

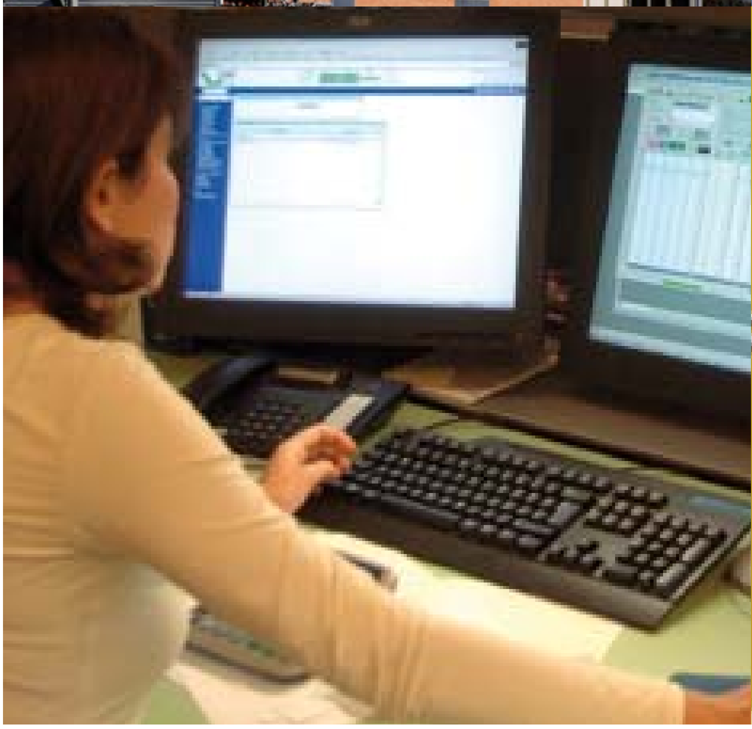


SEMIANNUAL REPORT AT JUNE 30, 2006

EDISON

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SEMIANNUAL REPORT
AT JUNE 30, 2006

EDISON

REPORT ON OPERATIONS

EDISON TODAY

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

Electric power

Italian Market (in the 1st half of 2006)		
Net Italian demand (estimated)	155.8	TWh
of which Deregulated market (estimated)	73.4	TWh
Edison's net sales	31.3	TWh
Breakdown: - Net sales to the deregulated market	15.7	TWh
- Power Exchange sales	2.3	TWh
- Res. 34/05 sales	0.5	TWh
- CIP 6/92 sales	10.2	TWh
- Sales to captive customers	2.6	TWh
Market share *(of total market)*	20.1	%
Market share *(of deregulated market)*	21.4	%

Facilities and Production Capacity (in the 1st half of 2006)		
Total Italian installed capacity (at 12/31/05)	73,500	MW
Edison's installed capacity (approx.)	7,407	MW
Edipower's installed capacity (50%) (approx.)	3,663	MW
Total Italian net production of electric power	150.6	TWh
Edison's net production of electric power	18.7	TWh
Edipower's net production of electric power*	6.6	TWh
Share of total production	12.4	%
Share of total production *(incl. 50% of Edipower*)*	16.8	%
Transmission network	2.9	'000/Km

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

Source: Edison data, Forecast 2006 of Terna and Acquirente Unico.

Hydrocarbons

Italian Market (in the 1st half of 2006)		
Total market	45.8	Bill. m^3
Edison's sales in Italy	6.9	Bill. m^3
Market share	15.0	%
Edison's sales outside Italy	0.3	Bill. m^3

Facilities and Production Capacity (in the 1st half of 2006)		
Total Italian production	5.5	Bill. m^3
Edison's production in Italy	0.4	Bill. m^3
Share of total production	6.6	%
Number of concessions and permits in Italy	63	n.
Number of concessions and permits outside Italy	12	n.
Storage centers in Italy	2	n.
Gas transmission network (low- and medium-pressure pipelines)	3.21	'000/Km
Production outside Italy	0.2	Bill. m^3

Source: Edison data, Forecast 2006 Ministry

SIMPLIFIED STRUCTURE OF THE GROUP AT JUNE 30, 2006

EDISON

Energy

EDISON Spa [1]

Electric Power Operations	Hydrocarbon Operations	Energy Management	Marketing & Distribution
Edison Energie Speciali Production of Electric Power	**Edison International** Hydrocarbon Expl. & Prod.	**Edison Trading** Energy management	**Edison Energia** Energy Purchas. and Distribution
Edison Rete [3] Electric Power Transmission	**Edison Stoccaggio** Natural Gas Storage		**Edison per Voi** Natural Gas Sales
Edipower [2] Production of Electric Power	**Edison DG** Natural Gas Distribution		

Other operations

IHW [2]
Water

- Electric Power Operations
- Hydrocarbons Operations

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

(2) Edipower and IWH are joint ventures consolidated at 50% by the proportional method.

(3) This business, which is in the process of being sold, has been included in "Discontinued operations."

BOARD OF DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

Board of Directors

Chairman		Giuliano Zuccoli [1]
Chief Executive Officer		Umberto Quadrino [1]
Directors		Marc Boudier [1][2]
		Daniel Camus [3]
		Uris Cantarelli [3]
	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]
		Gerald Wolf

Board of Statutory Auditors

Chairman	Sergio Pivato
Statutory Auditors	Salvatore Spiniello
	Ferdinando Superti Furga

Independent Auditors

PricewaterhouseCoopers Spa

[1] Member of the Strategy Committee.
[2] Member of the Compensation Committee.
[3] Member of the Audit Committee.

INFORMATION ABOUT THE COMPANY'S SECURITIES

Number of shares at June 30, 2006

Common shares	4,162,527,383
Savings shares	110,592,420
Warrant outstanding	1,018,636,574

Shareholders with Significant Holdings at June 30, 2006

	% of voting rights	% interest held
Transalpina di Energia Srl	71.232%	69.388%
EdF Eléctricité de France Sa [1]	17.334%	16.884%

[1] Interest held directly and indirectly.

KEY EVENTS

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 authorized the Chief Executive Officer to negotiate the purchase of EdF Italia's operations.

In 2005, EdF Italia, which is active in the deregulated market for electric power, sold a total of 8 billion kWh to a broad range of industrial and residential customers.

This acquisition is consistent with Edison's strategy of maximizing available commercial and structural synergies with its industrial shareholders.

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.

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, The Company has set aside ample provisions.

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.

FINANCIAL HIGHLIGHTS - FOCUS ON PERFORMANCE

Edison Group

2005 (*)	(in millions of euros)	**First half 2006**	First half 2005 (*)	% change
6,629	Sales revenues	4,266	3,225	*32.3%*
1,288	EBITDA	774	597	*29.6%*
19.4%	*as a % of sales revenues*	*18.1%*	*18.5%*	
639	EBIT	415	320	*29.7%*
9.6%	*as a % of sales revenues*	*9.7%*	*9.9%*	
442	Profit before taxes	284	246	*15.4%*
504	Group interest in net profit	398	200	*99.0%*
598	Capital expenditures	191	255	*(25.1%)*
22	Investments in exploration	23	6	*n.m.*
11,251	Net invested capital (A + B)(1)	11,346	11,228	*0.8%*
4,820	Net borrowings (A)(1)	4,705	4,806	*(2.4%)*
6,431	Shareholders' equity before minority interest (B)(1)	6,641	6,422	*3.3%*
6,272	Group interest in shareholders' equity(1)	6,491	5,958	*3.5%*
5.84%	ROI(3)	7.44%	5.90%	
8.42%	ROE(4)	12.47%	6.86%	
0.75	Debt/Equity ratio (A/B)	0.71	0.75	
2,963	Number of employees(1)(2)	2,950	4,497	*(0.4%)*
	Stock market prices (in euros)(5)			
1.7344	- common shares	1.5386	1.8346	
1.8303	- nonconvertible savings shares	1.6667	1.6911	
0.8334	- warrants outstanding	0.7462	0.8577	
	Profit (Loss) per share			
0.1173	- basic	0.0924	0.0462	
0.1068	- diluted	0.0844	0.0421	

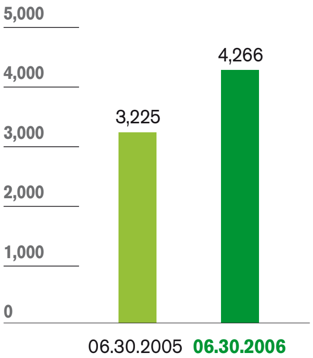
(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.
(2) Companies consolidated line by line and Group interest in companies consolidated by the proportional method.
(3) EBIT/Average net invested capital. Net invested capital does not include the value of equity 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.
(4) 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.
(5) Simple arithmetic average of the prices for the last calendar month of the year.
(*) Data restated following the adoption of IFRIC 4.

