreement that calls for BG Italia Spa to acquire a 66.3% interest in Serene Spa. BG Italia 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, closed on February 14, 2007 following its approval by the relevant antitrust authorities, will improve the consolidated net financial position in 2007, by about 130 million euros.

OTHER KEY EVENTS

Seven-Year Credit Lines Totaling 1.5 Billion Euros Are Secured on Extremely Advantageous Terms

On April 12, 2006, as part of a series of activities carried out to further enhance the Company's financial profile, Edison signed a 1.5-billion-euro loan agreement with a pool of international banks. This new credit line, which will replace more costly credit lines, will cover the Company's funding needs, shifting significantly the maturity profile of its indebtedness.

EU Commission Penalties

On May 9, 2006, the European Commission informed Edison of its decision on the proceedings regarding violations of Article 81 of the Treaty concerning the hydrogen peroxide and sodium perborate markets. The decision established that a former agreement among 17 companies restrained competition in the abovementioned businesses. The decision also imposed penalties on 16 companies, one of which is Edison Spa. Edison Spa is the successor company to Montedison Spa, which controlled Ausimont Spa (today Solvay Solexis Spa) at the time of the alleged unlawful events.
Edison is being fined 58.1 million euros, 25.6 million euros of which are payable jointly with Solvay Solexis Spa. Montedison (now Edison) was held liable because it controlled 100% of Ausimont's share capital during the period of the alleged unlawful conduct by Ausimont (1995-2000). The investment in Ausimont was sold to Solvay SA in 2002. Edison has always claimed that it had no involvement with the cartel and plans to file an appeal with the Lower Court of the European Community.

Standard & Poor's Reaffirms the Company's BBB+ Credit Rating

On May 12, 2006, after completing its review, the rating agency Standard & Poor's reaffirmed Edison's BBB+ long-term credit rating, with stable outlook. This rating reflects the Company's strong position in the Italian energy industry; the recent change in the shareholder base, which is being viewed as a source of stability for the future; and the favorable growth outlook of the Italian market.

The Shareholders' Meeting Votes to Restrict the Available Reserves and Part of The Share Capital

On October 11, 2006, the Shareholders' Meeting of Edison Spa, acting in accordance with the Single Article, Section 469, of Law No. 266 of December 23, 2005 and supplemental and related provisions, approved resolutions by which it placed a tax restriction on available reserves and a portion of the share capital totaling 703,508,704.52 euros.
These resolutions became necessary after Edison opted to realign the values assigned to certain facilities for tax purposes to the higher amount used for statutory reporting purposes, as required by the abovementioned law. The realignments had been communicated to the market on August 2, 2006. Consistent with its strategy of maximizing economic and financial benefits, Edison carried out realignments totaling about 799 million euros, on which it paid a substitute tax of 12%, or 96 million euros, in June, thereby releasing provisions for deferred taxes totaling 298 million euros. As stated in the 2006 Semiannual Report, the net impact on the Group's result totaled 202 million euros.

FINANCIAL HIGHLIGHTS
FOCUS ON RESULTS

Edison Group

(in millions of euros)	2006	2005 (*)	% change
Sales revenues	8,523	6,629	28.6%
EBITDA	1,536	1,288	19.3%
as a % of sales revenues	*18.0%*	*19.4%*	
EBIT	752	639	17.7%
as a % of sales revenues	*8.8%*	*9.6%*	
Profit before taxes	559	442	26.5%
Group interest in net profile	654	504	29.8%
Capital expenditures	489	598	(18.2%)
Investments in exploration	41	22	86.4%
Net invested capital (A + B)	11,146	11,251	(0.9%)
Net borrowings (A)	4,256	4,820	(11.7%)
Shareholders' equity before minority interest (B)	6,890	6,431	7.1%
Group interest in Shareholders' equity	6,743	6,272	7.5%
ROI [2]	6.81%	5.84%	
ROE [3]	10.05%	8.42%	
Debt/Equity ratio (A/B)	0.62	0.75	
Gearing (A / A+B)	38%	43%	
Number of employees [1]	2,923	2,963	
Stock market prices (unit price ineuros) [4]			
- Common shares	1.9483	1.7344	
- savings shares	2.2385	1.8303	
- warrant	1.1132	0.8334	
Profit (Loss) per share			
- basic	0.1522	0.1173	
- diluted	0.1380	0.1068	

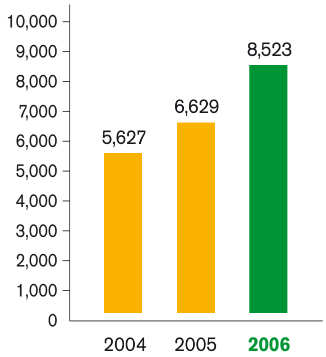
[1] Companies consolidated line by line and Group interest in companies consolidated by the proportional method.
[2] EBIT/Average net invested capital.
Net invested capital does not include the value of equity investments held as fixed assets and is computed as the arithmetic average of the net invested 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] Simple arithmetic average of the prices for the last calendar month of the year.
(*) Data restated following the adoption of IFRIC 4.

Edison Spa

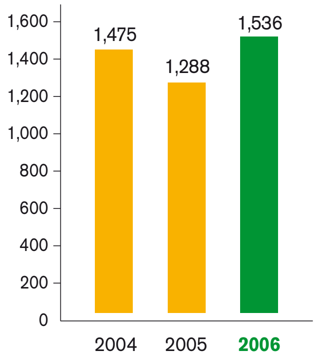
	2006	2005	% change
Sales revenues	4,855	4,058	19.6%
EBITDA	783	637	22.9%
as a % of sales revenues	*16.1%*	*15.7%*	
EBIT	321	306	4.8%
as a % of sales revenues	*6.6%*	*7.6%*	
Net profit (loss) for the period	632	516	22.5%
Capital expenditures	301	407	(26.0%)
Net invested capital	9,021	9,089	(0.7%)
Net borrowings	3,412	3,930	(13.2%)
Shareholders' equity	5,609	5,159	8.7%
Debt/equity ratio	0.61	0.76	(20.1%)
Number of employees	1,801	1,782	1.1%

Key Group Data
(in millions of euros)

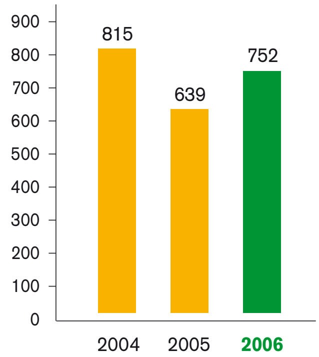
Sales revenues



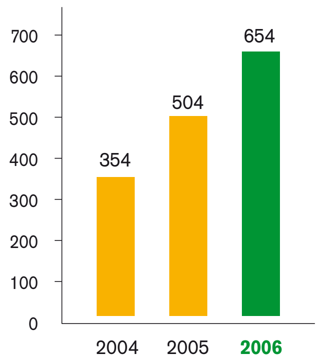
EBITDA



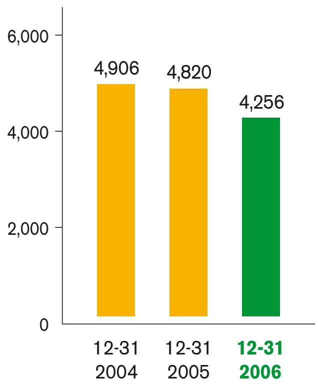
EBIT



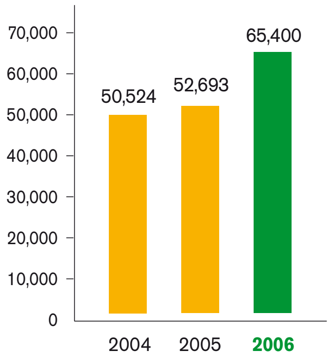
Group Interest in Net Profit



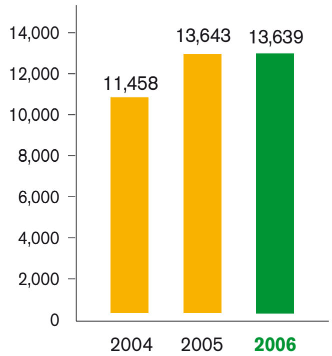
Net Borrowings



Electric Power Sales
(GWh)



Gas sales
(Msmc)



Sales Revenues and EBITDA by Business

(in millions of euros)	2006	2005 (*)	% change
Core businesses			
Electric Power Operations (1)			
Sales reveunes	6,945	4,972	*39.7%*
EBITDA	1,162	988	*17.6%*
as a % of sales reveunes	*16.7%*	*19.9%*	
Hydrocarbons Operations (2)			
Sales reveunes	4,171	3,303	*26.3%*
EBITDA	434	353	*22.9%*
as a % of sales reveunes	*10.4%*	*10.7%*	
Corporate Activities			
Sales reveunes	43	42	*2.4%*
EBITDA	(70)	(76)	*7.9%*
as a % of sales reveunes	*n.m.*	*n.m.*	
Eliminations			
Sales reveunes	(2,670)	(1,940)	*37.6%*
EBITDA	-	-	
Total core businesses			
Sales revenues	**8,489**	**6,377**	**33.1%**
EBITDA	**1,526**	**1,265**	**20.6%**
as a % of sales revenues	***18.0%***	***19.8%***	
Other operations			
Continuing Operations			
Water			
Sales reveunes	34	31	*9.7%*
EBITDA	10	8	*25.0%*
as a % of sales reveunes	*29.4%*	*25.8%*	
Engineering (3)			
Sales reveunes	-	221	*n.a.*
EBITDA	-	15	*n.a.*
as a % of sales reveunes	-	*6.8%*	
Eliminations			
Sales reveunes	-	-	-
EBITDA	-	-	-
Total other operations			
Sales revenues	**34**	**252**	**(86.5%)**
EBITDA	**10**	**23**	**(56.5%)**
as a % of sales revenues	***29.4%***	***9.1%***	
Gruppo Edison			
Sales revenues	**8,523**	**6,629**	**28.6%**
EBITDA	**1,536**	**1,288**	**19.3%**
as a % of sales revenues	***18.0%***	***19.4%***	

(*) Data restated following the adoption of IFRIC 4.
(1) Activities carried out by the following Business Units: Electric Power Operations, Energy Management and Electrical Marketing & Sales.
(2) Activities carried out by the following Business Units: Hydrocarbons Operations, Gas Supply & Logistics and Hydrocarbons Marketing & Sales.
(3) Activities carried out by the Tecnimont subsidiary until June 30, 2005. This company was later sold.

PERFORMANCE AND RESULTS OF THE GROUP

Operating Performance

Sales revenues were up strongly in 2006, rising by 28.6% compared with the previous year. A breakdown by type of business shows increases of 39.7% for the electric power operations and 26.3% for the hydrocarbons operations.
The main reason for this improvement was a rise in average sales prices, which reflected an increase in raw material prices in the international markets.
The electric power operations enjoyed a sustained expansion in unit sales throughout the year (+24.1%), with a significant gain in the deregulated market (+49.2%) that was made possible in part by the full availability of new power plants in Candela, Altomonte and Piacenza, and the startup of the Torviscosa power plant.
The hydrocarbons operations reported unit sales that were in line with the previous year.

EBITDA rose by 248 million euros (+19.3%) to 1,536 million euros. With respect to the previous year, this remarkable gain reflects primarily the increased production of electric power, which was made possible by a rise in installed generating capacity and the full availability of the plants.
The hydrocarbons operations benefited from the impact of higher benchmark oil prices on oil and gas exploration and production activities and by a renegotiation of the prices paid for natural gas under certain long-term supply contracts. These favorable developments were offset in part by the impact of provisions set aside in response to changes in industry regulations made by the AEEG. These changes are discussed in greater detail in the section of this Report that discusses trends in the regulatory framework.

As a result of the improved performance described above, EBIT grew to 752 million euros in 2006, or 17.7% more than the 639 million euros earned the previous year. It is worth noting that EBIT were reduced by about 80 million euros in additional depreciation that was booked as a result of a change in the method by which CIP6/92 power plants are depreciated.

Net profit jumped to 654 million euros, or 29.8% more than the 504 million euros earned in 2005. This improvement was made possible by the positive operating performance described above and by nonrecurring gains. The largest of these gains was generated by the sale of the power line network, which, at 114 million euros, was significantly higher than the 86 million euros earned in 2005 on the sale of Tecnimont. Another positive factor was 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 (Law No. 266 of December 23, 2005), which produced a net benefit of 202 million euros, that compensated the tax benefit decrease also due to the tax loss carry forward of Edison Spa, exhausted in 2005.

At December 31, 2006, the Group's net borrowings totaled 4,256 million euros, an amount significantly lower than the 4,820 million euros owed at the end of 2005. A more detailed analysis of the main components of this item is provided in the paragraph on Net Borrowings in the section of the Consolidated Financial Statements. Moreover, in the paragraph "Risk Management and Hedging Strategies" a special section about the financial covenants is available.

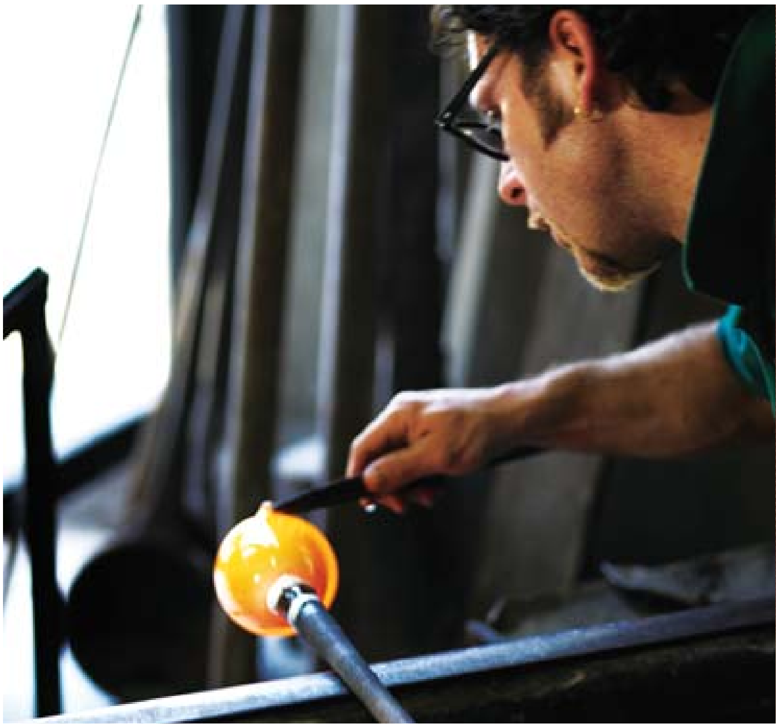
The table below provides an analysis of the Group's net financial position:

(in millions of euros)	2006	2005
A. Net borrowings at beginning of period	**(4,820)**	**(4,846)**
EBITDA	1,536	1,288
Change in operating working capital	(121)	(192)
Income texes paid (-)	(93)	(131)
Change in other assets (liabilities)	30	(141)
B. Cash flow from operating activities	**1,292**	**824**
Investment in property, plant and equipment, intangibles and non-current financial assets (-)	(633)	(883)
Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	373	470
Dividends received	0	8
C. Free Cash flow	**1,032**	**419**
Financial income (expense), net	(246)	(203)
Contributions of share capital and reserves	-	18
Dividends declared (-)	(196)	(11)
D. Net Cash flow from financial activities	**590**	**223**
Change in the scope of consolidation	(26)	(197)
E. Net Cash flow for the period	**564**	**26**
F. Net Borrowings at the end of period	**(4,256)**	**(4,820)**

Outlook for 2007

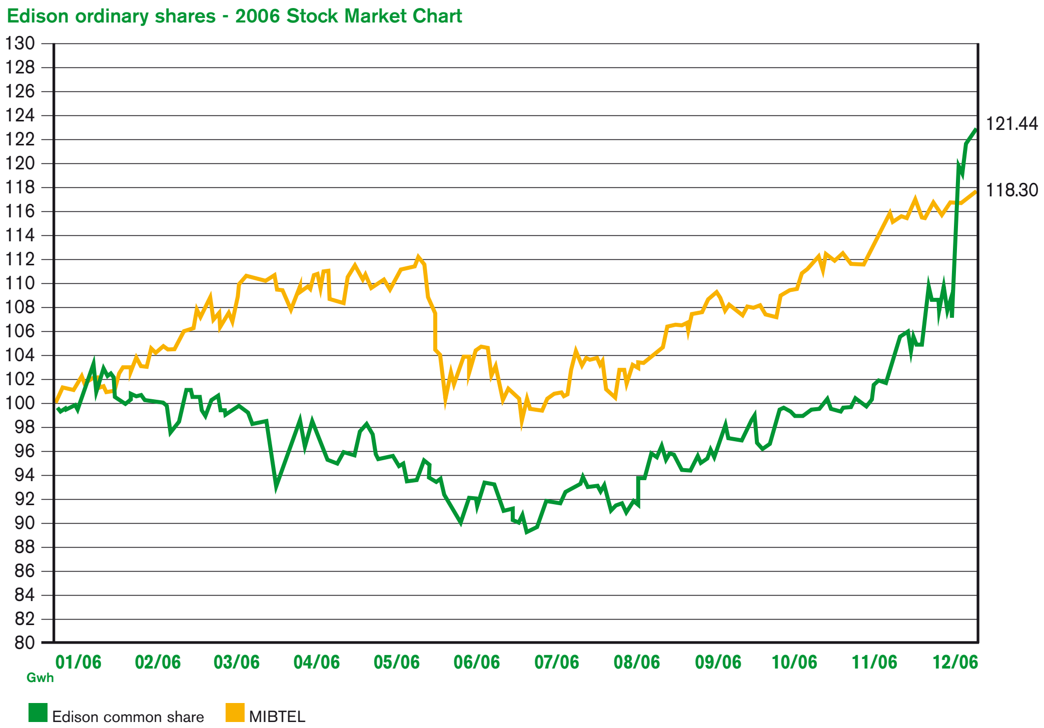
The full availability of the Torviscosa power plant and the commissioning of the Simeri Crichi and Turbigo facilities in 2007, coupled with the Group's efforts to optimize its energy portfolio, should offset the impact of unfavorable external events, such as lower oil prices and changes in the statutory and regulatory environment, particularly in the area of CIP6/92 activities. In 2007, industrial results should be in line with those reported for the year just ended. The Group's financial position is expected to show further improvement, due to the exercise of the warrants that are still outstanding.

We are deeply committed in giving flexible and effective replies to our clients in order to create strong partnerships.



EDISON AND THE FINANCIAL MARKETS

Chart of the stock market prices of the Edison shares in 2006.



Stock Market Price and Other Per Share Data

(in millions of euros)	December 31, 2006	December 31, 2005
Edison Spa		
Stock market price (unit price in euros)[1]		
- common shares	1.9483	1.7344
- savings shares	2.2385	1.8303
- warrants	1.1132	0.8334
Number of shares (at end of period)		
- common shares	4,162,547,033	4,162,515,334
- savings shares	110,592,420	110,592,420
Total shares	**4,273,139,453**	**4,273,107,754**
Warrant	1,018,616,924	1,018,648,623
Edison Group		
Basic earnings (loss) per share (in euros)[2]	0.1522	0.1173
Diluted earnings (loss) per share (in euros)[2]	0.1380	0.1068
Group interest in shareholders' equity per share (in euros)	1.578	1.468
Price/Earning ratio (P/E) [3]	13.62	14.58

(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, 2005
Standard & Poor's		
Medium/long term rating	BBB+	BBB+
Medium/long term Outlook	Stable	Stable
Short term Rating	A-2	A-2
Moody's		
Rating	Baa2	Baa2
Medium/long term outlook	Stable	Stable

EVOLVING SCENARIO
MARKETS AND LAWS

ECONOMIC FRAMEWORK

The international economy continued to grow in 2006, but the rate of growth, which had been extremely high during the first half, slowed during the closing months of the year. This change reflects the impact of such causes of uncertainty as geopolitical developments, high oil prices, a weak U.S. dollar and stubborn balance of payment imbalances.

The slowing in the rate of growth of global GDP during the second half of 2006 mainly reflects weakness in the U.S. economy, which experienced slower growth due primarily to a collapse in investments in residential real estate and the trade-balance deficit. This unfavorable trend affected Europe and China as well. However, despite a deceleration in the pace of economic expansion, annual growth in the euro-zone countries was significant (+2.7% in 2006, compared with 1.5% in 2005), and this trend is expected to continue in 2007, albeit at a slower rate due to a decline in the level of world trade. Leading experts believe that Europe appears to have developed the ability to sustain a growth cycle that is not affected by conditions in the international economy and is less vulnerable to the impact of changing trends in the U.S. economy. In China, despite some slowing caused by restrictions imposed by the monetary and tax authorities on interest rates, required reserves and compliance obligations, the growth rate should remain high, hovering around 10% in 2006.

The Italian economy, which had experienced a long difficult period, began to grow again in 2006, expanding at a rate that, while significant (+1.8%, nearly null in 2005), was slower than those of its main European partners.

In the area of exchange rates, the euro continued its steady rise versus the U.S. dollar, owing in part to the slowing of the U.S. economy that was mentioned above and to the trade imbalance experienced by the United States. Specifically, the exchange rate hovered between USD 1.18 and USD 1.24 for one euro through April, rose above USD 1.25 for one euro in May and remained consistently above USD 1.31 from the end of November. As a result, the average for the year was USD 1.26 for one euro, which is slightly higher than the average for 2005 (USD 1.24 for one euro).

As for inflation, a stronger euro and a decrease in energy prices later in the year had a positive impact on the consumer price index, which showed a smaller rate of increase, trending at 2.1% in 2006 in the euro-zone countries (2.2% in 2005). In the United States, which continues to be a country with a high risk of cost inflation, a drop in energy prices caused a reduction in import prices. This development had a positive impact on inflation at the consumer level, which trended at 3.2% in 2006 (3.5% in 2005).

Key Economic Data

	2006	2005	% change
Oil price USD/bbl	65.1	54.4	19.8%
USD/euro exchange rate	1.26	1.24	0.9%
Oil price euro/bbl	51.9	43.7	18.7%

Opposite page: the LNG terminal under construction at Algeciras (Spain).

In the oil market, 2006 was characterized by major price swings, with the price of Brent crude averaging about USD 65/bbl, up 19.8% over the average for the previous year. During 2006, the price of crude oil set new record highs, with monthly averages in excess of USD 73/bbl and peaking at USD 78.3/bbl at the beginning of August. Subsequently, prices declined steadily, falling to USD 55/bbl at the end of October, rebounding to USD 65/bbl at the beginning of December and then sliding again and bottoming out at USD 50/bbl in mid-January 2007.

According to experts, the reasons for these high prices and their extreme volatility are due to several factors, including a global shortage of refining capacity, geopolitical tensions and speculative activity in crude futures. In addition, a long sequence of events that occurred during the last three years - the latest being the partial shutdown of production in Alaska at the beginning of August - significantly curtailed crude oil production in certain areas.

THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy

TWh	2006	2005	% change
Net production	301,7	290,6	3,8%
Imports	44,7	49,2	(9,0%)
Surges	(8,6)	(9,3)	(7,2%)
Total demand	**337,8**	**330,4**	**2,2%**

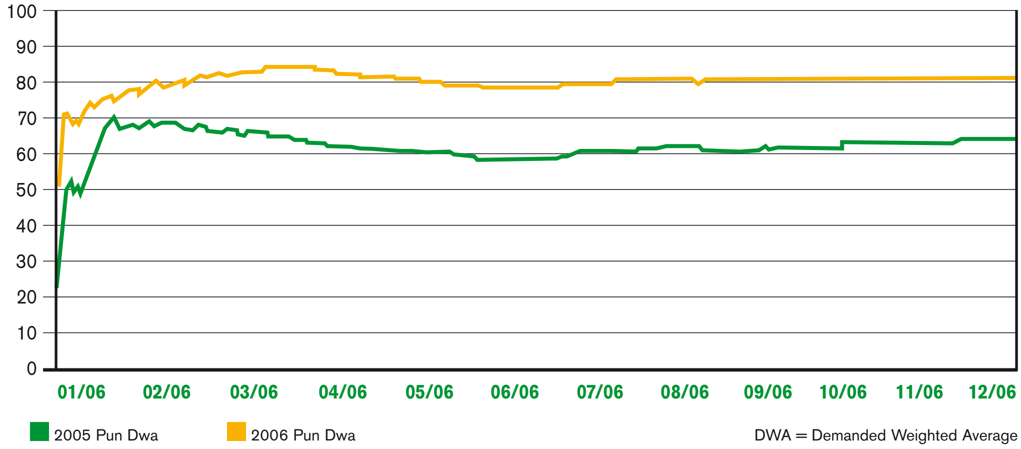
Source: Analysis of official 2006 data and preliminary Terna and AU year-end data, before line losses.

In 2006, gross total demand for electric power from the Italian grid totaled 337.8 TWh (1 TWh = 1 billion kWh), or 2.2% 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 2.3%. The highest demand for electric power occurred in northern Italy (156.2 TWh, equal to 46.2% of total domestic demand), while the internal flows of electric power were concentrated mainly toward the center of the country.

Net of surges, domestic production was sufficient to meet 86.8% of demand, compared with 85.1% in 2005. Net imports decreased from 14.9% to 13.2% due to a reversal of pricing trends between Italy and the rest of Europe between December 2005 and March 2006. This development produced a sharp reduction in imports and a concurrent upturn in exports.
The increase in demand, a drop in net imports and the limited availability of water resources that characterized 2006 (as was the case in 2005) resulted in a sharp rise in thermoelectric production (+10 TWh) made possible in part by the commissioning of new power plants.
In the area of renewable resources, wind power facilities performed extremely well, increasing production by 37% (+0.87 TWh) compared with 2005, while hydroelectric production were substantially unchanged compared to previous year.

Demand from captive customers decreased to 155.7 TWh, accounting for 46.1% of domestic demand. On the other hand, the deregulated market continued to expanded at a healthy pace (more than 10%), to a level equal to 47.6% of total demand, surpassing for the first time the percentage of the captive segment of the market.

As for prices, the demand-weighted average Single National Price (abbreviated PUN in Italian) increased to euros 80.0/MWh, or about 27% more than in 2005 (?63.2/MWh). The chart below shows a comparison of the PUN trend in 2006 and 2005:



Demand for Natural Gas in Italy

Billions of m³	2006	2005	% change
Services and residential customers	28.2	30.1	(6.3%)
Industrial users	21.0	21.7	(3.2%)
Thermoelectric power plants	33.8	32.9	2.8%
Transportation	0.49	0.46	6.1%
Total demand	**83.5**	**85.2**	**(1.9%)**

Source: Official 2005 data and preliminary 2006 data provided by the Ministry or taken from Edison estimates, net of system usage and leaks.

In 2006, Italian demand for natural gas decreased to 83.5 billion cubic meters (net of system usage and leaks), or 1.9% less than in the previous year.
This shortfall, which reverses the strong upward trend of recent years (+7% annually between 2002 and 2005), is the net result of the following factors:

- The emergency measures introduced by the Ministry of Economic Development in the first quarter of the year, which produced a significant reduction in natural gas consumption in Italy (estimated at about 1.2 billion cubic meters, 0.9 billion cubic meters of which are attributable to thermoelectric users);
- A sharp drop in demand from households (-6.3%) caused mainly by unusually warm temperatures in November and December 2006 (in these two months consumption was about 20% less than in 2005);
- Higher demand from thermoelectric power plants (+2.8%, a rate lower than the strong gains recorded in recent years), driven by the commission of new combined-cycle generating facilities;
- A performance comparable to that of 2005 in the demand from industrial users (-3.2%) and for transportation applications (+6.1%, but this segment accounts of an extremely small portion of the total market).

Overall, 40% of natural gas supplies are currently used for thermoelectric production, 34% for residential uses and 25% for industrial applications. Demand from transportation users accounts for less than 1% of the total.
With regard to supply, a reduction in domestic production (-8.5% compared with 2005, consistent with the downward trend that characterized recent years and is expected to continue in the future) was offset by a rise in imports (+6% in 2006), particularly gas coming from Libya (the supply stream reached full capacity in the first half of 2006). In addition, the Ministry of Economic Development ordered operators to maximize imports during two separate periods of the year (from January 1 to June 5, in response to the weather emergency of the 2005/2006 winter season, and from November 13 on, as a preventive measure for the 2006/2007 winter season).
Lastly, during February and March 2006, the Italian system was forced to tap the strategic reserve (to the tune of about 1.2 billion cubic meters) for the second consecutive year in order to meet winter demand, due mainly to the cold weather that characterized the 2005/2006 winter season and, to a lesser extent, a reduction in imports that occurred in January 2006 as shipments of natural gas from Libya, Russia and northern Europe were curtailed.

REGULATORY FRAMEWORK

Electric Power

The main legislative measures and significant developments that affected the regulatory framework of the electric power industry in 2006 are reviewed below.

Production

Consistent with the provisions of Presidential Decree No. 19 of January 25, 2006, the Ministry of Economic Development enacted a series of Decrees to address the so-called "natural gas emergency."
The Ministry issued 12 Interministerial Decrees (one for each of the power plants required to decrease natural gas usage), ruling that, for the duration of the emergency period, the owners of the affected power plants would not be required to comply with the emissions ceilings that apply to fuel-oil burning production facilities with a generating capacity that is greater than 300 MW.
The Electric Power Exchange was also affected by the gas emergency mentioned above, which required that certain changes be made to the facilities production scheduling and dispatching system during the early months of 2006. Specifically, the measures adopted were designed to maximize production by facilities that are fired with fuel oil, with production scheduling taken over by the operator responsible for dispatching in the national electric power system and operating the system itself (Terna).
Dispatching safety for these power plants was provided by changing the facilities dispatching system and directly altering the economic merit order in the day-ahead market. Fuel-oil based power plants were classified as facilities that are "essential" for the national electrical system and, consequently, enjoyed priority dispatching over other thermoelectric production units (gas-fired facilities).
With regard to this issue, in August, upon the conclusion of the consultation process that got under way on June 21, 2006, the AEEG issued Resolution No. 178/06, setting forth the criteria for computing the higher costs incurred by operators to run generating equipment that burns fuel oil and the compensation that should be paid to cover them. These criteria take into account the impact of the efforts made by electric utilities to overcome the natural gas shortage crisis and the gains they may have earned in the Power Exchange.

The second half of 2006 was characterized by intense regulatory activity surrounding the so-called CIP6/92 power plants.
Initially, with the approval of Resolution 113/06 on June 16, the AEEG provided guidelines for recognizing the charges incurred as a result of the impact of Article 11 of Legislative Decree No. 79/99 (the so-called green certificates), limited to electric power generated by power plants that use fuels classified as equivalent to renewable sources but do not qualify as co-generating facilities, as defined in Resolution No. 42/02, that was sold to the Operator of the Electric Power System pursuant to Title II, Item 3, of CIP Resolution No. 6/92. This resolution, which is consistent with previous resolutions (8/04 and 101/05) on energy for captive customers, defines the criteria and methods for computing the refund for the power generated in 2002 and 2003, which produced an obligation in 2003 and 2004, respectively. On this basis, Edison was a warded a refund for the costs incurred to produce energy from facilities that, during the years in question, had not yet completed the eight-year incentive period referred to in Title II, Item 3, of the CIP 6/92 Decree. However, the abovementioned resolution did not deal with the recognition of the costs incurred pursuant to Article 11 of Legislative Decree No. 79/99 for energy produced after the expiration of the period during which payment of the components referred to in Title II, Item 3, was provided.

Subsequently, in July, the AEEG published a consultation document in which it stated its position concerning a revision of the criteria used to compute and update the avoided-fuel-cost (AFC) component of the price at which CIP 6/92 energy is sold. The AEEG, using the opportunity provided by the expiration of the Snam-Confindustria contract, which was used as a benchmark to update the AFC component, issued Resolution No. 249/06, which introduced a new mechanism to compute and update the

AFC component. Starting in 2007, this Resolution lowers the amount of avoided fuel costs paid to CIP 6/92 producers and applies the same updating method as in the residential market. The AEEG reserved the right to modify parameters and criteria for years after 2007.
This Resolution has been appealed by all affected operators, including Edison. The main reason for claiming that the Resolution is illegitimate is the AEEG's lack of authority to alter the financial terms set forth in the CIP 6/92 Decree with regard to "chosen projects." With regard to these projects, Law No. 481/95, which established the AEEG, clearly shows (and a specific decision by the Council of State confirms) that the intent of the legislators was to protect the legitimate expectation of operators of a stable economic framework when making the decision to invest in CIP 6/92 power plants, which, at the time, were needed in Italy, given the situation that existed in the early 1990s, when an energy shortfall was a concrete possibility. Moreover, it is difficult to justify not only the cut in the accepted price level, but also the drastic change made by the AEEG to the updating method. Specifically, the AEEG makes reference to mechanisms that are typical of the residential market, the characteristics of which are significantly different from those of the gas market for thermoelectric applications, to which the CIP 6/92 Decree makes express reference, and entail major problems due to the existence of "protection clauses" that make finding appropriate hedges in the financial markets difficult and expensive.

Lastly, on November 15, 2006, addressing issues that concern CIP 6/92 production facilities and taking into account the need to make the operating and financial objectives of the operators consistent with the overall goals of the society at large with regard to environmental protection and efficient use of resources, the AEEG launched a consultation process to define the criteria that should be applied to reimburse the owners of facilities that operate under CIP 6/92 rules for any additional costs incurred due to the implementation of the Emissions Trading directive (2003/87/CE).

Energy Market

The salient event of 2006 was the publication of AEEG Resolutions No. 165/06 and No. 314/06, which changed in part the Dispatching Services Market (DSM). As a result of these Resolutions, the rules governing the operation of the DSM in 2007 will include the following: Terna will have the option of making forward purchases of dispatching services, with eligible operators able to participate in these transactions; the margin of error that purchasers of dispatching services who make mistakes in planning these services and communicating their plans will not be required to cover is being reduced from 7% to 3%; Terna will also have the option for the current year of making additional offers (as a seller and a buyer) to pull the variance between Terna's projected requirements and the total bids made in the DSM back under the established threshold of 2%.