Edison Spa

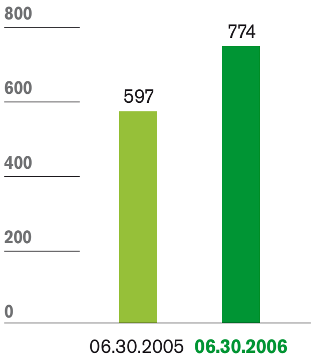
2005 IAS/IFRS		**First half 2006 IAS/IFRS**	First half 2005 IAS/IFRS	% change
4,058	Sales revenues	2,470	1,882	*31.2%*
637	EBITDA	368	288	*27.8%*
15.7%	*as a % of sales revenues*	*15.0%*	*15.3%*	
306	EBIT	169	146	*15.8%*
7.6%	*as a % of sales revenues*	*6.8%*	*7.8%*	
516	Net profit (loss) for the period	442	268	*64.9%*
407	Capital expenditures	125	176	*(29.0%)*
9,089	Net invested capital	9,292	9,080	*2.2%*
3,930	Net borrowings	3,868	4,167	*(1.6%)*
5,159	Shareholders' equity	5,424	4,913	*5.1%*
0.76	Debt/Equity ratio	0.71	0.85	*(6.4%)*
1,782	Number of employees	1,778	1,641	*(0.2%)*

Key Group Data

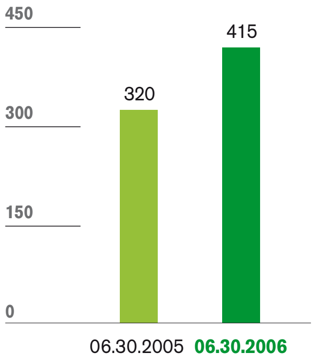
Sales revenues



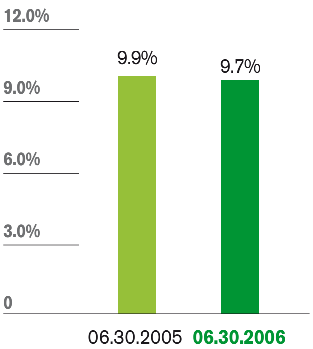
EBITDA



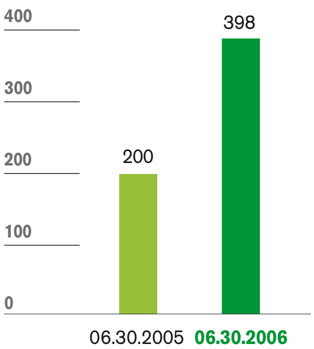
EBIT



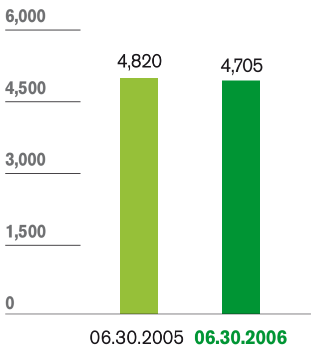
EBIT/sales revenues



Group interest in net profit



Net borrowings



Sales Revenues and EBITDA by Business

2005 (*)	(in millions of euros)	First half 2006	First half 2005 (*)	% change
	Core Business			
	Electric Power Operations (1)			
4,972	Sales revenues	3,360	2,222	*51.2%*
988	EBITDA	563	465	*21.1%*
19.9%	*as a % of sales revenues*	*16.8%*	*20.9%*	
	Hydrocarbons Operations (2)			
3,303	Sales revenues	2,084	1,548	*34.6%*
353	EBITDA	240	154	*55.8%*
10.7%	*as a % of sales revenues*	*11.5%*	*9.9%*	
	Corporate Activities			
42	Sales revenues	22	20	*10.0%*
(76)	EBITDA	(35)	(36)	*2.8%*
n.m.	*as a % of sales revenues*	*n.m.*	*n.m.*	
	Eliminations			
(1,940)	Sales revenues	(1,218)	(801)	*52.1%*
-	EBITDA	-	-	
	Total core businesses			
6,377	**Sales revenues**	**4,248**	**2,989**	**42,1%**
1,265	**EBITDA**	**768**	**583**	**31.7%**
19.8%	**as a % of sales revenues**	**18.1%**	**19.5%**	
	Other Operations			
	Continuing Operations			
	Water			
31	Sales revenues	18	15	*20,0%*
8	EBITDA	6	3	*100.0%*
25.8%	*as a % of sales revenues*	*33.3%*	*20.0%*	
	Engineering (3)			
221	Sales revenues	-	221	-
15	EBITDA	-	11	-
6.8%	*as a % of sales revenues*	-	*5.0%*	
	Eliminations			
-	Sales revenues	-	-	
-	EBITDA	-	-	
	Total other operations			
252	**Sales revenues**	**18**	**236**	**(92.4%)**
23	**EBITDA**	**6**	**14**	**(57.1%)**
9.1%	**as a % of sales revenues**	**33.3%**	**5.9%**	
	Edison Group			
6,629	**Sales revenues**	**4,266**	**3,225**	**32.3%**
1,288	**EBITDA**	**774**	**597**	**29.6%**
19.4%	**as a % of sales revenues**	**18.1%**	**18.5%**	

(*) Data restated following the adoption of IFRIC 4.

(1) Activities carried out by the following Business Units: Electric Power Asset, Electric Power Energy Management and Electric Power Marketing & Distribution.

(2) Activities carried out by the following Business Units: Hydrocarbons Asset, Hydrocarbons Energy Management and Hydrocarbons Marketing & Distribution.

(3) Activities carried out by the Tecnimont subsidiary, consolidated until June 30, 2005. This company was later sold.

PERFORMANCE AND RESULTS OF THE GROUP

Operating Performance

Consistent with the trend recorded in the first quarter of 2006, sales revenues were up strongly in the first half of the year, rising by 32.3% compared with the same period last year, despite the sale of Tecnimont, which generate revenues of 221 million euros in the first six months of 2005. A breakdown by type of business shows increases of 51.2 % for the electric power operations and 34.6% for the hydrocarbons operations.
A rise in average sales prices, driven mainly by rising raw material prices in the international markets, was a main reason for this increase. The electric power operations also enjoyed a healthy expansion in unit sales (+24.5%), owing largely to growth in the deregulated market (+41.7%) made possible by the full availability of new power plants in Candela, Altomonte and Piacenza. In June, the Torviscosa power plant also started its testing activity.came on stream.
The hydrocarbons operations reported a smaller increase in unit sales (+1.9%).

EBITDA increased by 177 million euros (+29.6%), rising from 597 million euros in the first six months of 2005 to 774 million euros in the same period this year. Insofar as the electric power operations are concerned, this improvement was made possible by an increased availability of electric power, which reflected a rise in installed generating capacity, and a “statistically normal” rate of plant unavailability (several facilities had to be shut down for technical reasons during the first half of 2005). The optimization of the sales mix and successful hedging strategies that helped stabilize margin per unit were also contributing factors. This positive performance was achieved despite a reduction of CIP 6/92 incentives for some power plants and the new charges incurred in connection with CO_2 emissions.
The hydrocarbons operations reported higher profit margins due mainly to the positive impact of the oil market benchmark and to the recognition of the favorable impact of the renegotiated prices paid for natural gas under long-term contracts with ENI. The new prices were applied retroactively as of the second half of 2005. These positive developments more than offset the impact of the establishment of a provision of about 50 million euros to comply with Resolutions 298/05 and 134/06, by which the AEEG revised the rates at which natural gas is sold pursuant to Resolution 248/05 (the Edison Group is challenging both resolutions before the administrative court).

As a result of the improved performance described above and after deducting depreciation and amortization totaling 3597 million euros (+29.6% compared with the first half of 2005), EBIT grew to 415 million euros in the first six months of 2006, or 29.7% more than the 320 million euros earned in the same period last year.
In 2006, the Group revised the method by which it depreciates CIP 6/92 power plant, the adoption of this revised method increased depreciation and amortization by 32 million euros.

Profit before taxes rose to 284 million euros, up 38 million euros compared with the first six months of 2005 (246 million euros).
Net profit jumped to 398 million euros, an amount significantly higher than the 200 million euros reported at June 30, 2005. The favorable impact of realigning the taxable base of most 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) accounts for this improvement, since it permitted the release of provisions for deferred taxes (computed at the nominal rate of 37.25%) related to the higher values of the realigned assets in the amount of 298 million euros), as against the payment of a substitute tax of 96 million euros (computed at the nominal rate of 12%).

At June 30, 2006, the Group’s net borrowings totaled 4,705 million euros (4,806 million euros at June 30, 2005), less than the 4,820 million euros owed at December 31, 2005 despite Edison Spa’s dividends payment for 183 million euros and capital investments for 214 million euros.

The table below provides a simplified breakdown of net borrowings including the amount owed by Edison Rete:

12/31/2005	(in millions of euros)	**06/30/2006**	06/30/2005
	Long-term debt		
2.838	Bonds	2,694	2,799
1.757	Bank debt	1,490	1,628
65	Amounts owed to other lenders	57	77
(60)	Other financial assets (*)	(60)	(60)
4.600	**Total net long-term debt**	**4,181**	**4,444**
	Short-term debt		
657	Current loans payable	757	907
(76)	Current financial assets	(73)	(94)
(361)	Cash and cash equivalents	(160)	(451)
220	**Total net short-term debt**	**524**	**362**
4.820	**Net borrowings**	**4,705**	**4,806**
	which include		
	Net borrowings (liquid assets) attributable		
-	**to divested operations**	**30**	**-**

(*) Include loans receivable recognized as required by IFRIC 4.

Please see the paragraph “Risk management and types of financial risks” included in Notes to the Consolidated Semiannual Financial Statements, in which there is a section related to loan agreement covenants.

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

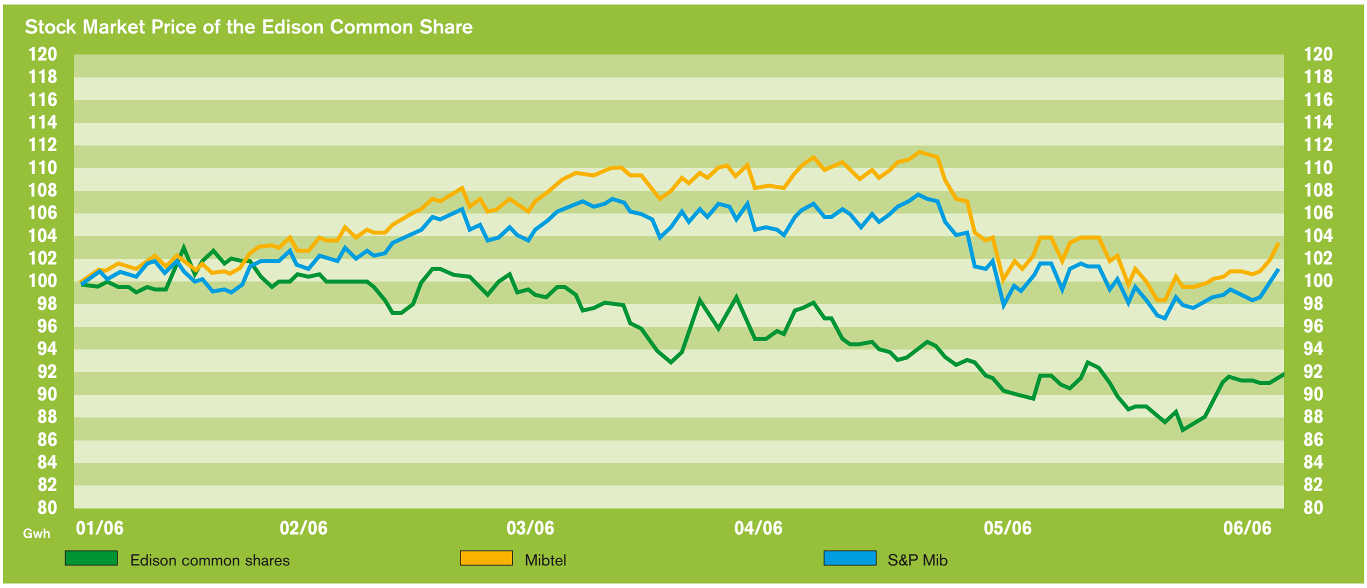
2005	(in millions of euros)	**01.01.2006/ 06.30.2006**	01.01.2005/ 06.30.2005
(4.846)	**A. Net borrowings at the beginning of the period**	**(4.820)**	**(4.846)**
1.288	EBITDA	774	597
(192)	Change in operating working capital	112	(28)
(131)	Income taxes paid (-)	(37)	(40)
(141)	Change in other assets (liabilities)	(157)	(130)
824	**B. Cash flow from operating activities**	**692**	**399**
(883)	Investments in property, plant and equipment, intangibles and non-current financial assets (-)	(268)	(320)
470	Proceeds from the sale of property, plant and equipment, intangibles and non-current financial assets	11	63
8	Dividends received	5	8
419	**C. Free cash flow**	**440**	**150**
(203)	Financial income (expense)	(136)	(112)
18	Contributions of share capital and reserves		7
(11)	Dividends declared (-)	(189)	(11)
223	**D. Net cash flow from financial activities**	**115**	**34**
(197)	Change in the scope of consolidation		6
26	**E. Net cash flow for the period**	**115**	**40**
(4.820)	**F. Net borrowings at the end of the period**	**(4,705)**	**(4,806)**

Outlook for 2006

The commissioning of the Torviscosa power plant during the second half of the year, coupled with the full availability of the facilities in Candela and Altomonte and the positive impact of renegotiated price for long-term natural gas supply contracts, would seem to justify expectations of higher industrial results in 2006 compared with the previous year.

EDISON AND THE FINANCIAL MARKETS

Chart of the stock market prices of the Edison share between January 1 and June 30, 2006



Stock Market Price and Other Per Share Data

(in euros)	**June 30, 2006**	December 31, 2005
Edison Spa		
Stock market price (in euros)[1]:		
- common shares	1.5386	1.7344
- savings shares	1.6667	1.8303
- warrants	0.7462	0.8334
Number of shares (at end of period):		
- common shares	4,162,527,383	4,162,515,334
- savings shares	110,592,420	110,592,420
Total shares	**4,273,119,803**	**4,273,107,754**
Warrants	1,018,636,574	1,018,648,623
Edison Group		
Basic earnings (loss) per share (in euros)[2]	0.0924	0.1173
Diluted earnings (loss) per share (in euros)[2]	0.0844	0.1068
Group interest in shareholders' equity per share (in euros)	1.519	1.468
Price/Earning ratio (P/E)[3]	16.99	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

ECONOMIC FRAMEWORK

During the first half 2006, the global economy grew at a healthy pace. GDP growth was fueled by expansion in the emerging economies, the United States and, contrary to the first six months of 2005, Europe.
Specifically, signs that the Chinese economy was overheating convinced the Central Bank to use monetary policy to stabilize the macroeconomic framework. In the U.S., the economy grew unevenly during the first half of the year, expanding strongly during the first three months but expanding less robustly in the second quarter. In the euro-zone countries, economic growth resumed, especially in Germany and Italy, two countries that showed no sign of economic development at the end of 2005.