The AEEG also issued Resolution No. 111/06, with which it introduced an Energy Account Platform (EAC) for the communication and registration of bilateral contracts on the Electric Power Exchange. Starting on April 1, 2007, operators will have access to a more flexible tool to trade electric power.
On August 2, 2006, following a consulting process launched on July 3, 2006, the AEEG issued Resolution No. 181/06, in which it approved the new billing time bands that went into effect on January 1, 2007. The new system is based on three different billing time bands, which make it possible to assign a different value to energy during the day and at night and on weekdays, Saturdays, Sundays and holidays. The purpose of this Resolution is to simplify the structure of the billing time bands, making the system easy to use for operators and capable of delivering a strong pricing message to end users. The ultimate goal is to encourage the ever more rational use of energy and energy conservation. The Resolution underwent an innovative procedure called Regulation Impact Analysis (RIA), which was used to explain the reasons for the choices made by the AEEG.

Lastly, through Resolution No. 288/06, the AEEG set forth the methods and conditions that will apply to imports and exports of electric power in 2007, in keeping with the guidelines provided by the Min-

From left to right: the new Edison power plants
of Altomonte, Candela, Torviscosa
and the Piacenza power plant of Edipower.

istry of Economic Development in a Decree issued on December 15, 2006. Specifically, the Resolution provides the following:

- Market mechanisms will be used to award rights to use transmission capacity, based on open annual, monthly and daily auctions carried out jointly by interested grid operators at the borders of all of the countries of the European Union and to award 50% of the right to use the transmission capacity provided by Terna at the border with Switzerland and Slovenia;
- Continuing the practice of prior years, the entire proceeds from these auctions will be used exclusively to benefit end users, consistent with the relevant provisions of European regulations.

Retail Market

As part of the process of developing a Code of Commercial Conduct for the sale of electric power to eligible low-voltage end customers, the AEEG introduced provisions that govern the economic and contractual aspects of offers that sellers are required to provide when making sales offers in connection with contract renewals and/or upon the request of a customer. This initiative was required to allow end customers, who will be able to change their supplier of energy following the full deregulation of the market on July 1, 2007, to have access to all of the information necessary to make a choice: transparency of the price charged, method used to communicate any changes to contract terms, manner in which the right to terminate the contract may be exercised.
Also in anticipation of the deregulation of the sale of electric power to end customers, the AEEG amended the existing provisions governing the obligation to provide transparent bills, providing a list of information that all sellers are required to include in electric bills, so as to allow customers to understand and verify the computations performed to arrive at the final amount. In order to allow the required information to be listed on the bill, the AEEG must define the flow of information that distributors must provide to sellers.

Environment

Emissions Trading: A consultation process to define the National Allocation Plan for the second period (2008-2012), as required under obligations arising from Directive 2003/87/CE of the European Parliament and Council, was carried out from July to December 2006.

The process got under way on July 13, 2006 with the publication of the “Outline of the National Allocation Plan” for the 2008-2012 period by the Ministry of the Environment. The consultation activities

ended on September 5, 2006. The observations gathered up to that point were taken into account when issuing DEC/RAS/1448/2006 (on December 18, 2006), which defines the rules for allocating quotas to the facilities to which the Emissions Trading Directive applies. This document also contains a list of the facilities and the respective allocations, which provides a basis for participating in the emissions quotas trading system.

The abovementioned document has been submitted to the European Commission and is now being reviewed by the EU authorities, who will rule within three months on whether the Plan developed by Italy is in compliance with a set of parameters and criteria designed to ensure that the emissions reduction objectives of the Kyoto Protocol can be achieved appropriately.

Renewable Sources: The regulatory framework needed to implement Legislative Decree No. 387/03 is still incomplete. The missing legislation includes a decree setting forth additional increases (for the three-year period from 2007 to 2009) in the minimum quantity of electric power generated by facilities that use renewable sources that must be fed into the national grid. The definition of this obligation is essential to evaluating the size of the Green Certificates market in the coming years.
Subsequent to its approval, the Uniform Environmental Act (Legislative Decree No. 152 of April 3, 2006), which is currently being revised, was found to contain certain shortcomings with regard to the green certificates system, concerning, for example, the length of the incentive period (especially with regard to biomass) and the manner in which the market operates, particularly with respect to the so-called double market for green certificates issued in connection with power generated from renewable sources and district heating systems.
In addition, it is important to keep in mind that in recent months, while the details of the current green certificates incentive system are being defined, government officials have been discussing the possibility of significantly changing the existing system (Ronchi Project Law)..

Hydrocarbons

In 2006, regulatory activity focused mainly on rate issues and access to infrastructures. Significant attention was also paid to issues related to the weather emergency, which resulted in the enactment of a series of regulatory measures that involved a coordinated effort by the Ministry of Economic Development, the AEEG and energy operators.
The main legislative developments are reviewed below.

Access to Infrastructural Facilities

With regard to the issue of access to storage facilities, the work carried out by industry operators (Stogit and Edison Stoccaggio) with the Consultation Committees established last year to provide representation for all interested parties (users, transmission and distribution companies, and consumers) resulted in the issuance of Resolution 220/06, which approved the Stogit Code.
By Resolution No. 53/06, the AEEG established a similar Consultation Committee to represent all interested parties (users, storage companies, regasification companies and trade associations) in order to update the existing Network Transmission Codes.
In addition, upon the conclusion of an investigation launched in February to determine whether certain sellers of natural gas inappropriately used the modulation storage capacities allocated for the 2004-2005 and 2005-2006 thermal years, the AEEG imposed administrative fines on five companies, including Edison Spa. While Edison challenged this decision, it established a separate provision for risks for the full amount of the fine (20 million euros).

In the area of regasification terminals and transmission networks, the Ministry of Economic Development issued two important decrees in April that establish the rules for granting exemptions from third-party access obligations (i.e., the right of third parties to have access to newly built infrastructures such as natural gas pipelines and regasification terminals) and regulating access to the national network of natural gas pipelines by the infrastructures that benefit from the abovementioned exemptions. Subsequently, the AEEG issued Resolution 168/06, which defines in detail the method for allocating transmission capacity in the national network of natural gas pipelines to operators of new regasification terminals who benefit from an exemption (currently only the Rovigo and Brindisi regasification terminals).

With regard to the issue of access to distribution facilities, Resolution No. 108/06 made the standardized network code required by an earlier Resolution (138/04), which was published upon the conclusion of a project carried out by a work group that comprised representatives of the AEEG, available to distributors and users. This code, which regulates access to the network and the provision of the service, is the most important contractual tool for the purpose of regulating transactions between distributors and users. It is important to keep in mind that the code model proposed by the AEEG is optional and that distributors can submit alternative codes to the AEEG for approval.
At the end of December, the AEEG issued Resolution No. 294/06, by which it defined a national communication standard that is binding on all distributors and sellers, and, at the same time, established a work group to complete the regulatory measures applicable to the standard.
With this Resolution, the AEEG intended to make the natural gas market increasingly transparent and to address the issues raised through an investigation of sales practices (Resolution No. 235/06).

Rates

In June 2006, the AEEG addressed the issue of the rates charged to end customers in the so called “former captive market” in Resolution No. 134/06, which, without prejudice to the principles of Resolution No. 248/04 (which was annulled by the Council of State), agreed in part with the issues raised by the operators. The main features of this Resolution are reviewed below:

- it provides an update of the method used to compute the “raw material” component of the rates charged to customers starting in the third quarter of 2006 (allowing, among other things, the payment of a fixed fee of 0.015 euros per cubic meter);
- effective October 1, 2006, it limits the scope of implementation of the rates covered by the Resolution to the domestic market;
- lastly, it ordered wholesalers to revise the sales terms they applied to sellers who supply end customers from January 1, 2005 to September 30, 2006, providing specific financial incentives to renegotiate terms.

However, as evidenced by the start of a consultative process with operators, the issue of how the AEEG will again intervene to remedy the effect of the reversal of the old rules adopted with regard to rates is still unresolved.

As for storage rates, the AEEG has completed the consultation process with regard to the updating of the rates charged for storage services during the second regulated period and issued Resolution No. 50/06. This Resolution, in addition to redefining the criteria used to determine the service's rate structure and providing incentives for new investments, revised and expanded the provisions of Resolution No. 119/05 concerning access and use of storage capacities.

In the area of distribution, in view of the rejection by the Council of State of the appeal filed by the AEEG against a decision by the Regional Administrative Court of Lombardy concerning Resolution No. 170/04, the deadline for operators to file rate proposals with the AEEG for the 2005-2006 and 2006-2007 thermal years was extended to August 31, 2006 (Resolution No. 172/06). In addition, the AEEG completed the process of making the adjustments required by the abovementioned court decision regarding the productivity recovery rate, which resulted in a step-down approach favorable to distributors (Resolution 218/06). The AEEG also enacted measures that provide incentives for distributors who combine their operations. Among other incentives, the AEEG offered a further reduction in the productivity recovery rate to those distributors who, starting in the 2002-2003 thermal year, entered into merger or absorption transactions. Edison DG is one of the distributors who qualify for this incentive.

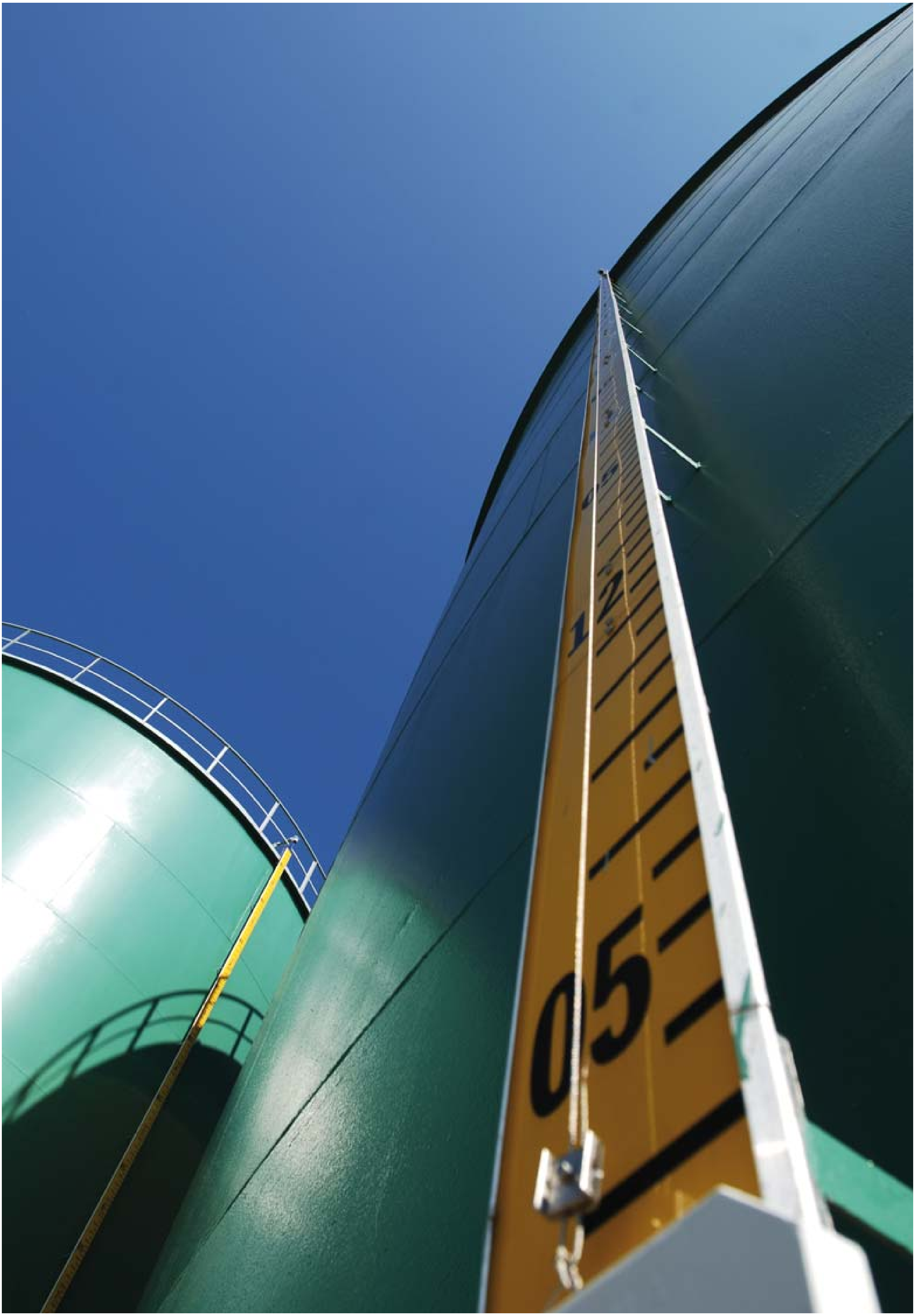
Weather Emergency

In response to the so-called natural gas emergency early in the year, the Ministry of Development and the AEEG implemented a series of measures designed to address this issue. The Ministry made permanent the provisions of the Weather Emergency Procedure (obligation to maximize imports, interrupt service to industrial and thermoelectric customers with interruptible supply contracts and reduce consumption of natural gas by residential customers). The AEEG also took steps to promote tools that could help reduce consumption further, such as providing incentives to industrial customers who are willing to enter into interruptible supply contracts.

In August, in anticipation of a new weather emergency during the winter months of the 2006-2007 thermal year, the Ministry published two decrees that ordered the following:

- the replenishment of storage inventories reserved for the modulation service by maximizing additions to stored inventories;
- the maximization of imports at entry points in the national network that are linked with foreign natural gas pipelines;
- a requirement that the AEEG issue resolutions addressing such issues as the maximization of additions to stored natural gas (Resolution No. 189/06) and the definition of incentives for importers of spot natural gas during the winter months (Resolution No. 134/06).

Lastly, at the end of December, the Ministry issued a Decree containing a new Emergency Procedure for the National Natural Gas System. This Decree sets forth the methods and procedures to be followed to manage any emergency situation that could occur during the winter months due to high demand for natural gas caused by unusually cold weather or other external causes that could jeopardize the system's safety. The changes from last winter's procedure reflect the impact of the preventive measures introduced with the Ministerial Decrees issued on August 4, 2006 and the need for greater flexibility in taking any actions that may be necessary.


05

OVERVIEW OF THE YEAR
THE GROUP'S BUSINESSES

ELECTRIC POWER OPERATIONS

Quantitative Data

Sources

in GWh (*)	2006	2005	% change
Net production of the Edison Group:	**51,923**	**44,689**	**16.2%**
- Thermoelectric power plants	35,990	30,205	19.2%
- Hydroelectric power plants	3,050	2,757	10.6%
- Wind farms	458	407	12.4%
- Edipower	12,425	11,320	9.8%
Imports	**1,471**	**1,580**	**(6.9%)**
Other domestic purchases and swaps [1]	**12,006**	**6,424**	**86.9%**
Total sources	**65,400**	**52,693**	**24.1%**

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

Uses

in GWh (*)	2006	2005	% change
CIP 6/92 dedicated	19,964	20,375	(2.0%)
Captive and other industrial customers	4,948	5,082	(2.6%)
Deregulated markets	40,425	27,086	49.2%
Exports	63	150	(57.7%)
Total uses	**65,400**	**52,693**	**24.1%**

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

Financial Highlights

(in millions of euros)	2006	2005	% change
Sales revenues	**6,945**	**4,972**	**39.7%**
EBITDA	1,162	988	17.6%
as a % of sales revenues	16.7%	19.9%	
Capital expenditures	347	511	(32.1%)
Number of employees [1]	1,962	1,992	(1.5%)

(1) End-of-period amounts.

Sales revenues grew to 6,945 million euros in 2006, or about 40% more than in the previous year. Higher unit sales (+24.1%) and a significant increase in average sales prices, which are indexed mainly to increases in the cost of fuel, account for this improvement.

EBITDA totaled 1,162 million euros, for a gain of 17.6% compared with the 988 million euros earned in 2005. This high level of profitability is the result of a rise in unit sales in the deregulated market (+ 49.2%), supported by a production increase, and of the optimization of the sales channel mix. Another positive factor was the refund awarded by the AEEG to compensate CIP 6/92 facilities for the costs incurred in previous years to purchase green certificates.

These favorable developments more than offset the negative impact of the loss of incentives for certain CIP 6/92 facilities (amounting to 32 million euros) and the absence of the contribution provided by the power-line network, which was classified among the discontinuing operations as of the second half of 2006.

Opposite page: Altomonte power plant demineralized water tank.

Sales and Marketing

In 2006, sales of electric power totaled 65,400 GWh, or 24.1% more than in the previous year. Higher market sales, which were up 49.2% to 40,425 GWh, account for this improvement. Specifically, physical sales on the Power Exchange totaled 5,990 GWh (+65.9%) and other market sales amounted to 34,435 GWh (+46.7%).
At 19,964 GWh, CIP 6/92 sales were little changed compared with 2005 (-2.0%).