On the inflation front, the fear of renewed upward pressure is justified by the high prices of oil and non-ferrous metals, which, however, have not yet been reflected in internal prices in the individual countries. Mindful of the risk of inflation, the Federal Reserve continued to pursue a policy of raising the cost of money during the first half of 2006, increasing the federal funds rate to 5.25%, the highest level since March 2001. The European Central Bank responded to rising consumer prices by boosting its interest rate to 2.75%.

In the foreign exchange markets, the U.S dollar traded at around USD1.20 for one euro between the end of 2005 and May 2006. After May, the exchange rate was never lower than USD1.25 for one euro and peaked at almost USD1.30 for one euro at the beginning of June. The average exchange rate for the first half of 2006 was USD1.23 for one euro.

Key Economic Data

2005		**First half 2006**	First half 2005	% change
54.4	Oil price USD/bbl	65.7	49.5	32.6%
1.24	USD/euro exchange rate	1.23	1.29	(4.4%)
43.7	Oil price euro/bbl	53.4	38.5	38.7%

In the oil market, the price of Brent crude rose steadily during the first half of 2006. The average price for the first six months of the year was USD65.70/bbl, up 33% over the average for the same period last year. At the beginning of May, the price of Brent crude reached an all-time high of USD74.46/bbl. Because the euro decreased in value versus the U.S. dollar during the first six months of 2006, the percentage change in the price of oil is more pronounced when stated in euros (38.7%), with the average price amounting to euros 53.40/bbl.
The continuing upward pressure on oil prices is due to a number of different factors, chief among them a sharp increase in the demand for crude oil and expanded activity in derivatives (instruments with underlying commodities indexed to oil), while supply is still constrained by rigidity and risk factors. Specifically, the price increases recorded early in 2006 reflected geopolitical tensions related to the Iranian nuclear crisis and by repeated interruptions to oil production in Nigeria caused by sabotage to the pipelines in the Niger delta. In addition, a new wave of nationalizations in several producing counties has not encouraged a resumption of investments in new capacity by major oil companies.

As for refined products, there was a recovery in the price of crude compared with that of fuel oils and a narrowing of the crack spread for both low-sulfur oil (-USD8.70/bbl) and high-sulfur oil (-USD0.90/bbl) in the first half of 2006. During the same period of comparison, the opposite was true for diesel fuel, with crude oil losing value in relative terms (the crack spread on diesel fuel was +USD0.60/bbl).

THE ITALIAN ENERGY MARKET

Demand for Electric Power in Italy

2005		First half 2006	First half 2005	% change
289.7	Net production	150.6	141.5	6.4%
49.1	Imports	20.6	26.8	(23.1%)
(9.4)	Surges	(4.4)	(4.9)	10.2%
329.4	**Total demand**	**166.8**	**163.4**	**2.1%**

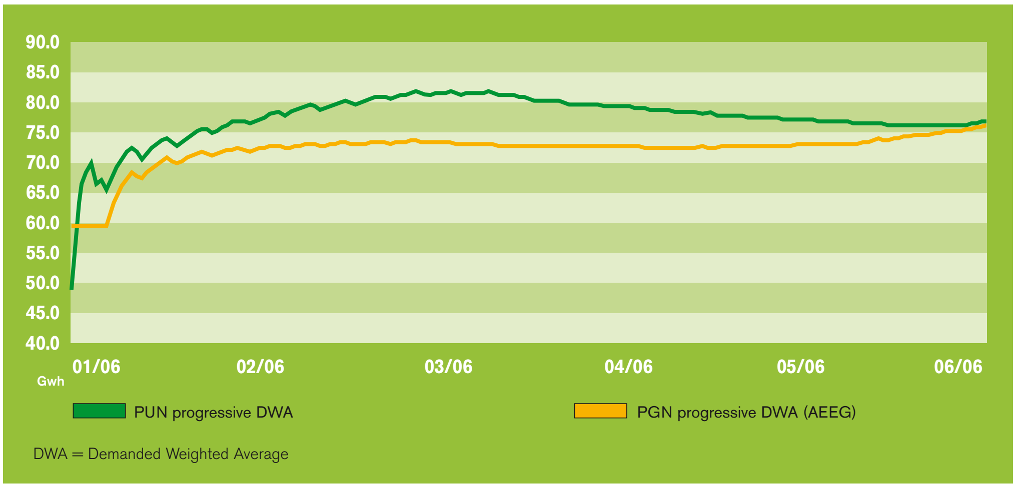
Source: Official GRTN data and analyses of Terna and AU data, before line losses.

In the first half of 2006, gross total demand for electric power from the Italian grid totaled 166.8 TWh (1 TWh = one billion kWh) or 2.1% more than in the first six months of 2005. On a seasonally adjusted basis (i.e., eliminating the impact of changes in average temperature and the number of business days), the increase is smaller.

Domestic production was sufficient to meet 90.3% of demand, compared with 86.6% in the first half of 2005. Net imports decreased from 16.3% to 12.4% due to a significant drop in imports during the winter months and a concurrent increase in exports. In the first six months of 2006, the limited availability of water, coupled with a reduction in imports, resulted in a sharp rise in thermoelectric production (+7%).
In the area of renewable resources, wind power facilities performed especially well, increasing production by 73.2% compared with the first six months of 2005.

Demand from captive customers decreased to 78.1 TWh, accounting for 46.8% 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 46.9% of total demand, surpassing for the first time the percentage of the captive segment of the market. Internal consumption was 6.3%, about the same as in the first half of 2005.

The chart below shows the trend of the demand-weighted average Single National Price (abbreviated PUN in Italian), compared with that of the old benchmark, the National Power Generation Price (an hourly rate defined by the AEEG that is abbreviated PGN in Italian):



At June 30, 2006, the average progressive PUN was Euros 78.4/MWh, or 1% higher than the PGN (the wholesale benchmark price used before the start of the Electric Power Exchange). The largest differentials occurred earlier in the year, with the spread flattening out in the later months.

Demand of Natural Gas in Italy

2005	billions of m^3	**First half 2006**	First half 2005	% change
30.1	Services and residential customers	17.7	18.0	(1.5%)
21.7	Industrial users	11.2	11.5	(3.0%)
32.9	Thermoelectric power plants	16.6	15.2	9.0%
0.5	Transportation	0.3	0.2	11.5%
85.2	**Total demand**	**45.8**	**44.9**	**1.8%**

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

In Italy, demand for natural gas grew to about 45.8 billion cubic meters, or 0.9 billion cubic meters more (+1.8%) than in the first six months of 2005. This gain reflects mainly increased use by thermoelectric power plants, which occurred despite the measures introduced by the Ministry of Production Activities (now called Ministry of Economic Development) this past winter in response to the so-called "natural gas emergency." These measures (the most significant of which included a natural-gas supply cutoff to dual-fuel users, concurrently with a reactivation of fuel oil usage, and restrictions on consumption for home heating purposes) produced a significant reduction in domestic consumption. Absent these measures, consumption would have increased by a much larger percentage.

With regard to supply sources, a reduction in domestic production (about 8% – less than in the first half of 2005, in line with the trend of recent years) was offset by a rise in imports (up about 6% in 2006, due mainly to gas coming from Libya under a contract that became fully operational during the first six months of 2006) and the obligation to maximize imports that was imposed by the Ministry on December 24, 2005 and later extended until June 5, 2006. These factors more than offset the supply shortfalls that occurred in January 2006 (for a total of about 0.5 billion cubic meters), mainly as a result of a reduction in deliveries of natural gas from Russia (due to transit problems in the Ukraine and an exceptional cold spell in Russia and continental Europe).
Despite the measures mentioned above, the Italian system was forced to draw on the strategic reserve (in the amount of about 1.2 billion cubic meters) for the second consecutive year in order to meet winter demand.