Transactions executed on organized electric power markets outside Italy provided a positive contribution to the Group's performance. They amounted to 1.8 TWh but this amount is not reflected in the Sources and Uses tables above because it represents quantities bought and sold abroad.

Production and Procurement

The Group's production totaled 51,923 GWh, or 16.2% more than in 2005.
The output of thermoelectric power plants increased by 19.2% to 35,990 GWh, reflecting the achievement of full capacity by the Candela power plant and the commissioning of new facilities in Altomonte and Torviscosa. Edipower was also able to increase production (+9.8%) thanks to the full availability of the Piacenza power plant and the restarting of power plants that use fuel oil, which became necessary to help resolve the "natural gas emergency" in the first quarter of the year. It is worth to recall that during 2005 some Edipower and Edison CIP 6/92 plants were affected by extraordinary stops.
Production from hydroelectric power plants and wind farms was also up, increasing by 10.6% and 12.4%, respectively.
In 2006, in order to optimize its sources/uses portfolio, the Group purchased and imported electric power totaling 13,447 GWh (+ 68.4%).

Capital Investments

In 2006, the Electric Power operations made capital expenditures totaling about 347 million euros (of which roughly 84 million euros represent Edison's share of the amount invested by Edipower), compared with 511 million euros invested in 2005.
The developments in the thermoelectric area included startup of the Altomonte (CS) power plant at the beginning of the year, followed in September by the commissioning of a facility in Torviscosa (UD). In addition, work continued on the construction of the Simeri Crichi (CZ) power plant, which is expected to begin commercial production in the second half of 2007. Projects involving hydroelectric facilities included the renovation of the Ponte Gardena tunnel.
Investment in the area of wind power totaled about 18 million euros. They were used to complete work on wind farms in Ripabottoni (CB), Faeto (FG) and Volturino (FG) and to build a new 10-MW facility in Sella di Conza (SA).
Edison's share of the capital investment projects carried out by Edipower in 2006 amounted to 84 million euros. These projects included additional work on the construction of a new 800-MW combined-cycle unit at the Turbigo power plant (construction of this project, which is 87% complete, is progressing on schedule) and completions of a partial overhaul of the generating units at the Mese (SO) hydroelectric power plant.

HYDROCARBONS OPERATIONS

Quantitative Data

Sources

(in million of m³ of natural gas)	2006	2005	% change
Total net production:	**1,068**	**1,248**	**(14.4%)**
- production in Italy	712	902	(21.1%)
- production outside Italy	356	346	3.0%
Pipeline imports	**7,705**	**6,601**	**16.7%**
LNG import	**62**	**80**	**(22.5%)**
Domestic and other purchases [1]	**4,804**	**5,714**	**(15.9%)**
Total sources	**13,639**	**13,643**	**(0.0%)**

[1] Includes changes in inventory and line losses.

Uses

(in million of m³ of natural gas)	2006	2005	% change
Residential use	3,306	4,012	(17.6%)
Industrial use	1,164	1,471	(20.9%)
Thermoelectric fuel use	8,312	7,307	13.7%
Exports	356	346	3.0%
Other sales	501	507	(1.2%)
Total uses	**13,639**	**13,643**	**(0.0%)**

Financial Highlights

(in million of euros)	2006	2005	% change
Sales revenues	**4,171**	**3,303**	**26.3%**
EBITDA	434	353	22.9%
as a % of sales revenues	10.4%	10.7%	
Capital expenditures	133	73	82.2%
Investments in exploration	41	22	86.4%
Number of employees [1]	433	441	(1.8%)

[1] End-of-period amounts.

In 2006, sales revenues totaled 4,171 million euros, for a gain of 26.3% compared with the previous year. This improvement is the result of an increase in average unit revenues that reflects favorable changes in the markets for energy commodities.
EBITDA increased to 434 million euros, or 22.9% more than the 353 million euros earned in 2005. The beneficial effect of higher oil prices and of the renegotiated price paid for natural gas purchased under certain long-term contracts more than offset the impact of the establishment of provisions to cover a fine (about 20 million euros) imposed by the AEEG for the alleged use of storage capacity for purposes other than those for which it had been awarded and to cover the costs incurred to comply with Resolutions 298/05 and 134/06 (about 53 million euros), by which the AEEG revised the rates at which natural gas is sold pursuant to Resolution 248/04.

The average price of non-fluxed oil was up compared with 2005. It increased from 21.70 euros per barrel to 27.90 euros per barrel, mirroring changes in the price of benchmark fuels and petroleum products, thereby contributing to the profitability of the hydrocarbons operations.

Sales and Marketing

In 2006, unit sales of natural gas were about the same as in 2006. They totaled 13,639 million cubic meters, counting 8,312 million cubic meters of intra-Group sales and gas delivered to the power plants of the electric power operations.
Sales to residential users were down 17.6% and those to industrial users decreased by 20.9%. On the other hand, deliveries to thermoelectric users were up 13.7%, reflecting demand from the Group's new thermoelectric power plants.
Wholesalers bought 501 million cubic meters of natural gas, compared with 507 million cubic meters in 2006.

Production and Procurement

Net production of natural gas totaled 1,068 million cubic meters in 2006, down from the 1,248 million cubic meters produced the previous year. This reduction is the result of the natural depletion of existing gas fields in Italy, offset in part by higher abroad production (+3.0%), mainly in Egypt.
On the procurement side, natural gas imports increased to 7,767 million cubic meters, up from 6,681 million cubic meters in 2005. At the same time, domestic purchases decreased by 15.9%, falling from 5,714 million cubic meters to 4,804 million cubic meters.
Production of crude oil 2,168,000 barrels, compared with 2,229,000 barrels in 2005.

Capital Expenditures

Capital expenditures totaled about 133 million euros in 2006, up from 73 million euros the previous year. The main projects carried out in **Italy** included the drilling of new wells on existing fields to exploit fully all available reserves. Specifically, successful wells were drilled at the Daria, Anemone, Emma and Rospo fields, which are located offshore in the Adriatic, and development of the Candela (FG) field continued. Gas from this field, which is close to beginning production, will be used to fuel a power plant with the same name.
The storage operations began the second phase of the expansion of the Collalto facility and continued to develop the Cavarzere-Minerbio natural gas pipeline, which is related to the construction of a regasification terminal. This project is progressing on schedule and the startup date will definitely be before the end of 2007. In the distribution area, capital expenditures concerned mainly new customer hookups and pipelines.
In **Egypt,** work continued on the development of Phase 3 of the Rosetta field. This project calls for drilling five additional wells, with two wells scheduled for 2007 and three planned for 2008.
In **Algeria**, two confirmation wells were drilled with positive results.

Exploration Activities

In 2006, the Group's exploration operations invested about 41 million euros. A total of 17 million euros were invested in Italy and 24 million euros were used for projects abroad.
The main activities carried out in Italy included drilling two wells that yielded natural gas - the Codogno 1 well in the province of Lodi (Edison is the operator) and the Argo 1 offshore well in Sicily - and carrying out 3D seismic mapping in Sicily.
Outside Italy, the Group carried out several successful explorations campaigns: in Algeria it completed the acquisition and processing of 2D seismic mapping data covering 656 km^2 in the Reggane Nord block and drilled the Kalouche 2 exploratory well, which yielded significant quantities of natural gas; in Egypt, it drilled a well in the West Wadi el Rayan permit that provided useful indications to determine the residual potential of this area; and in Croatia it drilled the Irena 1 well, which also yielded natural gas.
At the end of the year, work began on a new 3D seismic mapping program covering 1,500 km^2 in the Rufisque Deep permit in Senegal and the Group finalized an agreement with Anadarko, a U.S. company, to join them in an exploration block in Qatar, where a 3D seismic mapping program covering 1,800 km^2 has been completed.

Hydrocarbon Reserves

The Group's hydrocarbon reserves increased to 30 billion cubic meters of natural gas equivalents, up from 26 million cubic meters of natural gas equivalents at December 31, 2005. The increase of 4 billion cubic meters, net of 2006 production of 1,426 billion of cubic meters of natural gas equivalents, was made possible primarily by the new findings in the permits of Reggane and Sali (Algeria) and Izabela field (Croatia).

CORPORATE ACTIVITIES

Financial Highlights

(in millions of euros)	2006	2005	% change
Sales revenues	**43**	**42**	**2.4%**
EBITDA	(70)	(76)	7.9%
as a % of sales revenues	n.m.	n.m.	
Capital expenditures	1	2	n.m.
Number of employees [1]	525	526	n.m.

[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.

EBITDA, while still negative by 70 million euros, improved compared with 2005, when the loss amounted to 76 million euros, owing to the successful implementation of a program to cut overhead.

Capital Increases

The capital increases carried out in 2006, which totaled 31,699 euros, reflect conversions of outstanding Edison warrants. These warrants can be exercised at any time until December 31, 2007 to buy Company shares at a price of 1 euro per share. At December 31, 2006, there were 1,018,616,924 warrants outstanding.

OTHER CONTINUING OPERATIONS

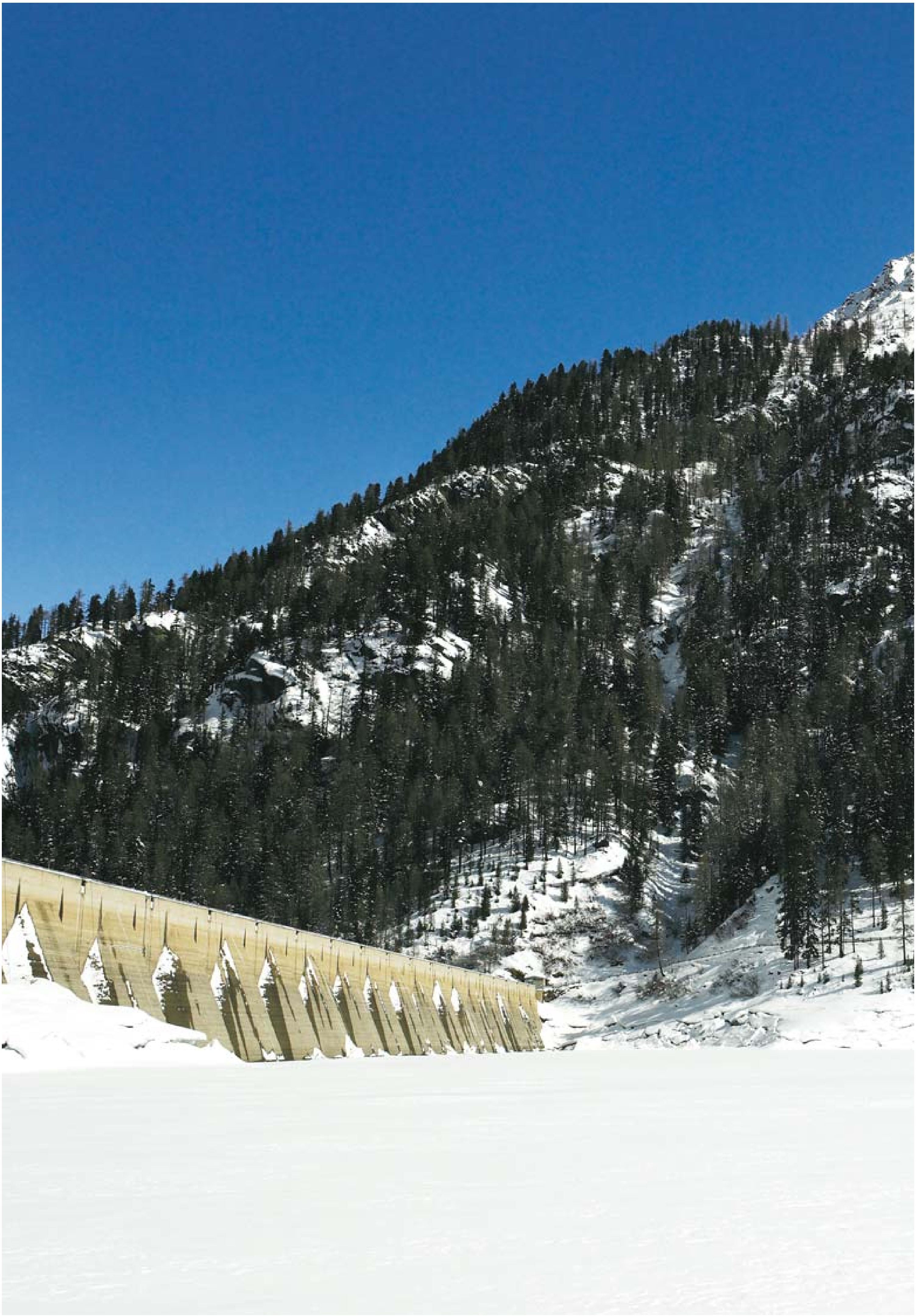
Water Distribution and Treatment (IWH)

Financial Highlights

(in millions of euros)	2006	2005	% change
Sales revenues	**34**	**31**	**9.7%**
EBITDA	10	8	25.0%
as a % of sales revenues	29.4%	25.8%	
Capital expenditures	8	11	n.m.
Number of employees [1]	3	4	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.

Sales revenues, which totaled 34 million euros in 2006, were generated by operations carried out in Guayaquil (Ecuador) under license. At 10 million euros, EBITDA were higher than in 2005.



SOCIAL RESPONSIBILITY FOCUS ON THREE AREAS

INNOVATION, RESEARCH AND DEVELOPMENT

In the first half of 2006, the Group focused its research and development efforts on projects involving power generation through fuel cells, advanced photovoltaic technologies, superconductivity and energy storage. As part of the process of developing synergies that leverage the respective competencies and research organizations, Edison and EDF established a collaborative process in this area, which is governed by a special framework agreement. Two projects have already been activated under this arrangement. These two projects concern fuel cell and energy storage technologies.

Hydrogen and Fuel Cells

In 2006, the Group began to conduct research in this area in collaboration with EDF. As a result, the work of the fuel cell lab of the Trofarello Research Center was coordinated with the research activities carried out by EDF at the EIFER Institute in Karlsruhe, in Germany. As part of this collaborative effort, Edison carried out tests for two different European projects: the AUTOBRANE project, which pursues the development of new cells of the PEM (Proton Exchange Membrane) type and involved testing high- and low-temperature cells built by major developers worldwide; and the REALSOFC project, which focuses on the development of cells of the SOFC (Solid Oxide Fuel Cell) cells with planar and tubular geometry, and involved testing the potential, performance and level of technological maturity of the cells. Additional work involved developing a special, fully-equipped external test platform, which will be used in the coming months to install and test a nominal 5kW co-generating system fueled with natural gas and based on fuel cells of the SOFC (Solid Oxide Fuel Cell) type manufactured by Acumentrics.

Advanced Photovoltaic Technologies

A concentration system based on the spectral separation of sun beams with dichroic materials that was developed in collaboration with the University of Ferrara was tested at Edison's Research Center.
The Center also operates a photovoltaic cell laboratory, which was used to carry out an intense program to test cells and other components of photovoltaic systems. The results of these tests are of vital importance in guiding Edison's efforts to develop high efficiency systems based on multijunction cells.

Superconductivity

Work continued at the CNR IENI Institute in Lecco on the production of components made with a magnesium diboride ($MgB2$) superconductor using Edison's proprietary RLI technology. These components are used to manufacture superconducting devices.

Energy Storage

Research activity in this area involved monitoring innovative storage technologies that could be of interest to Edison because they have the potential of providing greater flexibility, both at the power generation and consumption levels.
Specifically, testing focused on the Redox Flow systems, which offer an alternative to conventional batteries and deliver excellent performance with a low environmental impact. One of these systems will be tested at the Research Center.
In addition, a project involving a series of tests of metal/air batteries for stationary applications was carried out within the framework of the collaborative research agreement with EDF.

Opposite page:
Gioveretto dam, Bolzano.

HEALTH, SAFETY AND THE ENVIRONMENT

Consistent with its stated environmental and safety policy, Edison follows an integrated approach to handling issues in these areas, promoting the development and use of management systems specifically designed to ensure compliance with statutory requirements, stimulate technological innovation, enhance competitiveness and improve relationships with the community and interaction with the environment.

The principles and guidelines adopted by the Group to conform with models of sustainable development underscore how environmental and safety issues must play a central role for all Group companies and require their ongoing concern and commitment.
The objectives achieved in 2006 are reviewed below:


We believe that the best result can be achieved only by a solid team that cooperates with clients and workmates, and respects the environment and the communities.

Electric Power Operations

- Award of Organizational Certification for the Thermoelectric Division 1 in accordance with the UNI EN ISO 14001 Standard, the BSI OHSAS 18001 Specification and EMAS Regulations;
- Award of Organizational Certification for the Thermoelectric Divisions 2 and 3 in accordance with the UNI EN ISO 14001 Standard and the BSI OHSAS 18001 specification. Completion of the auditing and validation process for EMAS Registration, with the Ecolabel Ecoaudit Committee expected to provide the registration numbers in the future;
- Successful completion of the auditing and validation process for EMAS Registration for Hubs 1, 2 and 3 of the Hydroelectric Operations.