REGULATORY FRAMEWORK

Electric Power

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

Actions of the Electric Power and Natural Gas Authority (AEEG)

At the end of December, after completing the consultative process, the AEEG issued Resolution No. 105/06, which sets forth the Code of Business Conduct for sales of low voltage electric power to eligible end customers.
The AEEG enacted this measure, which is designed to create consistency with the regulations that already exist in the natural gas market, to define, as of January 1, 2007, the conduct that all operators in the electric power industry will be required to follow when making contract offers to existing (or potential) customers.
By Resolution No. 111/06, the AEEG amended dispatching rules for 2007. The amendment process, which got under way last year with the publication of an overview and two consultation documents, resulted in the introduction of significant changes concerning the filing and registration of bilateral contracts executed on the Power Exchange.
Another important innovation introduced by this resolution involves a new system of guarantees required by the Market Operator to allow trading of electric power on different markets.
Moreover, starting with the implementation of new dispatching rules on January 1, 2007, operators will have the use of tools that will provide greater flexibility in executing buy and sell transactions. This project is a starting point to develop the standard forward contracts trading (BIPEX).

Actions of the Ministry of Economic Development

Consistent with the provisions of Presidential Decree No. 19 of January 25, 2006, the Ministry of Economic Development, working together with the Ministry of the Environment and Territory Protection and the Ministry of Health, enacted a series of Decrees to address the so-called "natural gas emergency."
The Ministry of Economic Development 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 emissions ceilings applicable to fuel-oil burning production facilities with a generating capacity greater than 300 MW.

Market Rules and the Electric Power Exchange

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 for the period between January 27 and March 24, 2006.
The measures adopted by the relevant government entities were designed to maximize production by facilities that are fired with fuel oil, with production scheduling taken over by the operator responsible for dispatching on 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, enjoy priority dispatching over other thermoelectric production units (gas-fired facilities), which typically have lower variable costs.
On June 21, 2006, responding to these issues and specifically the higher costs incurred by operators to run generating equipment that burns fuel oil, the AEEG circulated a consultation document, asking operators to provide their opinions and comments about a computation method that could be used to calculate the abovementioned costs and the compensation that should be paid to cover them.

Environment

Emissions Trading: On February 23, 2006, the Ministry of the Environment and Territory Protection issued Decree No. DEC/RAS/074/2006, which allocated and issued CO_2 emission quotas for the 2005-2007 period, as required by Article 11, Section 1, of Directive No. 2003/87/CE issued by the European Parliament and the Council of Europe. This Decree awarded to the facilities to which it applies the CO_2 quotas needed to participate in the Emissions Trading system.
On April 4, 2006, in order to facilitate the implementation of the relevant European Directives, the Italian government issued Decree No. 216, entitled "Implementation of Directives 2003/87 and 2004/101/CE on the Trading of Greenhouse Gas Emissions Quotas Within the European Community, Based on the Planning Mechanisms of the Kyoto Protocol."
In accordance with European and Italian regulations, the quotas allocated to production facilities are issued to operators in accounts opened with the National Emissions Register by February 28 of each year. By March 31 of each year, the operators are required to send to the relevant national regulatory agency a statement listing the emissions released during the previous calendar year, accompanied by an audit certificate from an authorized auditing organization. By April 30 of each year, individual operators must comply with the obligation to surrender a number of quotas sufficient to cover their emissions.
Due to problems with the software that APAT has purchased to mange the computerized register, the procedures described above have been put on hold. By Decree No. DEC/RAS/670/2006, the relevant national regulatory agency extended the deadline by which the operators are required to surrender their quotas to September 15, 2006.
Lastly, the relevant national regulatory agency is in the process of preparing the National Allocation Plan for the 2008-2012 period. A proposal issued by the Ministry of the Environment and Territory Protection is currently in the consultation phase.

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 years 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.

Hydrocarbons

Actions of the Electric Power and Gas Authority (AEEG)

In the first half of 2006, new developments in the area of rates included the completion by the AEEG of the consultation process launched at the end of 2005 prior to updating storage rates for the second regulatory period and the publication of Resolution No. 50/06 in March 2006. This measure, in addition to redefining the criteria that govern the service's rate structure, amends and updates the provision of the previous Resolution No. 119/05 regarding access to and use of storage capacity.

In the area of distribution, the rejection of the appeal filed with the Council of State by the AEEG against the decision handed down by the Regional Administrative Court of Lombardy with regard to Resolution No. 170/04 resulted in the issuance of Resolution No. 109/06, which postponed to a date to be determined the deadline by which operators are required to file their proposed rates for the 2006-2007 thermal year (originally set at June 30) with the AEEG. This is because the AEEG has to first complete a process whereby it complies with the abovementioned court decision and amends the provisions of Resolution No. 170/04 that apply to the productivity recovery rate. In the interim, the rate approved for the 2004-2005 thermal year will continue to apply, subject to subsequent adjustments.

The issue of the rates charged to end customers in the so called "former captive" market was addressed in Resolution No. 134/06, the main features of which are reviewed below:

- It updates the method used to compute the "raw material" component of the rates charged to customers starting in the July-September 2006 trimester;
- Effective October 1, 2006, it reduces the scope of implementation of the rates covered by the Resolution.

Responding to recently confirmed concerns that a supply shortfall may occur again next winter, the abovementioned Resolution contained temporary measures to allows recognition of any additional import costs that may be incurred because of spot market purchases.

With regard to the issue of access to infrastructural facilities and storage facilities in particular, industry operators (Stogit and Edison Stoccaggio) are continuing to work with the Consultation Committees established last year to provide representation for all interested parties (users, transmission and distribution companies and consumers) in the process of drafting Storage Codes in accordance with the provisions of Resolution No. 119/05, as amended by Resolution No. 50/06.
By Resolution No. 53/06, the AEEG established a similar Consultation Committee that represents all interested parties (users, storage companies, regasification companies and trade associations) prior to updating the existing Network Transmission Codes.

With regard to the issue of access to distribution facilities, Resolution No. 108/06 made available 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, distributors and users. Within three months of the publication of the abovementioned Resolution, individual distributors will be required to adopt the proposed network code or, alternatively, develop their own code, which must comply with the guidelines of Resolution No. 138/04 and must be submitted to the AEEG for approval within three months of the date of publication.

The occurrence of the so-called "natural gas emergency" early in the year required the adoption of temporary measures designed to implement incentives to reduce consumption (compensation and adoption of collaborative approaches to service interruption for industrial customers) in accordance with the provisions of Resolutions No. 10/06 and 84/06. Also in response to the same problem, the cost of using the strategic gas reserve was increased (Resolution No. 21/06) and formal investigations were launched with a view to imposing fines on certain gas sellers who improperly used the storage capacities they had been awarded for the 2004-2005 and 2005-2006 thermal years (Resolution No. 37/06).

Lastly, as part of a process started with Resolution No. 234/05, a series of consultations is currently under way with regard to regulations governing gas metering and transmission and the definition of the corresponding fees referred to in Resolution No. 166/05.

Actions of the Ministry of Economic Development

The most significant actions taken by the Ministry of Production Activities in the first half of 2006 are reviewed below:

- *Decree* dated February 3, 2006 on the natural gas emergency, which approved the allocation of remunerated interruptible services set forth in AEEG Resolution No. 10/06;
- *Communication* dated February 8, 2006, which, on the issue of strategic storage, confirmed for the 2005-2006 thermal year the volume of 5.1 billion standard cubic meters, as set forth in Article 3, Section 6, of the Ministerial Decree of May 9, 2001;
- *Publication* issued on March 22, 2006 concerning the National System's 2005-2006 Natural Gas Emergency, which outlined the timing of the types of actions taken by the Ministry through the end of the emergency and listed, in chronological order, the actions approved and implemented to deal with the emergency situation affecting the national natural gas system;
- *Communication* dated March 23, 2006 by which, based on the input of the Technical Committee on the Emergency and Monitoring of the Natural Gas System, the Ministry declared that the weather emergency period had ended, as required by the provisions of Item 28 of the "Procedure for Weather Emergencies Affecting the Natural Gas System," as approved by a Ministerial Decree dated December 12, 2005;
- *Decree* dated April 11, 2006, which defined the principles and methods that should be used to provide exemption from third-party access obligations and award priority allocation rights to new natural gas infrastructures, as allowed under Article 1 of Law No. 239/04.

PERFORMANCE OF THE GROUP'S BUSINESSES

Electric Power Operations

Quantitative Data

Sources

2005	GWh (*)	First half 2006	First half 2005	% change
44,689	**Net production of the Edison Group:**	**25,293**	**21,157**	**19.5%**
30,205	- Thermoelectric power plants	17,089	14,111	21.1%
2,757	- Hydroelectric power plants	1,359	1,269	7.1%
407	- Wind farms	249	189	31.7%
11,320	- Edipower	6,596	5,588	18.0%
1,580	Imports	765	900	(15.0%)
6,424	Other domestic purchases and swaps [(1)]	5,318	3,154	68.6%
52,693	**Total sources**	**31,376**	**25,211**	**24.5%**

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

Uses

2005	GWh (*)	First half 2006	First half 2005	% change
20,375	CIP 6/92 dedicated	10,175	9,396	8.3%
5,082	Captive and other industrial customers	2,602	2,677	(2.8%)
27,086	Deregulated market	18,550	13,089	41.7%
150	Exports	49	49	-
52,693	**Total uses**	**31,376**	**25,211**	**24.5%**

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

Dati economici

2005	(in millions of euros)	First half 2006	First half 2005	% change
4,972	**Sales revenues**	**3,360**	**2,222**	**51.2%**
988	EBITDA	563	465	21.1%
19.9%	as a % of sales revenues	16.8%	20.9%	
511	Capital expenditures	155	219	(29.2%)
1,992	Number of employees [(1)]	1,902	1,975	(4.5%)

(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.

Sales revenues grew to 3,360 million euros in the first half of 2006, or about 51.2% more than in the same period last year. Higher unit sales (+24.5%) and a significant increase in average sales prices, which are indexed mainly to the cost of benchmark fuels, account for this remarkable improvement.
EBITDA totaled 563 million euros, for a gain of 21.1% compared with the 465 million euros earned in the first six months of 2005. This positive performance is mainly the result of a rise in unit sales, which were particularly strong in the deregulated market (+41.7%), reflecting the full availability of all production facilities and the optimization of the sales channel mix.
The gains achieved by the distribution operations more than offset the negative impact of such unfavorable developments as the loss of CIP 6/92 incentives for certain facilities (amounting to 21 million euros) and the charges incurred in connection with CO_2 emissions.
In addition, in keeping with a conservative approach, the data do not include refunds received for costs incurred by the Group in connection with the so-called "natural gas emergency," since the consultation process that the AEEG is carrying out prior to deciding how to proceed with regard to this issue has not been completed.

Sales and Marketing

In the first half of 2006, sales of electric power totaled 31,376 GWh, or 24.5% more than in the same period last year. Sales in the deregulated market rose to 16,251 GWh (+38.8%) and sales on the Power Exchange reached 2,299 GWh (+66.5%).
CIP 6/92 sales, which, contrary to what occurred last year, were not penalized by the shutdown of any facilities, also improved, rising to 10,175 GWh (+8.3%).

Sales outside Italy of power generated outside Italy continued to grow during the first six months of 2006, providing a positive contribution to the Group's performance. These sales volumes (about 0.9 TWh) are not included in the "Sources" and "Uses" tables shown above because they consist exclusively of power purchased for resale on foreign exchanges.

Production and Procurement

The Group's net production totaled 25,293 GWh in the first half of 2006, or 19.5% more than in the same period a year ago. The increase of 21.1% in thermoelectric production reflects the commissioning of the Candela and Altomonte power plants and, compared with the first six months of 2005, the lack of unscheduled shutdowns of certain facilities used for merchant production and of CIP 6/92 dedicated power plants. Hydroelectric output was also up (+7.1%), compared with the first six months of 2005.
Another factor that contributed to the overall improvement was Edipower's additional production (+18%) made possible by the restarting of facilities that use fuel oil, which became necessary to respond to the "natural gas emergency" in the first quarter of the year, and the full availability of the Piacenza power plant.
During the first half of 2006, as part of its portfolio optimization strategy, the Group purchased and imported electric power totaling 6,083 GWh (+50%).

Hydrocarbons Operations

Quantitative Data

Sources

2005	millions of m³ of natural gas	First half 2006	First half 2005	% change
1,248	**Total net production:**	**581**	**618**	**(6.0%)**
902	- Production in Italy	366	458	(20.1%)
346	- Production outside Italy	215	160	34.6%
6,601	Pipeline imports	4,119	3,614	14.0%
80	LNG imports	62	81	(23.5%)
5,714	Domestic and other purchases[1]	2,435	2,750	(11.5%)
13,643	**Total sources**	**7,197**	**7,063**	**1.9%**

[1] Includes inventory changes and pipeline leaks.

Uses

2005	millions of m³ of natural gas	First half 2006	First half 2005	% change
4,012	Residential use	2,225	2,427	(8.3%)
1,471	Industrial use	596	812	(26.6%)
7,307	Thermoelectric fuel use	3,995	3,388	17.9%
346	Exports	215	160	34.6%
507	Other sales	166	276	(39.7%)
13,643	**Total uses**	**7,197**	**7,063**	**1.9%**

Hydrocarbons Operations - Financial Highlights

2005	(in millions of euros)	First half 2006	First half 2005	% change
3,303	**Sales revenues**	**2,084**	**1,548**	**34.6%**
353	EBITDA	240	154	55.8%
10.7%	as a % of sales revenues	11.5%	9.9%	
73	Capital expenditures	30	30	-
22	Investments in exploration	23	6	n.m.
441	Number of employees(1)	438	428	(0.7%)

(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.

Sales revenues totaled 2,084 million euros, for a gain of 34.6% compared with the same period last year. This increase is mainly the result of an increase in average unit revenues that reflects favorable changes in the markets for energy commodities.
EBITDA increased to 240 million euros, or 55.8% more than the 154 million euros earned in the first six months of 2005. As explained earlier in this Report, the beneficial impact of the oil market benchmark and the positive impact of the renegotiated price paid for natural gas purchased under long-term contracts with ENI, (about 90 million euros) more than offset the impact of the establishment of a provision of about 50 million euros to comply with Resolutions 298/05 and 134/06, by which the AEEG revised the rates at which natural gas is sold pursuant to Resolution 248/05.
In the first half of 2006, despite the so-called "natural gas emergency," Edison was able to behave as a "virtuous operator", since it avoided using the strategic reserve by managing flexibly its thermoelectric production facilities, reducing sales to retail customers and securing supplies on the spot market.

The average price of non-fluxed oil was up sharply compared with the first six months of 2005. It rose from 19.40 euros per barrel to 30.40 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 the first half of 2006, unit sales of natural gas totaled 7,197 million cubic meters, about the same as in the corresponding period last year (7,063 million cubic meters).
Sales to residential users were down 8.3% and those to industrial users decreased by 26.6%; the reduction was meant to avoid the use of the strategic reserve and to sustain the increase of deliveries to thermoelectric users (17.9% more than the first six months of 2005).
The new thermoelectric power plants of the Edison Group accounts for this improvement.
Wholesalers bought 166 million cubic meters of natural gas, compared with 276 million cubic meters in the first half of 2006.