Hydrocarbons

- Award of certification in accordance with the ISO 14001 and OHASAS 18001 standards of the Environmental and Safety Management System of the Pomezia Operating Unit of Edison Distribuzione Gas and of Multi-site Organizational Certification for the Sambuceto Operating District;
- Award by NPD, the relevant Norwegian authority, of a permit to carry out crude oil extraction and production in the North Sea.

The performance in the area of occupational safety was positive both for Group employees and contractor personnel. The trend for employees of contractors has been showing a steady improvement, compared with previous years.

Specifically, the accident frequency index (Fi) for company personnel was 4.2 and the serious accident index (SAi) was 0.07. For employees of contractors, the Fi was 5.8 and the SAi was 2.02.
In 2006, Edipower was awarded UNI EN ISO 14001 environmental certifications for the Mese and Tusciano hubs and began the process needed to secure EMAS registration for the same hubs. As a result of this achievement, all of Edipower's facilities have UNI EN ISO 14001 certification.
During 2006, work continued on contaminated areas identified in previous years at some of the Group's power plants. The projects started at the Chivasso and Turbino power plants were completed. At the

San Filippo del Mela power plant, work on the remediation project approved by the municipal administration of San Filippo del Mela in 2005 got under way and remediation facilities for the first section are already in place. The facilities for the second and final section are currently being built.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Human Resources

At December 31, 2006, the Edison Group had 2,923 employees (including the staff of companies consolidated by the proportional method), 40 less than the 2,963 employees on the payroll at the end of 2005.
The largest decrease occurred in the Electric Power operations, due to the sale of Edison Rete (84 employees). The staff of the Corporate Activities and the Hydrocarbons operations was about the same as in the previous year. Edipower (Edison's pro rata) trimmed its payroll by 19 employees in 2006. This reduction is the result of a policy of providing early retirement incentives, which the company pursues by providing incentives to employees who already qualify for pension benefits, and reflects the initial impact

of a downsizing program that was the subject of an early retirement agreement signed in October with unions representing employees of the Sermide power plant and of staff departments at other units.
In 2006, the Group acquired Eneco Energia Spa and EDF Energia Italia Srl (later merged into Edison Energia Spa), which added about 40 employees, and began the recruitment and training process of employees for a new power plant in Simeri Crichi (27 empoloyees).

Labor costs totaled 210 million euros in 2006, or about 40 million euros less than the previous year. A change in the scope of consolidation, caused by the sale of Tecnimont and of the power line network, accounts for this decrease.

Industrial Relations

The main developments that occurred in 2006 are reviewed below:

- During the first half of 2006, renewal of the collective bargaining agreement that covers employees in the energy and petroleum industry. This contract applies to about 250 employees of the Edison Group.
- Extension to employees covered by the collective bargaining agreement for employees in the electric power industry of health insurance benefits that supplement those of the National Health Service.
- Renewal of the collective bargaining agreement covering employees in the electric power industry, which had expired in June 2005. The benefits portion of the contract was renewed for four years (2006-2009) and the compensation portion was renewed for the first two years of the duration of the new collective bargaining agreement. This new contract, which applies to 75% of the Group's staff, provides for the next two years a pay increase that, when fully applied to the reference parameter, will amount to 111 euros.
  The benefits portions of the contract incorporates the main contract guidelines of the Biagi Law and the latest legislative innovations concerning the flexibility of the labor market.
  All of the provisions that govern work schedules were also revised to make them consistent with the new provisions of Legislative Decree No. 66/2003.
- In 2006, as part of the process of simplifying and streamlining the corporate structure of the Edison Group, Edison Per Voi Spa and EDF Energia Italia Srl were merged into and absorbed by Edison Energia Spa. As a result, the employment relationship with about 60 employees continued without interruption when they were transferred to Edison Energia Spa.

Organization

Following the changes that occurred in its shareholder base and the renewed focus on the strategic development of its hydrocarbon operations, the Group carried out a number of important projects in 2006:

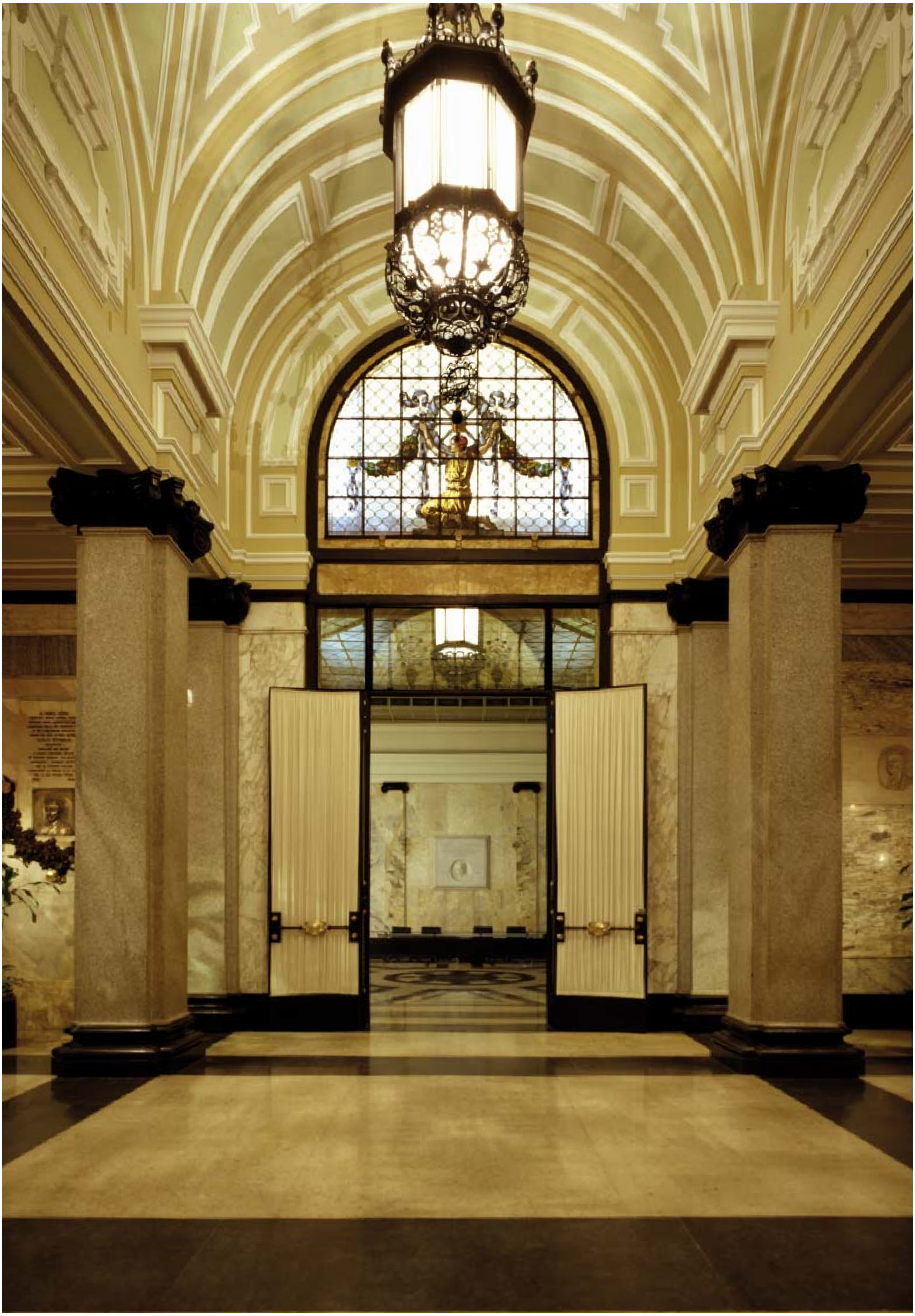
- It established a Hydrocarbon Business Steering Committee that reports to the Chief Executive Officer. The function of this Committee is to coordinate the activities that are carried out to develop and implement the strategy pursued by the hydrocarbons operations to strengthen Edison's competitive position in the international markets.
- It established the Gas Supply & Logistics Business Unit that reports directly to the Chief Operating Officer. The function of this Business Unit is to focus the organization on the development of new infrastructures, on the diversification of the sources of supply and on the management of the related natural gas logistics.
- It redefined the main structures and responsibilities of the Marketing and Distribution Business Unit. The activity of the sales network continues to be structured on a geographical basis, but responsibilities and organizational structures are focused on Business Customers and Microbusinesses and Residential Customers.
- It defined the main crossfunctional responsibilities for the management of CO_2 certificates and other environmental certificates.
- It redefined several important operational processes, including the Process to Authorize and Manage Investments, Divestitures and Company Commitments, the Risk Management Process and the main processes required to open and manage foreign branches.

In 2006, Edipower completed numerous projects to reengineer corporate processes and establish the required procedures with the goal of improving the level of control and increase efficiency.
The most important of these projects dealt with:
- the planning and budgeting process;
- the reporting and invoicing process;
- the process to manage replacement parts and consumables and the inventory process.

Training

Programs pursued in 2006 in the area of employee training and development included the refinement of the Group's Management Review process carried out in 2005 through the use of organizational development programs tailored for professional families and individual feedback that involved a total of 450 executives and middle managers.
Another project launched during the year involved mapping employee competencies within each professional family. The main purpose of the project was to identify key competencies for the development of Edison's businesses and assess the effectiveness of key professionals in relation to the established competency profiles.
In addition, institutional training support continued to be provided to recent graduates, professionals and managers. There was a modest expansion of language training programs, which involved the introduction of experimental teaching methods, such as learning by watching foreign-language films.
In the area of technical training, employees hired to operate the newly constructed Simeri Crichi thermoelectric power plant attended a special training course.
As a whole, the various training and development programs offered by the group required a total of 10,726 days, including 2,500 days of training provided internally.
Lastly, the Group organized special events involving institutional training, such as updates on the new privacy law, and professional family training, such as specialized workshops on energy derivatives or internal seminars on subcontracting.

The training programs provided by Edipower required the use of about 47,000 hours.
Issues concerning occupational safety and health, the environment (with emphasis on EMAS certifications) and the updating of technical and professional skills accounted for 47% of all training programs offered.
Training in the area of professional development, which accounted for another 20% of programs offered, focused on developing key management competencies (systemic and strategic visions, employee management, problem solving and crossfunctional cooperation).
Lastly, training related to innovative technological or corporate projects absorbed about 28% of programs provided. Special training programs were developed to help the employees working at the Brindisi, Turbigo and San Filippo del Mela power plants implement the new organizational model.
Another, classroom-based program completed in this area that required a total of about 1,200 hours of training was addressed to headquarters and power-plant staff involved in the Euclide continuous improvement project (about 100 employees).



CORPORATE GOVERNANCE ANNUAL REPORT

FOREWORD

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 recommended by the Code of Conduct published by Borsa Italiana (the Code) and is currently being updated to conform with a new version of the Code.

The main rules of corporate governance are set forth in the Governance Agreements (as defined below) adopted following the change in controlling shareholders of Edison that occurred as of September 16, 2005, with Transalpina di Energia Srl (TdE), a joint venture of Electricité de France Sa (EDF) and Delmi Spa (Delmi), a 51 % subsidiary of AEM Spa (AEM) becoming the Company's majority shareholder. These rules have been incorporated into Edison's Bylaws, as amended by the Shareholders' Meeting on December 13, 2005. 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.

Because of these considerations and in order to provide a systematic and thorough revision, the Company chose to postpone further action in this area pending the definition of the applicable regulatory framework, which recently changed with the introduction of new corporate governance rules that require the adoption of new amendments to the Bylaws by June 30, 2007.

The text of this Report, which incorporates an illustration of the corporate governance structure reviewed by the Board of Directors on February 19, 2007, will identify, on each occasion, those recommendations that have not been applied or are in the process of being applied.

The Bylaws and this Corporate Governance Report, which also published separately, are available at the Company website (www.edison.it).

CORPORATE GOVERNANCE ORGANIZATION

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 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.

Opposite page: main entrance of Edison headquarters.

SHAREHOLDER BASE

The structure of Edison's capital and shareholder base are summarized below.
On February 16, 2007, Edison's share capital totaled 4,792,704,263.00 euros, divided into 4,682,111,843 common shares and 110,592,420 savings shares. Since there are 499,052,114 warrants outstanding that can be exercised at any time until December 31, 2007 (except during the period between the date of the meeting of the Board of Directors at which the Board calls a Shareholders' Meeting to distribute earnings and the corresponding dividend record date) to acquire through subscription an equal number of common shares at a price of 1 euro per share, the share capital can change from one month to the next until the expiration of the warrant exercise deadline.

The table below, which is based on the data in the Shareholders' Register and reflects communications received pursuant to law and other information available as of February 16, 2007, lists the Shareholders who hold, directly or indirectly (including through third parties, nominees and subsidiaries), an interest greater than 2% of the voting stock:

Shareholder	Number of common shares held	Percentage of the voting common shares held	Percentage of share capital
- Transalpina di Energia Srl	2,965,041,428	63.327	61.866
- EDF	721,505,448	15.410	15.054
broken down as follows:			
- held directly	13,556,470	0.290	0.283
- held indirectly	707,948,978	15.120	14.771
Carlo Tassara Spa	519,415,677	11.094	10.838
broken down as follows:			
- held directly	4,100,000	0.088	0.086
- held indirectly	515,315,677	11.006	10.752

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 WRGM, a wholly owned subsidiary of EDF) and Delmi, subsidiary of AEM. Delmi's other shareholders are: Enìa Spa (hereinafter Enìa) (15%), Società Elettrica Altoatesina-SEL Spa (hereinafter SEL) (10%), Dolomiti Energia Spa (hereinafter Dolomiti Energia) (10%), Mediobanca Spa (hereinafter Mediobanca) (6%), Fondazione Cassa di Risparmio di Torino (hereinafter Fondazione Cassa di Risparmio di Torino) (5%), and Banca Popolare di Milano Scarl (hereinafter Banca Popolare di Milano) (3%). None of these parties exercises oversight or coordinating authority over Edison.

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

SHAREHOLDERS' AGREEMENTS

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

(i) Framework Agreement executed on May 12, 2005 by EDF, WGRM, AEM and Delmi for the purpose of acquiring joint control of Edison through a 50-50 joint venture of Delmi and WGRM, subsequently identified as TdE (that is not a part of the Agreements).

(ii) Shareholders' Agreements executed by the same parties concurrently with the abovementioned Agreement, which concerned the corporate governance of Edison and TdE.

Based on the communications provided by the contracting parties and the latest update of February 11, 2007, these Agreements (hereinafter the Governance Agreements), taken together, cover the following securities:

- 3,686,546,876 Edison shares, equal to 78.74% of the Company's common share capital at January 31, 2007;
- 491,562,016 warrants, equal to 98,49% of the total warrants outstanding at February 1, 2007;
- 100% of the share capital of Transalpina di Energia amounting to 3,146,000,000.00.

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

Based on the latest update of February 11, 2007, these Agreements, taken together, cover the following securities:

- 100% of Delmi's share capital (amounting to 1,466,868,500) and, indirectly;
- the 50% interest in the equity capital of TdE held by Delmi;
- Edison common shares and warrants held indirectly by Delmi through TdE, equal to 50% of the total number of Edison shares and Edison warrants held by TdE, which, based on the latest update of February 11, 2007, was equal to 1,482,520,714 Edison common shares (equal to 31.66% of the total number of Edison common shares outstanding at February 1, 2007) and 105,006,199.5 Edison warrants (equal to 21,04% of the total number of Edison warrants outstanding at February 1, 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.

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).

BOARD OF DIRECTORS

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.

The Bylaws, which have been amended accordingly, also provide for a twelve-member Board of Directors. This number cannot be changed by an Ordinary Shareholders' Meeting convened to elect the Board of Directors.

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 will remain in office until the Shareholders' Meeting is convened to approve the 2007 Annual Report) and Ivan Strozzi, who was coopted by the Board of Directors on December 6, 2006 to replace Uris Cantarelli, who resigned. Mr. Strozzi will remain in office until the next Shareholders' Meeting.

The following table lists the Company's Directors in office at December 31, 2006 and the posts they hold at publicly traded companies and in financial, banking and insurance companies of significant size.

Director	Post held at other companies
Giuliano Zuccoli	Chairman and CEO of Aem Spa Director of Atel Sa Director of Banca Piccolo Credito Valtellinese Scpa Chairman of Delmi Spa Director of Edipower Spa CEO of Transalpina di Energia Srl
Umberto Quadrino	Director of Edipower Spa Director of Transalpina di Energia Srl
Marc Boudier	Chairman of EDF Belgium Director of Atel Sa Director and Chief Executive Officer of EDF International Chairman of EDF Péninsule Ibérique Member of the Supervisory Board of EnBW Director of Estag Director of Transalpina di Energia Srl
Daniel Camus	Chairman of EDF Energy Plc Chairman of EDF Internationa Deputy Chief Executive Officer of EDF Sa Member of the Supervisory Board of EnBW Member of the Supervisory Board of Dalkia Director of Transalpina di Energia Srl
Giovanni De Censi	Chairman of Banca Piccolo Credito Valtellinese Scpa Deputy Chairman of Credito Artigiano Spa Chairman of I.C.B.P.I. (Istituto Centrale delle Banche Popolari) Spa Chairman of Finanziaria Canova Spa
Pierre Gadonneix	Chairman and Chief Executive Officer of EDF Sa Chairman of Transalpina di Energia Srl
Gian Maria Gros-Pietro	Chairman of Autostrade Spa Director of Fiat Spa Chairman of Autostrade per l'Italia Spa Chairman of Perseo Spa Director of Seat Pagine Gialle Spa
Mario Mauri	Chairman of Cambria Ltd Director of Aem Spa Director of Delmi Spa Director of Prima Industrie Spa Director of Rcf Sa Director of Transalpina di Energia Srl
Renato Ravanelli	Director of Edipower Spa Director of Transalpina di Energia Srl
Ivan Strozzi	CEO of Enìa 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
Gerard Wolf	Director of Transalpina di Energia Srl Director of Dalkia Member of Supervisory Board of EnBW Deputy Chief Executive Officer of of EDF Sa

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.

Role

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.

Under the Bylaws, in order to strengthen the Board's management role, in addition to those attributions that cannot be delegated pursuant to law, the Board of Directors has sole jurisdiction over the following:

- Decisions concerning the Company's share capital;
- Approval of the Edison business plan and budget, also consolidated;
- Opening and closing Edison secondary headquarters;
- Designation of the Directors authorized to represent Edison;
- Reduction of the Company's share capital when a shareholder requests redemption of his shares;
- Amending the Edison Bylaws to comply with statutory requirements;
- Mergers and demergers involving wholly owned and 90% owned subsidiaries;
- Bond issues;
- Purchases or acts of disposition of property, other investments, contracts or transactions involving an amount that may exceed 30 million euros per transaction or series of related transactions, except for the execution of contracts to sell or buy natural gas, electric power, other raw materials and securities representing green certificates or rights to release CO_2 emissions, with respect to which there is no limit as to the amounts for which power may be delegated;
- Conveyances or other acts of disposition of equity investments that will result in the Company's losing control of a subsidiary;
- Purchases, conveyances or other acts of disposition of companies or business operations and investments and interests in other companies, businesses or institutions involving an amount that exceed 30 million euros per transaction or series of related transactions;
- Decisions concerning the exercise of voting rights at Shareholders' Meetings of subsidiaries, except for votes involving issues specifically identified beforehand by the Board of Directors;
- Execution of joint venture and partnership contracts, except for those involving exploration for and production of oil, gas and other raw materials;
- Granting and canceling encumbrances, pledges, collateral, sureties and other guarantees and similar rights on intangible and tangible assets involving an amount 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 may exceed 30 million euros;
- Appointing and dismissing Edison's Chief Financial Officer.

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

In addition, at a meeting held on October 28, 2005, the Board of Directors reserved for its exclusive jurisdiction all significant transactions with related parties, which it specified 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 is authorized to issue, until June 28, 2007, up to 20,948,327 shares (the remaining balance is currently 13,129,058 shares) earmarked for the Group's stock option plans and reserved for the exercise of these options by employees, within the limits of the applicable statutes. The options that have been assigned in previous years pursuant to the abovementioned power of attorney are listed in the section entitled "Stock Option Plans." No new options were assigned during the year, as the Board of Directors chose not to exercise the abovementioned power of attorney.

In 2003 and 2004 the Board of Directors approved the issuance of up to 2,029 million euros in bonds. Taking into account the securities issued in 2000 by the Board of Directors of the "old" Edison, now absorbed by the Company, the Edison bonds currently outstanding total 2,629,000,000 euros. The characteristics of the different outstanding bond issues are listed in the Notes to the Financial Statements.

The conclusions of the Board of Directors concerning the Company's organization, administrative and accounting system, system of internal controls and handling of conflicts of interest, and the Board's determination of the compensation of governance bodies to which powers have been delegated are 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 compare actual and planned results. As a rule, this comparison is made when quarterly financial statements are approved.

The Board of Directors has launched a self assessment process. This process has been started up by the independent Directors, who are working with the support of the Secretary to the Board of Directors and expect to complete it early in 2007.

Even though the professional expertise of the members of the current Board of Directors has made them fully capable of understanding fully 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.

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 2006, the Board of Directors met eight times. The average attendance of Directors at Board meetings was 91.67%. The average attendance of Statutory Auditors at Board meetings was 87.50%. A breakdown is provided below:

Directors	Number of meetings attended in 2006	Percentage
Directors in office		
Giuliano Zuccoli	8	100
Umberto Quadrino	8	100
Marc Boudier	8	100
Daniel Camus	7	87.50
Giovanni De Censi	8	100
Pierre Gadonneix	5	62.50
Gian Maria Gros-Pietro	7	87.50
Mario Mauri	7	87.50
Renato Ravanelli	8	100
Klaus Stocker	8	100
Ivan Strozzi (1)	1	100
Gerard Wolf	7	87.50
Resigned		
Uris Cantarelli	6	85.71

(1) The Board of Directors met only once since he was appointed on December 6, 2006.

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).

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, which have been incorporated into the Bylaws, also define the powers of these two officers.

Under the Bylaws, the Chairman and the Chief Executive Officer represent the Company vis-à-vis third parties and in judicial proceedings. Under the Bylaws, both also have the power to call meetings of the Board of Directors and set the agenda for each meeting. The Chairman, or the person designated to replace the Chairman when he is absent or otherwise unavailable, chairs meetings and coordinates the Board's activities.

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

In consideration of what specified above, the Chief Executive Officer Umberto Quadrino and the Director Renato Ravanelli can be therefore qualified 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 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 for the Board of Directors and the Board of Statutory Auditors 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. Moreover, as explained in the relevant section of this Report, the number of independent Directors in the Committees is also supported by 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.

Anyhow, in the Compensation Committee there is an equal presence of 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.

Under 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. This year, 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.

At a meeting reserved exclusively for independent Directors held in 2006, the participants discussed how to evaluate the new independence requirement provided by the Code and how to best put forth recommendations that the Board of Directors implement a self assessment project.

APPOINTMENTS OF DIRECTORS

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

The nominations of candidates for the Board of Directors and the curricula vitae of the candidates were filed at the Company's registered office by the Company's controlling shareholder sufficiently in advance of the shareholders' Meeting to comply with the recommendations contained in the Code 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).

By June 2007, the Bylaws must be amended to require that Directors be elected on the basis of slates of candidates and will take into account the guidelines that the Consob is expected to provide in its forthcoming regulations in this area.

The abovementioned revision of the Bylaws will also provide an opportunity to adopt a recommendation of the Code that requires that the slates of candidates must be filed at least 15 days before the Shareholders' Meeting.

COMPENSATION OF DIRECTORS

The compensation of the Directors was determined by the Shareholders' Meeting that elected them. 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 function, which are not related to the Company's regular operations, a compensation tied to the Company's performance would not have been appropriate at this time.

As for the Chief Executive Officer, he was awarded, as in the past, compensation consisting of a fixed portion and a variable portion tied to the achievement of short-term and medium-term objectives set by the Board of Directors, upon a proposal by the Compensation Committee. The Board of Directors agreed that 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 awarded at the end of his term of office if certain more strategic objectives are achieved.

The compensation of the Chief Financial Officer, who has a subordinate job contract, was determined by the Chief Executive Officer according to the proposals received by the Compensation Committee. Also such compensation consists of a fixed portion and a variable portion tied to the achievement of objectives fixed yearly.

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 designated the members of the various Committees. The powers of the Committees are currently being reviewed to make them consistent with recent changes in the regulatory framework.

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, relying on the support of external consultants, when appropriate.

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 2006, the Committee met five times, focusing on reviewing and discussing the Budget and Business Plan, evaluating the Company's principal investments and strategic projects, corporate restructuring programs, transfers of equity investments and the policy adopted by Edison to hedge commodity risks.

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

Committee members	Number of meetings attended in 2006	Percentage
Giuliano Zuccoli	5	100
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 shares assignment plans. When appropriate, the Audit Committee can perform all of these tasks using the support of external consultants paid by the company.

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

In 2006, the Compensation Committee met four times. On those occasions it defined the targets that will be tied to the variable portion of the compensation payable to Chief Executive Officer, Chief Operating Officer and Chief Financial Officer in 2006 and verified whether the targets for 2005 had been met. In addition, it developed a proposal for a long-term bonus for the Chief Executive Officer and reviewed the compensation package of the Group's managers and its compensation policy. Lastly, it carried out a series of reviews and assessments concerning the establishment of a long-term compensation plan for key managers, in substitution of the previous stock-option plan.

The average attendance of Directors at Committee meetings was 93.75%. A breakdown is provided below:

Committee members	Number of meetings attended in 2006	Percentage
Mario Mauri	4	100
Marc Boudier	4	100
Giovanni De Censi	4	100
Gian Maria Gros-Pietro	3	75

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); Uris Cantarelli (until November 29, 2006), who has been replaced by Ivan Strozzi (since December 6, 2006), 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. In addition, employees and independent experts, including a representative of the Independent Auditors, may be invited to attend meetings from time to time in a consulting capacity.

The Committee met five times in 2006 and once during the first two months of 2007. On those occasions it reviewed:

- 2005 and 2006 Consolidated Annual Reports; 2006 Semiannual Report and reports for the first and third quarters of 2006 as well as the external auditors findings on 2005 Annual Report and 2006 Semiannual Report;
- budget and 2007-2012 Plan (only for financial concern) prior to their submission to the Board of Directors;
- the main risk limit and the Energy Risk policy, and a project to update risk management process;
- 2006 Audit Plan; its implementation progress and results;
- 2007 Audit Plan; (subject to revision following the definitive risk matrix);
- the new requirements introduced by the new Corporate Governance Code and by Law No. 262/2005 on the protection of investments, a new procedure to manage insider information, new guidelines for the internal control system 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 89.47%. A breakdown is provided below:

Committee members	Number of meetings attended in 2006	Percentage
in office		
Daniel Camus	5	100
Gian Maria Gros-Pietro	5	100
Klaus Stocker	5	100
Ivan Strozzi	(i)	(i)
Resigned		
Uris Cantarelli	2	50

(i) The Board of Directors has not met since he was appointed on December 6, 2006.

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 strategy, 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, maps corporate key 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 their responsibilities with regard to the System of Internal Controls and risk management. The manager in charge of the Internal Control Systems Department, who was appointed Internal Control Officer by the Board of Directors upon proposal of the Chief Executive Officer, 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, the Internal Auditing Department reports to the Chairman, the Chief Executive Officer, the Audit Committee and the Board of Statutory Auditors. The compensation of the Internal Control Systems Officer is determined according to the compensation policies for the Group's management keeping into account the proposals of 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.
- *Code of Antitrust* - The Company has recently adopted a Code of Antitrust.
- *Organizational Structure* - 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 Directors is informed upon all changes in the organizational structure on a regular basis.
- *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. A process to evaluate the performance of executives, professionals and newly-hired resources with college degrees and formal compensation policies is also in use. In the case of executives, 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 MBO system.

Tools to Ensure the Achievement of Strategic and Operational Objectives

- *Planning, Management Control and Reporting* - Edison has adopted a structured planning, control, management and reporting 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, 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, the Chief Financial Officer, the Chief Operating Officer and the Risk Officer as well as the Chief Executive Officers of the subsidiaries Edison Trading Spa and Edison Energia Spa 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, from the organization that operates in the financial markets, which is located at Edison Trading Spa as regards commodities and in the Financial Direction as regards exchange rates. In 2006, consistent with best industry practices, Edison's Board of Directors approved an Energy Risk Policy that defines the objectives and guidelines of the Group's risk management policy.
- *Control Self Assessment Project (CSA)* - In 2006 the Management was involved in the implementation of a control self assessment pilot project on risks and controls. The project aimed at developing and testing a process-base methodology to identify, assess and provide information on risks and related control activities within the organizational units and the analyzed processes, as well as at identifying opportunities for improvement and establishing action plans accordingly. The process will be furtherly improved during 2007 within the project currently under way which will review and update the Group's level risks management system according to the Enterprise Risk Management (ERM) principles.
- *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 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. On February 21, 2006, a newly elected Board of Directors appointed a new OB. Its members are an outside professional (Umberto Tracanella), who serves as Chairman, and two independent Directors (De Censi and Gros-Pietro). The OB met six times in 2006 and again in February 2007.
- *Law No. 262/2005 on the Reporting of Accounting and Financial Data* - In 2006, following the enactment of the Investment Protection Act (Law No. 262/2005), Edison launched a project to upgrade, where necessary, the administrative and accounting procedures that are appropriate for the preparation of financial communications and to define the governance rules of the internal account-

ing model it adopted, as well as the rules to implement, on an ongoing basis, a process to review and certify the adequacy and operational effectiveness of the abovementioned model and assign responsibilities within the organization. This project and the definition of the relevant governance issues, including the appointment of the manager responsible for the preparation of accounting and corporate documents, should be completed after the criteria for his or her appointment have been defined in the Bylaws.

- *Security, Environment, Safety 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 Group's Accounting Manual and Principles and by additional administrative and accounting procedures that are currently being updated and upgraded as part of a project to comply with the requirements of Law No. 262/2005.
- *Insider Information* - Information about this issue 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.

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 discussed promptly with the Chairman, the Chief Executive Officer and the Company's managers and are presented 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 evidence received and with the support of the investigative work performed by the Audit Committee with the contribution of the management and of the Internal Controls Officer, the Board of Directors believes that, overall, the internal controls system allows a reasonable achievement of the Group's objectives and that, in general, it operated and functioned efficiently in 2006.
This assessment, insofar as it refers to the internal controls system in its entirely, reflects the limitations inherent in such a system. Specifically, even an internal controls system that is well designed and operates properly can ensure the achievement of corporate objectives only with "reasonable certainty".

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 the joint control of the abovementioned parties; and (v) other companies or entities in which the abovementioned parties hold an equity interest. All of the above does not apply to Edison subsidiaries.

Moreover, consistent with the recommendations of the Code of Conduct, the Board of Directors adopted a Group procedure that governs transactions between Edison and all related parties. This procedure, which applies to the Chief Executive Officer as well, requires compliance with the principles of objectivity, transparency and truthfulness, based on the general principles that all transactions with related parties, including those executed through subsidiaries, must be conducted fairly, both substantively and procedurally. The abovementioned procedure defines the following: the criteria to identify transactions with related parties, the general rules and the principles of conduct that apply to such transactions, the rules governing the approval of such transactions, and the obligations to report to the Board of Directors. The abovementioned procedure requires that the Board of Directors be provided with adequate information about the type of relationship with the counterpart, the manner in which the transaction will be executed, the timing and terms of the transaction, the interests involved and the underlying motives, and the risks that the Company and its subsidiaries may incur as a result of the abovementioned transactions with related parties and of any contracts, acts or transactions of any type that involve amounts greater than 30 million euros per transaction or series of related transactions executed directly or indirectly with related parties.

When the nature, amount or other characteristic of a transaction require it, the Board of Directors, in order to prevent the transaction with a related party from being executed on terms that are not consistent with those that in all likelihood would have been negotiated by parties that were not related, can ask that the transaction be executed with the assistance of one or more experts, who will be asked to render an opinion on the financial terms and/or its fairness. The Board of Directors can also ask for the input of the Audit Committee.
The transactions with related parties are remarked in the note to the financial statements in the balance sheet.
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 attorney issued by the same Director, the Director in question is required to refrain from executing the transaction and cause his representatives to do the same, choosing instead to submit the transaction to the Board of Directors for prior approval. In all cases, the applicable resolution of the Board of Directors must contain an adequate explanation of the reasons for the transaction and of the benefits that the transaction would have for the Company.

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 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.

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 in order to avoid injuring the Group with unauthorized disclosures.
- They shall never communicate to anyone, unless required to 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 authorizing the procedure for embargoing the disclosure of insider information to the market.

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's 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.

BOARD OF STATUTORY AUDITORS

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

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

The current Board of Statutory Auditors was elected at the Shareholders' Meeting of April 19, 2005, at which time the shareholders reelected the Statutory Auditors previously in office. Its term of office will end with the approval of the 2007 Annual Report. No Statutory Auditors was elected by minority shareholders because only one slate of candidates had been filed at the time of the election. The résumés of the Statutory Auditors are available at the Company website.

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 being met on the occasion of the meeting during which it reviewed the Company's corporate governance system.

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

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

In 2006, the Board of Statutory Auditors met six times. The average attendance of the Statutory Auditors at these meetings was 94.44%. A breakdown is provided below:

Statutory Auditors	Number of meetings attended in 2006	Percentage
Sergio Pivato	6	100
Salvatore Spiniello	5	83.33
Ferdinando Superti Furga	6	100

The Board of Statutory Auditors provided an opinion on the assignments that the Board of Directors awarded to the independent auditors and to other entities belonging to the same network in 2006, verifying that the abovementioned assignments were within the statutory limitations of exercisable activities and ascertained the auditors' independence.

The exchange of information between the Board of Statutory Auditors and the Internal Controls Committee takes place through the systematic attendance to the Committee meetings by a Statutory Auditor.