Production and Procurement

Net production of natural gas totaled 581 million cubic meters in the first half of 2006, down slightly from the 618 million cubic meters produced in the same period last year. This reduction is the net result of a decrease in output in Italy (-20.1%) caused by the natural depletion of gas fields and an increase of production in Egypt (+34.6%).
On the procurement side, natural gas imports increased to 4,181 million cubic meters, up from 3,695 million cubic meters in the first six months of 2005. At the same time, domestic purchases decreased by 11.5%, falling from 2,750 million cubic meters in the first half of 2005 to 2,435 million cubic meters in the same period this year.
Overall, imports of natural gas accounted for 60.8% of the natural gas sold in Italy, up from 53.8% in the first six months of 2005.
At 1,067,000 barrels, production of crude oil was slightly lower than the 1,110,000 barrels produced during the first half of 2005.

Exploration Activities

During the first six months of 2006, the Group's exploration operations invested about 23 million euros. A total of 11 million euros were invested in Italy, mainly to finance the drilling of the Argo 1 offshore well near Sicily. Outside Italy, work focused on ongoing exploration projects in Algeria and Egypt.

Work performed in Algeria included completing the drilling of the Khalouche 2 well and developing 656 km of 2D seismic maps in the Reggane North field. In Egypt, the technical assessment of two exploratory blocks in the Egas 2006 bid round was completed.

Corporate Activities

Financial Highlights

2005	(in millions of euros)ì	**First half 2006**	First half 2005	% change
42	Sales revenues	22	20	10.0%
(76)	EBITDA	(35)	(36)	2.8%
n.m.	as a % of sales revenues	n.m.	n.m.	
2	Capital expenditures	1	1	-
526	Number of employees (1)	525	534	(0.2%)

(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.

Corporate Activities, which consist of those operations of Edison Spa, the Group's Parent Company, that engage in activities that are not industrial in nature and of certain holding companies and real estate companies, had sales revenues of 22 million euros, compared with 20 million euros in the first half of 2005.

EBITDA were negative by 35 million euros, about the same as in the first six months of 2005.

Capital Increases

The capital increases carried out during the first half of 2006 (12,049 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 June 30, 2006, there were 1,018,636,574 warrants outstanding.

Other Continuing Operations

Water Distribution and Treatment (IWH)

Financial Highlights

2005	(in millions of euros)	**First half 2006**	First half 2005	% change
31	**Sales revenues**	**18**	**15**	**20.0%**
8	EBITDA	6	3	*100.0%*
25.8%	as a % of sales revenues	33.3%	20.0%	
11	Capital expenditures	5	4	*25.0%*
4	Number of employees (1)	3	6	*(25.0%)*

(1) End-of-period amounts. The changes are computed against the data at December 31, 2005.
Note: The data in the table above reflect the Group's interest in operations that are consolidated at 50% by the proportional method.

Revenues for the first half of 2006 totaled 18 million euros. They were generated by operations carried out in Guayaquil under license. At 6 million euros, EBITDA were significantly higher than in the first six months of 2005.

CAPITAL INVESTMENTS

Electric Power Operations

In the first half of 2006, the Electric Power operations made capital expenditures totaling about 155 million euros (of which roughly 44 million euros represent Edison's share of the amount invested by Edipower), or about 64 million euros less than in the same period last year. These investments were used to fund the construction of power plants in Torviscosa (UD) and Simeri Crichi (CZ) and to cover Edison's pro rata share (50%) of Edipower's projects, which included the repowering of the Turbigo (MI) power plant and the modernization of hydroelectric facilities in Mese and Bussento. Once the work is completed, a portion of the output from these power plants will qualify for the production of Green Certificates.

Hydrocarbons

Capital expenditures totaled 30 million euros in the first half of 2006, the same as in the first six months of 2005. The main projects carried out in **Italy** included development of the Candela (FG) field and start of the workover of the Daria and Emma offshore fields in the Adriatic. In **Egypt,** work began on the development of Phase 3 of the Rosetta field.

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 and superconductivity. As part of the process of developing synergies that leverage the respective competencies and research organizations, Edison and EdF signed an agreement that will apply to a series of joint research projects. Two projects have already been activated under this arrangement. These two projects, which concern fuel cell and energy storage technologies, respectively, will get under way during the second half of 2006.

Advanced Photovoltaic Technologies

Prototypes of multi-junction solar cells and high-concentration photovoltaic systems based on the spectral separation of concentrated sunbeams were tested at Edison's Trofarello Research Center. These prototypes were developed in collaboration with the Physics Departments of the Universities of Parma and Ferrara.

In addition, a project designed to provide support to the marketing operations resulted in the development of software that assesses the economic viability of photovoltaic systems within the context of the "Energy Account" incentive scheme.

Hydrogen and Fuel Cells

At the fuel cell lab of the Trofarello Research Center, work continued on the characterization of these technologies using systems powered either by hydrogen or natural gas, with capacities ranging up to 10 kW. These activities were carried out in cooperation with the Materials Science Department of Turin's Politecnico. In addition, the fuel cell lab was modified in anticipation of a project that will be carried out together with EdF during the second half of 2006.

Superconductivity

Work continued at the CNR IENI Institute in Lecco on the development of proprietary Edison technologies for the production of a magnesium diboride superconductor.

Energy Storage

A new testing laboratory was set up at the Edison Research Center to begin work on the characterization of innovative batteries. The testing, which will be carried out within the framework of the collaboration agreement with EdF, is expected to start in a few months.

HEALTH, SAFETY AND THE ENVIRONMENT

The main projects launched during the first half of 2006 are reviewed below. Some of these projects have already yielded the desired results.

Electric Power Operations

- Award of EMAS Registration to the power plants of Thermoelectric Division 2 in Sulmona (AQ) and Termoli (CB) and start of the EMAS registration project for the Rivalta power plant.
- Start of the EMAS Registration project for the organizations of Hubs 1, 2 and 3 of the Hydroelectric Division and of a project designed to achieve a unified Environment and Safety registration for the organization of Thermoelectric Divisions 2 and 3.

Hydrocarbons Operations

- Start of the process of securing prequalification to carry out hydrocarbon extraction and production activities in the Norwegian North Sea. The process was completed successfully, enabling the launch of a multifunction project involving the production of an Integrated Health-Safety-Environment (HSE) Management System manual for the operations of the Hydrocarbons Business Unit.

In the area of occupational safety, it is important to note that the performance recorded in the first half of 2006 confirms the improved results achieved in 2005. In addition, the accident frequency index for employees of contractors working at construction sites of thermoelectric power plants showed a sharp decrease.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Human Resources

At June 30, 2006, the Edison Group had 2,950 employees (including the staff of companies consolidated by the proportional method), about the same (-13 employees) as at December 31, 2005, but significantly less (-1,547 employees) than at June 30, 2005, due to the deconsolidation of the engineering operations (Tecnimont). The table below provides a breakdown of the Group's payroll by type of business and shows the changes that have occurred:

Number of Employees by Business

2005	Number at end of period	**First half 2006**	First half 2005	% change
1,992	Electric Power Operations	1,902	1,975	(4.5%)
441	Hydrocarbons Operations	438	428	(0.7%)
526	Corporate Activities	525	534	(0.2%)
2,959	**Core Businesses**	**2,865**	**2,937**	**(3.2%)**
4	Water	3	6	(25.0%)
-	Engineering	-	1,554	n.a.
-	Discontinued operations	82	-	n.a.
2,963	**Edison Group**	**2,950**	**4,497**	**(0.4%)**

(1) The changes are computed against the data at December 31,2005.