No situations that would have required the members of the Board of Statutory Auditors to report a personal or third-party interest in a transaction involving the Company occurred in 2006.

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.

By June 2007, the Bylaws will be amended to make them consistent with the regulations that the Consob is expected to publish concerning the filing of slates of candidates by minority shareholders and the maximum number of posts that can be held. On the same occasion, the Bylaws will also be amended to make them consistent with the law that requires that the Chairman of the Board of Statutory Auditors be elected from the slate filed by minority shareholders and the recommendation of the Code that requires that the slates of candidates to the post of Statutory Auditor must be filed at least 15 days before the Shareholders' Meeting.

RELATIONS WITH SHAREHOLDERS

The Board of Directors strives to provide promptly to the Company's shareholders all relevant information and documents. In pursuit of this goal, the Company recently restructured its website, changing its overall structure and creating a separate section devoted to corporate governance issues.

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 preliminary annual or semiannual data or quarterly data, the Company organizes conference calls with institutional investors and financial analysts and encourages the participation of industry press representatives. In addition, the Company promptly informs its shareholders and potential shareholders of any action or decision that could have a material impact on their investment. 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.

The company has created an office responsible for handling relations with institutional investors and a separate office responsible for shareholder relations.

SHAREHOLDERS' MEETING

The Shareholders' Meeting is the means by which Shareholders, through their vote on resolutions, express their will. Resolutions adopted pursuant to law and the Company's Bylaws are binding on all Shareholders, including absent or dissenting Shareholders. However, when permitted, dissenting Shareholders have the right to demand redemption of their shares. The Shareholders' Meeting is convened to adopt resolutions on issues that the law reserves for its jurisdiction in accordance with the laws and regulations that apply to publicly traded companies.

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

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

Pursuant to the Bylaws, Shareholders' Meetings are convened by means of a notice published 30 days prior to the date of the Meeting in *Il Sole 24 Ore*, an Italian newspaper, which must be reproduced on the Company website. In addition, the Company must make available to the public within the statutory deadline 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.

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 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 EC directive concerning the exercise of voting rights by shareholders is 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.

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 the last Shareholders' Meeting.

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 most of 2006, there was no significant change in the market capitalization of the Company's shares or in the Company's shareholder base. However, significant changes did occur toward the close of the year due to the exercise of a considerable number of warrants in January 2007.

Once the Consob has issued the abovementioned regulations concerning the election of Directors and Statutory Auditors, or changes are made to the relevant statutes to conform with regulations that the EU is currently developing, the Board of Directors will consider the possibility of asking the Shareholders' Meeting to amend the provisions of the Bylaws that concern the exercise of the rights conveyed by the Company's shares and the rights established 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.

It is important to keep in mind that in the remaining cases, where only a Board of Statutory Auditors has been appointed, the Bylaws require that the audit be carried out by the Board of Statutory Auditors.

Edison and its principal subsidiaries have also asked their independent auditors to audit their semiannual financial statements, the separate financial statements that are prepared annually for the Electric Power and Hydrocarbons operations and perform the additional special audit required by the Electric Power and Gas Authority or needed to comply with contractual requirements. As in previous fiscal years, the independent auditors also carried out audits related to the adoption of the International Financial Reporting Standards (IFRS).

Edison's independent auditors, PricewaterhouseCoopers Spa and its international network (PWC), working in accordance with the assignment it received directly, audited about 99% of all asset and revenue accounts. Other independent auditors were retained exclusively by some foreign subsidiaries.

Insofar as Edison is concerned, the Shareholders' Meeting held on April 19, 2005 retained PWC as its independent auditor for an additional three years. The audit assignment will expire with the Shareholders' Meeting convened to approve the 2007 annual financial statements.

However, the Board of Statutory Auditors decided to submit to the next Shareholders' Meeting a motion to extend the duration of the current audit assignment for a further three years (i.e., until the Shareholders' Meeting convened to approve the 2010 annual financial statements), as allowed under temporary current laws, so that the total duration of the audit assignment will match the maximum allowed duration of nine years.

If applicable, and provided that compliance with the nine-year limit and the alignment of the end of the assignment to Edison's one allowed it, a similar motion was submitted by the respective Board of Statutory Auditors at the Shareholder's Meetings convened to approve the annual financial statements of the subsidiaries.

The Shareholders' Meeting that granted the audit assignment, which includes auditing the statutory financial statements, the consolidated financial statements and performing regular checks of the accounting records, also approved the corresponding fees. Moreover, consistent with a long established Group policy, the Shareholders' Meeting also approved the granting of additional assignments required by the sector rules. The same was also true for the Group's subsidiaries, which renewed PWC's assignment in 2006.

The total cost of the Group audit for 2006 amounts to 1,747 thousands of 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	365,661			4,700	365,661
Audit of the consolidated financial statements	800	62,240			800	62,240
Limited Audit of the Semiannual Report	1,420	110,447			1,420	110,447
Regular reviews of the accounting records	620	48,473			620	48,473
Annual of separate annual statements	600	46,681			600	46,681
Audit of transition to the IAS/IFRSs	600	35,000			600	35,000
Additional review activities	890	69,194	220	16,775	1,110	85,969
Total for Edison Spa	**9,630**	**737,696**	**220**	**16,775**	**9,850**	**754,471**
Italian subsidiaries and joint ventures	10,511	782,943			10,511	782,943
Foreign subsidiaries and joint ventures	1,474	162,956	739	46,415	2,213	209,371
Total Edison Group	**21,615**	**1,683,595**	**959**	**63,190**	**22,574**	**1,746,785**

TREASURY STOCK

At December 31, 2006, the Company held no treasury shares either directly or indirectly through subsidiaries.

STOCK OPTION PLANS

As explained in previous Annual Reports, in 1998 and 2000, respectively, the subsidiaries Edison and Sondel established stock option plans for their executives that involved, respectively, the purchase of Edison and Sondel shares at predetermined prices and during predetermined periods.

On May 1, 2002, these two companies were absorbed by Montedison, which, in turn, was absorbed by Edison (formerly Italenergia), effective December 1, 2002. As a result, the "new" Edison took over the obligations of the absorbed companies with regard to the stock option plans and the options to buy shares of Montedison, later Italenergia, which then changed its name to Edison. The options linked with the old Sondel shares expired in 2005 and those linked with the old Edison shares expired in 2006.

In February 2003, as mentioned earlier in this Report, the Company approved a new stock option plan and related regulations providing for the award of options to buy Edison shares at predetermined prices and during predetermined periods. The options available under this plan were awarded in November 2003 and December 2004. No additional options were awarded in 2005 and 2006.

The table below shows the number of Edison stock options outstanding at the end of 2006, taking into account the changes that occurred during the year. The number of shares allotted to executives of the absorbed company Edison and their exercise price were recomputed based on the share exchange ratios used for the mergers by absorption of Edison into Montedison and of Montedison into Italenergia (now Edison).

	2006 Fiscal Year number of shares	Average Exercise Price
Options outstanding at January 1	558,761	2.027
Option awarded in 2000 that expired or were returned/cancelled during the year	(489,493)	2.107
Option exercised during the year	-	
Option awarded during the year	-	-
Option outstanding at December 31	**69,268**	**1.465**

New options that had been awarded to 12 executives in 2000 expired in 2006.

At December 31, 2006, only one executive held the stock options listed in the table below:

Award period	Number of share that can be bought/subscribed	Exercise price per share	Exercise period
2003	36,171	1.360	1.11.2006-10.31.2010
2004	33,097	1.580	12.1.2007-11.30.2011
Total	**69,268**		

With regard to the options outstanding, the Extraordinary Shareholders' Meeting that was held on June 28, 2002 authorized the Board of Directors to carry out capital increases earmarked for the exercise of options, as allowed under Article 2443 of the Italian Civil Code. The abovementioned authorization was used for options awarded in 2003 and 2004. On November 11, 2003 and December 3, 2004, the Board of Directors authorized the issuance of up to 4,200,000 and 3,619,269 shares, respectively, earmarked for the exercise of stock options awarded in 2003 and 2004. At December 31, 2006, 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, 2006 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, 2005 to December 31, 2006, are presented in the following table. This information is based on the entries in the Shareholders' register, communications received and other data.

Reference Period: January 1, 2006 to December 31, 2006

First and last name	Investee Company	Number of shares held at end of the previous year (12.31.05)	Number of shares bought	Number of shares sold	Number of shares held at end of the current year (12.31.06)
Director 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					
Director out of office					
Uris Cantarelli					
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, 2006. Non-monetary benefits are shown at their taxable value. Variable compensation packages are listed under Bonuses and other incentives. When the compensation consists of wages, the taxable amount is shown.

Reference Period: January 1, 2006 to December 31, 2006

(in thousands of euros)

Beneficiary	Description of post held			Compensation	
First and last name	Postheld	Period during wich the post was held	End of term of office (*)	Collected by the company	Collected by the employer
Directors in office					
Giuliano Zuccoli	Chairman (b)	01.01.06 - 12.31.06	12.31.2007		806
Umberto Quadrino	CEO (b)	01.01.06 - 12.31.06	12.31.2007		3,118
Marc Boudier	Director (b) (c)	01.01.06 - 12.31.06	12.31.2007	129	
Daniel Camus	Director (e)	01.01.06 - 12.31.06	12.31.2007	99	
Giovanni De Censi	Director (c)	01.01.06 - 12.31.06	12.31.2007		135
Pierre Gadonneix	Director	01.01.06 - 12.31.06	12.31.2007	60	
Gian Maria Gros-Pietro	Director (c) (e)	01.01.06 - 12.31.06	12.31.2007		164
Mario Mauri	Director (b) (c)	01.01.06 - 12.31.06	12.31.2007		127
Renato Ravanelli	Director	01.01.06 - 12.31.06	12.31.2007		683
Klaus Stocker	Director (e)	01.01.06 - 12.31.06	12.31.2007		101
Ivan Strozzi (a)	Director (e)	12.06.06 - 12.31.06	04.05.2007	7	
Gerard Wolf	Director	01.01.06 - 12.31.06	12.31.2007	64	
Directors out of office					
Uris Cantarelli	Director (e)	01.01.06 - 11.29.06		84	
Total				**443**	**5,134**
Statutory Auditors					
Sergio Pivato	Chairman of Stat. Auditors	01.01.06 - 12.31.06	12.31.2007		60
Salvatore Spiniello	Statutory Auditor	01.01.06 - 12.31.06	12.31.2007		40
Ferdinando Superti Furga	Statutory Auditor	01.01.06 - 12.31.06	12.31.2007		40
Total				**443**	**5,274**

(*) The term of office ends when the shareholders' Meeting approves the financial statements for the year ended on the date shown.
(**) The non-monetary benefits represent 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) Coopted by the Board of Directors on December 6, 2006. His term of office will end with the Shareholders' Meeting of April 5, 2007.
(b) Member of the Strategy Committee.
(c) Member of the Compensation Committee.

		breakdown				
Compensation for postheld at the company preparing the Annual Report		Non monetary benefits (**)	Bonuses and other incentives		Other compensation	
806						
1,306	(f)	12	1,800	(f) (g)		
129						
99						
135						
60						
164						
127						
66		6	210	(f) (g)	401	(f) (h)
101						
7						
64						
84						
3,148		**18**	**2,010**		**401**	
60						
40						
40						
3,288		**18**	**2,010**		**401**	

(e) Member of the Audit Committee.
(f) The amount show is net of pensions and severance benefits.
(g) Variable compensation for 2006.
(h) Employment wages.

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	100
Chief Executive Office	Umberto Quadrino	X			100	2					X	100
Director	Marc Boudier		X		100	7			X	100	X	100
Director	Daniel Camus		X		87.50	4	X	100				
Director	Giovanni De Censi		X	X	100	4			X	100		
Director	Pierre Gadonneix		X		62.50	3						
Director	Gian Maria Gros-Pietro		X	X	87.50	5	X	100	X	75.00		
Director	Mario Mauri		X		87.50	6			X	100	X	100
Director	Renato Ravanelli	X			100	2						
Director	Klaus Stocker		X		100	3	X	100				
Director	Ivan Strozzi (a)		X		100	2	X	(b)				
Director	Gerard Wolf		X		87.50	1						
Directors out of office in 2006												
Director	Uris Cantarelli (c)		X		85.71	-	X	50.00				

Number of meetings held in 2006

Board of Directors: 8	Audit Committee: 5	Compensation Committee: 4	Strategy Committee: 5

* 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 Committee, 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) Coopted on December 6,2006, in substitution of the resigning Director Uris Cantarelli.
(b) From the date his appointment no meeting of the Audit Committee have been held.
(c) Resigning from the November 29, 2006.

Board of Statutory Auditors

Post held	Name of member *	Percentage of attendance at meetings of the Board of Statutory Auditors	Number of other post held **
Chairman	Sergio Pivato	100	**2**
Statutory Auditor	Salvatore Spiniello	83.33	**4**
Statutory Auditor	Ferdinando Superti Furga	100	**3**
Alternate	Mariateresa Battaini		
Alternate	Mario Pia		
Alternate	Alessandro Rayneri		

Number of meetings held in 2005: 6

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

* An asterisk indicates 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.

Other Requirements of the Code of Conduct

	YES	NO	Brief description of the reasons for deviating from the Code of Conduct, when applicable
System for the delegation of powers and transactions with related parties			
When delegating power did the Board of Directors define:			
a) limits	X		
b) method of exercise	X		
c) and timing of regular reports?	X		
Did the Board of directors reserve the right to review and approve material, financial and asset transactions of particular importance (including transactions with related parties)?	X		
Did the Board of Directors define guidelines and criteria to identify "significant" transactions?	X		
Are these guidelines and criteria described in the Report?	X		
Has the Board of Director established special procedures to review and approve transactions with related parties?	X		
Are the procedures for the approval of transactions with related parties described in the Report?	X		
Procedures followed in the most recent election of Directors and Statutory Auditors			
Were nominations to the Board of Directors filed at least 10 days in advance?	X		In 2005, there were two Shareholder's Meetings the Agenda of which included the election of the Board of Directors. At the first Meeting, the nominations were filed at least 10 days in advance. At the second Meeting they were filed seven days in advance, which was the date when the controlling shareholder filed its list of candidates.
Were the nominations to the Board of Directors accompanied by exhaustive information?	X		
Were the nominations to the Board of Directors accompanied by affidavits stating that the candidates qualify as independent?	X		
Were nominations to the Board of Statutory Auditors filed at least 10 days in advance?	X		
Were the nominations to the Board of Statutory Auditors accompanied by exhaustive information?	X		
Shareholders' Meetings			
Has the Company adopted Regulations for the Conduct of Shareholders' Meetings?		X	The Company has not adopted specific regulations for the conduct of its Shareholders' Meetings because it believes that the powers granted to the Chairman of the Meeting under the Bylaws, which include moderating discussions and determining voting order and procedures, are sufficient to ensure that the Meeting progresses in an orderly fashion and that these general powers avoid the risks and inconveniences that could arise should the Meeting fail o comply with the provisions of specific regulations.
Have these Regulations been annexed to the Report (or is there an indication where they may be obtained or downloaded)?		X	
Internal Control			
Has the Company appointed Internal Control Officers?	X		
Are the Internal Control Officers hierarchically independent of operating managers?	X		
Unit responsible for internal control (as required by article 9.3 of the Code)	Internal Control Department		
Investor Relations			
Has the Company appointed an Investor Relations Manager?	X		
Organizational unit and coordinates (address/phone/fax/e-mail) of the Investor Relations Manager	Relations with Institutional Investors and Financial analysis Stefano Giussani, tel. +39-02.6222.1, E-mail: stefano.giussani@edison.it		

RISK MANAGEMENT AND TYPES OF FINANCIAL RISKS

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

Milan, February 19th 2007

The Board of Directors
by Giuliano Zuccoli
Chairman

UNBUNDLING – FINANCIAL STATEMENTS AND NOTES OF EDISON SPA

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

Specifically, Resolutions 61/99 and 310/01 require that the Balance Sheet and Statement of Income be prepared providing a breakdown of different activities, areas of business, common services and shared departments, according to the format provided in the applicable statute. These financial statements, compliand to the schemes adopted for IAS/IFRS purpose, and their notes, must be included in the Report on Operations (Annex 1) and forwarded to AEEG (Annexes 2 and 3).

Identification of Activities, Areas of Business and Common Services

The first step is to identify the "activities," "areas of business" and "common services," as required under Articles 4, 5 and 7 of Resolution No. 310/01, which should be consulted for more detailed information. For unbundling purpose, Edison Spa constitutes a multiactivity industrial company with the following structure:

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

The actual situation does not allow to set up an independent selling activity, as Edison yields nearly all its production to Edison Trading Spa, an associated company that performs as a wholesale dealer inside the Group.
More specifically:
- the **Production** activity includes all property, plant and equipment and intangibles, revenues and expenses and other items related primarily to the operation of hydroelectric and cogeneration facilities;
- as explained in Article 4.9 of Resolution No. 310/01, the **natural gas activity** includes all of the operations listed in Article 4, Section 4.1, Letters a), b), and c), but excluding Items i and iv, of Resolution No. 311/01 which will be explained in another document;
- **Other Operations** include the holding activity related to the centralized services rendered by Edison Spa to the Group's companies, the operations referred to the real estates included among current assets held for sale, the operations referred to the research centers of Trofarello and Ravenna and the oil extraction activity.;
- the **Common Services** include all the economic and financial activities listed in the abovementioned Resolution, except for telecommunications services, which are not operated by Edison Spa.

The Resolution requires that balance sheet items be allocated to the different activities and to the common services, except for the following items, which must be listed in the "Non-attributable" column
- the components of **stockholders' equity**;

- items of a **financial nature and those related to equity investments** listed among the assets, respectively, under Investments in associates and Available for sale investments. By way of analogy, the financial items listed under Other financial assets that refer to the management of equity investments are also listed;
- items related to **borrowings** listed among the liabilities under Bonds, Short term borrowings and Long term borrowings and other financial liabilities;
- **all of the items that appear in the Statement of Income** after **EBIT**.

According to IAS/IFRS principles, the “Non attributable” column also includes the **goodwill**.

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

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

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

In order to allow a comparison with the data of the Financial Statements, the figures related to transactions of goods and services occurred among activities of Edison Spa have been eliminated in the column headed **“Adjustments”.**

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

Edison Spa - Unbundling annex 1 - Balance sheet

(in thousand of euros)	Production	Gas Activity	Other Operations	C.S. (ad)	C.S. (ek)	Total	Non attributable	To be attributed	Total for the company
Assets									
Property, plant and equipment	4,193,450	269,374	84,966	-	91,284	**4,639,074**	(12,679)	-	**4,626,395**
Investment property	-	-	-	-	-	**-**	9,819	-	**9,819**
Goodwill	-	-	-	-	-	-	2,632,320	-	**2,632,320**
Hydrocarbon concessions	-	247,064	7,344	-	-	**254,408**	-	-	**254,408**
Other intangible assets	17,392	1,422	418	-	-	**19,232**	17,481	-	**36,713**
Investments in associates	-	-	-	-	-	**-**	2,135,269	-	**2,135,269**
Available-for-sale investments	-	-	-	-	-	**-**	117,329	-	**117,329**
Other financial assets	-	-	-	-	-	**-**	74,158	-	**74,158**
Deferred-tax assets	-	-	-	-	-	**-**	-	-	**-**
Other assets	4,288	333	2	-	97	**4,720**	57,007	-	**61,727**
Total assets	**4,215,130**	**518,193**	**92,730**	**-**	**91,381**	**4,917,434**	**5,030,704**	**-**	**9,948,138**
Inventories	29,819	212,494	14,142	-	1,765	**258,220**	-	-	**258,220**
Trade receivables	533,403	312,851	15,336	-	3,180	**864,770**	10,926	-	**875,696**
Current-tax assets	-	-	-	-	-	**-**	5,621	-	**5,621**
Other receivables	66,153	66,741	14,996	1,101	20,026	**169,017**	31,056	-	**200,073**
Current financial assets	-	-	-	-	-	**-**	531,508	-	**531,508**
Cash and cash equivalents	-	-	-	-	-	**-**	187,229	-	**187,229**
Total current assets	**629,375**	**592,086**	**44,474**	**1,101**	**24,971**	**1,292,007**	**766,340**	**-**	**2,058,347**
Assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**118,029**	**-**	**118,029**
Total assets	**4,844,505**	**1,110,279**	**137,204**	**1,101**	**116,352**	**6,209,441**	**5,915,073**	**-**	**12,124,514**
Liabilities and shareholders' equity									
Share capital	-	-	-	-	-	-	4,273,139	-	**4,273,139**
Equity reserves	-	-	-	-	-	-	17,553	-	**17,553**
Other reserves	-	-	-	-	-	-	588,628	-	**588,628**
Retained earnings (Loss carryforward)	-	-	-	-	-	-	97,329	-	**97,329**
Profit (Loss) for the period	79,236	273,464	63,706	(60,314)	(39,451)	**316,641**	315,587	-	**632.228**
Total shareholders' equity	**79,236**	**273,464**	**63,706**	**(60,314)**	**(39,451)**	**316,641**	**5,292,236**	**-**	**5,608,877**
Provision for employee severance indemnities and provvision for pensions	21,529	4,671	822	9,384	6,354	**42,760**	(3,652)	-	**39,108**
Provision for deferred taxes	473,625	(3,574)	-	-	-	**434,051**	(18,675)	-	**415,376**
Provision for risks and charges	73,554	210,794	13,271	-	-	**297,619**	484,566	-	**782,185**
Bonds	-	-	-	-	-	-	1,207,127	-	**1,207,127**
Long-term borrowings and other financial liabilities	-	-	-	-	-	-	339,383	-	**339,383**
Other liabilities	-	-	-	-	-	-	-	-	**-**
Total non-current liabilities	**532,708**	**211,891**	**14,093**	**9,384**	**6,354**	**774,430**	**2,008,749**	**-**	**2,783,179**
Bonds	-	-	-	-	-	-	1,456,753	-	**1,456,753**
Short-term borrowings	-	-	-	-	-	-	1,150,580	-	**1,150,580**
Trade payables	482,690	414,471	3,280	(11,587)	63,262	**952,116**	(84,111)	-	**868,005**
Current taxes payable	-	-	-	-	-	-	-	-	**-**
Other liabilities	92,617	253,423	(101,211)	(21,946)	413,655	**636,538**	(379,418)	-	**257,120**
Total current liabilities	**575,307**	**667,894**	**(97,931)**	**(33,533)**	**476,917**	**1,588,654**	**2,143,804**	**-**	**3,732,458**
Total held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities and shareholders' equity	**1,187,251**	**1,153,249**	**(20,132)**	**(84,463)**	**443,820**	**2,679,725**	**9,444,789**	**-**	**12,124,514**

Edison Spa - Unbundling Annex 1 - Profit & Loss

(in thousands of euros)	Production	Gas activity	Other operations	S.C. (ad)	C.S. (ek)	Total	Non attributable	To be attributed	Total for the company
Sales revenues	2,907,110	4,897,194	120,078	-	4	**7,924,386**	-	(3,069,620)	4,854,766
Other revenues and income	55,745	145,052	26,562	-	19,043	**246,402**	8,656	-	255,058
Total revenues	**2,962,855**	**5,042,246**	**146,640**	**-**	**19,047**	**8,170,788**	**8,656**	**(3,069,620)**	**5,109,824**
Raw materials and services used (-)	(2,428,803)	(4,692,053)	(73,010)	(30,812)	(36,413)	**(7,261,091)**	(2,620)	3,069,620	(4,194,091)
Labor costs (-)	(60,454)	(21,988)	(3,838)	(29,502)	(19,206)	**(134,988)**	2,378	-	(132,610)
EBITDA	**473,598**	**328,205**	**69,792**	**(60,314)**	**(36,572)**	**774,709**	**8,414**	**-**	**783,123**
Depreciation, amortization and writedowns	(394,362)	(54,741)	(6,086)	-	(2,879)	**(458,068)**	(4,306)	-	(462,374)
EBIT	**79,236**	**273,464**	**63,706**	**(60,314)**	**(39,451)**	**316,641**	**4,108**	**-**	**320,749**
Net financial income (expense)	-	-	-	-	-	-	(200,868)	-	(200,868)
Income from (Expense on) equity investments	-	-	-	-	-	-	164,769	-	164,769
Other income (expense), net	-	-	-	-	-	-	31,607	-	31,607
Profit before taxes	**79,236**	**273,464**	**63,706**	**(60,314)**	**(39,451)**	**316,641**	**(384)**	**-**	**316,257**
Income taxes	-	-	-	-	-	-	188,016	-	188,016
Profit (Loss) from continuing operations	**79,236**	**273,464**	**63,706**	**(60,314)**	**(39,451)**	**316,641**	**187,632**	**-**	**504,273**
Profit (Loss) from discontinued operations	-	-	-	-	-	**-**	127,955	-	127,955
Profit (Loss)	**79,236**	**273,464**	**63,706**	**(60,314)**	**(39,451)**	**316,641**	**315,587**	**-**	**632,228**

MOTION

Dear Shareholders:
Your Company's separate financial statements at December 31, 2006 show a net profit of 632,227,958.91 euros, rounded to 632,227,959.00 euros.

If you concur with the criteria used to prepare the financial statements and with the accounting principles and methods applied, we propose that you adopt the following resolution:

The Shareholders' Meeting,

- having reviewed the separate and consolidated financial statements at December 31, 2006 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, 2006;
- 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, 2006 includes reserves that are available pursuant to Articles 6 and 7 of Legislative Decree No. 38/2005 amounting to 569,802,633.14 euros, 467,109,286.99 euros of which are subject to the requirements set forth in Section 7 of the abovementioned Article 7;
- considering the provisions of Article 109, Section 4, of Presidential Decree No. 917/1986, as amended by Legislative Decree No. 344/2003 (Uniform Tax Code);
- considering that, as a result of the exercise of warrants up to and including February 16, 2007, the share capital amounts to 4,792,704,263.00 euros, divided into 110,592,420 savings shares and 4,682,111,843 common shares;

resolves to:

(i) approve the Report on Operations in 2006 submitted by the Board of Directors;
(ii) approve the separate financial statements for the year ended December 31, 2006, and the individual items contained therein;
(iii) set aside 5% of the year's net profit of 632,227,958.91 euros by adding 31,611,397.95 euros to the statutory reserve;
(iv) appropriate the 600,616,560.96 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 2006 fiscal year, for a total of	5,529,621.00 euros
- 2.8% of the shares' par value, i.e., 0.028 euros per share, as a preferred dividend premium for the 2006 fiscal year, as required as a consequence of the motion set forth in item b) below	3,096,587.76 euros
for a combined amount of 0.078 euros per savings share, which is equal to a total of	**8,626,208.76 euros**

b) **to** the 4,682,111,843 common shares, a dividend as follows:

- 0.048 euros per share, equal to 4.8% of each common shares' par value	
for a total of	**224,741,368.46 euros**

c) **to** 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	**367,248,983.74 euros**

The dividend will be payable on April 19, 2007 (coupon presentation date April 16, 2007). Accordingly, the right to exercise the 2007 Edison Common Share Warrants will be reinstated as of April 16, 2007.

Milan, February 19, 2007

The Board of Directors
by Giuliano Zuccoli
Chairman

REPORT OF THE BOARD OF STATUTORY AUDITORS

Dear Shareholders:

The Board of Statutory Auditors carried out its work in accordance with those provisions of the Uniform Code of Financial Intermediation, as set forth in Legislative Decree No. 58 of February 24, 1998, that govern the activities of Boards of Statutory Auditors. We also took into account the guidelines of the Code of Conduct for Boards of Statutory Auditors of Publicly Traded Companies published by the Italian Board of Certified Public Accountants and Bookkeepers.
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. In 2006, there were no instances in which the members of the Board of Statutory Auditors were required to disclose a personal or third-party interest in a transaction executed by the Company.
The drafts of the separate and consolidated financial statements at December 31, 2006, 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/10565 of April 6, 2001 and No. DEM/3021582 of April 4, 2003.

We list below in chronological order some of the key event of 2006, all of which are discussed accurately and exhaustively in the Report on Operations by the Board of Directors:

- The commissioning of the Ripabottoni wind farm in the province of Campobasso;
- The acquisition of EDF Italia and its subsequent merger into Edison Energia Spa;
- The successful drilling, through a 25% joint venture with prestigious industry operators, of the first three exploratory wells in the Reggane Basin, in Algeria, and the discovery of significant deposits of natural gas;
- The signing of a contract with Sonatrach, Algeria's national hydrocarbon company, for the supply of 2 billion cubic meters of natural gas a year, delivered via the Transmed pipeline, which links Algeria with Italy through Tunisia. Subsequently, Edison signed another contract with Sonatrach for the supply of an additional 2 billion cubic meters of natural gas a year delivered through the Galsi pipeline. This new pipeline, which is currently in the planning stage, will link Algeria with Sardinia and Tuscany;
- The sale of 100% of Edison Rete Spa to RTL Spa, a wholly owned subsidiary of Terna Spa;
- The agreement signed by Edison and BG Italia, pursuant to which BG Italia acquired the 66.3% of Serene Spa it did not already own;
- The fine imposed by the European Commission on Edison Spa and 16 other companies for violations of Article 81 of the Treaty; Edison was fined as the successor company to Montedison Spa, which controlled Ausimont Spa at the time of the alleged violations; Edison has appealed the decision of the Lower Court of the European Community, while at the same time setting aside ample provisions;

- The reaffirmation of Edison's BBB+ long-term credit rating, with stable outlook, by Standard & Poor's;
- The approval by Edison's Shareholders' Meeting of a resolution by which, pursuant to the Single Article, Section 469, of Law No. 266 of December 23, 2005 and supplemental and related provisions, it placed a tax restriction on available reserves and a portion of the share capital totaling 703.508.704.52 euros.

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 2006 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.

In a letter dated March 8, 2007, the Independent Auditors issued 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:

• IFRS audit of the statutory financial statements	35.000 euros
• Annual audit of personnel rates for Italian gas joint ventures	23.000 euros
• Annual audit of personnel rates for international gas joint ventures	23.000 euros
• Annual audit of rates for expatriates	8.000 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 its members. The outcome of this process was positive.

In 2006, the Board of Statutory Auditors met six times and attended eight meetings of 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 strategy, 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. 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 that governs transactions between Edison and all related parties. This procedure, which applies to the Chief Executive Officer as well, requires compliance with the principles of objectivity, transparency and truthfulness, based on the general principles that all transactions with related parties, including those executed through subsidiaries, must be conducted fairly, both substantively and procedurally. The abovementioned procedure defines the following: the criteria to identify transactions with related parties, the general rules and the principles of conduct that apply to such transactions, the rules governing the approval of such transactions, and the obligations to report to the Board of Directors.

The Company has 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, Directors and Statutory Auditors have been made aware of recent changes in the relevant statutes and were informed of their disclosure obligations.

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, 2006 were prepared for the first time 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. The Company is in the process of revising its system of corporate governance to make it consistent with the latest edition of the Code. The Corporate Governance Report lists the recommendations that were adopted in 2006, as well as those that were not adopted or are in the process of being adopted, and explains why.
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. By June 2007, the Company Bylaws must be amended to comply with new statutory requirements, in accordance with the regulatory guidelines that the Consob is expected to publish. On that occasion, additional recommendations contained in the new Code may be adopted.
In 2002, upon becoming eligible to list its shares, the Company established an Audit Committee and a Compensation Committee within its Board of Directors. A Strategy Committee followed in 2003. The continued use of these Committees was confirmed on October 28, 2005, when the Shareholders' Meeting elected a new Board of Directors.

Moreover, in July 2004, Edison Spa approved the organizational and management model required by Legislative Decree No. 231/2001. The adoption of this model is part of a broader strategy pursued by Edison to increase the awareness of its employees, contractors and commercial partners of the need to fol-

low transparent and fair management practices and to comply with the laws currently in force and the fundamental principles of business ethics when pursuing the Company's objectives. To that end, in September 2003, Edison's Board of Directors approved a Code of Ethics that is in line with the most stringent international standards and is an integral part of the Company's organization and management model.
In July 2004, in compliance with the requirements of the abovementioned Decree, the Board of Directors had established an Oversight Board. Following changes in Edison's shareholder base, the previous Oversight Board ceased to be in office and a new Oversight Board was appointed by the Board of Directors on February 21, 2006. Its members are an outside professional, who serves as Chairman, and two independent Directors. The Oversight Board relies on the support of the Company's Departments, chief among them the System of Internal Control Department, and has a separate expense budget. The Oversight Board reports semiannually to the Board of Directors and the Board of Statutory Auditors on the progress made in implementing the model and presents its plans for the six months to come.
A representative of the Board of Statutory Auditors also attends the meetings of the Oversight Board.

In 2006, the Board of Statutory Auditors received a memorandum, which the person who filed it (but failed to prove his right to do so) called a "formal complaint pursuant to Article 2408 of the Italian Civil Code." This complaint challenged the financial soundness of a divestiture carried out by an Edison subsidiary and the related entries in the financial statements of the Group's Parent Company with regard to the guarantees it provided.
The Board of Statutory Auditors, after completing the necessary inquiries and verifications, which included collecting instruments and documents, gathering information and obtaining clarifications from the Company and the Independent Auditors, concluded that, with regard to the first issue, it was not required to assess the merit of a management transaction executed in 2003 by a subsidiary that was sold in 2005 and over which Edison never exercised oversight and coordination. As for the second issue, the Board of Statutory Auditors found that there was no basis for concluding that the valuations applied by the Board of Directors in the process of preparing the financial statements were improper.

The Report on Operations provides a comprehensive presentation of the circumstances that enabled the Company to report a net profit from operations that was significantly higher than in the previous year. Based on the foregoing considerations, we concur with the information provided in the Report on Operations and with the motion put forth by the Board of Directors for the appropriation of net income, after satisfaction of the rights of the holders of savings shares.

Milan, March 12, 2007

The Board of Statutory Auditors
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