Industrial Relations

The main developments that occurred during the first half of 2006 are reviewed below:

- 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.
- Continued negotiations with the unions for the renewal of the collective bargaining agreement that covers employees in the electric power industry. Both the compensation and benefits provisions of this contract expired on June 30, 2005. This contract covers almost 75% of the Group's employees.
- The companies of the Group that apply the collective bargaining agreement covering employees in the electric power industry signed an agreement with the Supplemental Health Fund of the employees of the Enel Group (FISDE) that enabled the companies to provide their employees as of June 1, 2006 with health benefits that supplement those provided by the National Health Service.

Organization and Training

Having consolidated the overall organizational structure that was created in 2005 following the changes that occurred in its shareholder base, the Group carried out a number of important projects, including the establishment of 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. Programs carried out in the first half of 2006 in the area of employee training and development included the refinement of the Management Review process carried out in 2005 through the use of organizational development programs tailored for professional groups and individual feedback coupled with training support activities. Another project launched during the first six months of 2006 involved mapping employee competencies within each professional groups and reviewing the grading of management performance subsequent to the reorganization of the Group. Lastly, institutional training support continued to be provided to recent graduates, professionals and managers.

RISK MANAGEMENT AND TYPES OF FINANCIAL RISKS

Please see the paragraph “Risk Management and Types of Financial Risks” included in Notes to the Consolidated Semiannual Financial StatementsReport, in which there is a description of the Group’s risk management activity.

CONSOLIDATED SEMIANNUAL FINANCIAL STATEMENTS

at June 30, 2006

Consolidated Balance Sheet at June 30, 2006

6/30/2005 IFRIC 4 restated	(millions of euros)	See note	6/30/2006	12/31/2005 IFRIC 4 restated
	ASSETS			
8,588	Property, plant and equipment	1	8,256	8,582
57	Investment property	2	47	49
3,507	Goodwill	3	3,505	3,505
344	Hydrocarbon concessions	4	326	339
43	Other intangible assets	5	57	38
94	Investments in associates	6	59	59
203	Available-for-sale investments	6	88	74
146	Other financial assets	7	125	125
118	Deferred-tax assets	8	103	104
443	Other assets	9	291	297
13,543	**Total non-current assets**		**12,857**	**13,172**
333	Inventories		332	315
1,095	Trade receivables		1,347	1,593
87	Due from customers for contract work		-	-
91	Current-tax assets		8	38
314	Other receivables		379	337
94	Current financial assets		73	76
451	Cash and cash equivalents		160	361
2,465	**Total current assets**	**10**	**2,299**	**2,720**
-	**Assets held for sale**		**211**	**-**
16,008	**Total assets**		**15,367**	**15,892**
	LIABILITIES AND SHAREHOLDERS' EQUITY			
4,266	Share capital		4,273	4,273
-	Equity reserves		-	-
1,550	Other reserves		1,724	1,550
-	Reserve for currency translations		(1)	3
(58)	Retained earnings (Loss carryforward)		97	(58)
200	Profit (Loss) for the period		398	504
5,958	**Total Group interest in shareholders' equity**		**6,491**	**6,272**
464	Minority interest in shareholders' equity		150	159
6,422	**Total shareholders' equity**	**11**	**6,641**	**6,431**
87	Provision for employee severance indemnities and provisions for pensions	12	72	74
1,221	Provision for deferred taxes	13	782	1,097
995	Provision for risks and charges	14	925	1,002
2,799	Bonds	15	2,694	2,838
1,705	Long-term borrowings and other financial liabilities	16	1,547	1,822
15	Other liabilities	17	8	242
6,822	**Total non-current liabilities**		**6,028**	**7,075**
907	Short-term borrowings		757	657
984	Trade payables		1,158	1,275
216	Due to customers for contract work		-	-
99	Current taxes payable		38	16
558	Other liabilities		702	438
2,764	**Total non-current liabilities**	**18**	**2,655**	**2,386**
-	**Liabilities held for sale**		**43**	**-**
16,008	**Total liabilities and shareholders' equity**		**15,367**	**15,892**

Consolidated Income Statement for the First Half of 2006

2005 full year IFRIC 4 restated		See note	**First half 2006**	First half 2005 IFRIC 4 restated
6,629	Sales revenues	19	4,266	3,225
588	Other revenues and income	20	373	412
7,217	**Total net revenues**		**4,639**	**3,637**
(5,679)	Raw materials and services used (-)	21	(3,762)	(2,896)
(250)	Labor costs (-)	22	(103)	(144)
1,288	**EBITDA**	**23**	**774**	**597**
(649)	Depreciation, amortization and writedowns (-)	24	(359)	(277)
639	**EBIT**		**415**	**320**
(203)	Net financial income (expense)	25	(136)	(112)
23	Income from (Expense on) equity investments	26	4	11
(17)	Other income (expense), net	27	1	27
442	**Profit before taxes**		**284**	**246**
(18)	Income taxes	28	117	(37)
424	**Profit (Loss) from continuing operations**		**401**	**209**
86	Profit (Loss) from discontinued operations		-	-
510	**Profit (Loss) for the period**		**401**	**209**
6	Minority interest in profit (loss)		3	9
504	**Group interest in profit (loss)**		**398**	**200**
	Earnings per share (in euros)	29		
0.1173	basic		0.0924	0.0462
0.1068	diluted		0.0844	0.0421

Cash Flow Statement for the First Half of 2006

The table below presents a consolidated cash flow statement for the first half of 2006 and provides a comparison with the corresponding data for 2005.

The information provided below is supplemented by the data presented in a separate statement, included in the Report on Operations, which shows the changes in net financial position. The latter statement is designed to offer a better understanding of the Group's cash generation and utilization dynamics.

2005 full year restated IFRIC 4	(in millions of euros)	**6/30/2006**	6/30/2005 restated IFRIC 4
504	Group interest in profit (loss)	398	200
6	Minority interest in profit (loss)	3	9
571	Amortization and depreciation	339	277
(3)	Interest in the result of companies valued by the equity method (-)	(2)	-
-	Dividends received from companies valued by the equity method	2	-
(137)	(Gains) Losses on the sale of non-current assets	3	(3)
78	(Revaluations) Writedowns of intangibles and property, plant and equipment	20	(2)
(2)	Change in the provision for employee severance indemnities	1	(1)
(476)	Change in other operating assets and liabilities	(203)	(194)
541	**A. Cash flow from continuing operations**	**561**	
(644)	Additions to intangibles and property, plant and equipment (-)	(239)	(285)
(239)	Additions to non-current financial assets (-)	(29)	(35)
21	Proceeds from the sale of intangibles and property, plant and equipment	11	10
452	Proceeds from the sale of non-current financial assets	-	53
2	Capital grants received during the year	-	1
(92)	Change in the scope of consolidation	-	-
(11)	Other current assets	3	7
(511)	**B. Cash used in investing activities**	**(254)**	**(249)**
279	Receipt of new medium-term and long-term loans	978	29
(265)	Redemption of new medium-term and long-term loans and reclassification of short-term installments (-)	(1,398)	(171)
18	Capital contributions provided by controlling companies or other shareholders	-	7
(11)	Dividends paid to controlling companies or minority shareholders (-)	(189)	(11)
(148)	Change in short-term debt	101	102
(127)	**C. Cash used in financing activities**	**(508)**	**(44)**
-	**D. Cash and cash equivalents of discontinued operations**	**-**	**-**
-	**E. Net currency translation differences**	**-**	**-**
(97)	**F. Net decrease in cash and cash equivalents (A+B+C+D+E)**	**(201)**	**(7)**
458	**G. Cash and cash equivalents at beginning of period**	**361**	**458**
361	**H. Cash and cash equivalents at end of period (F + G)**	**160**	**451**
361	**I. Total cash and cash equivalents at end of period (H)**	**160**	**451**
-	**L. (-) Cash and cash equivalents of discontinued operations**	**-**	**-**
361	**M. Cash and cash equivalents of continuing operations (I-L)**	**160**	**451**

Changes in Consolidated Shareholders' Equity in the First Half of 2006

(in millions of euros)	Share capital (a)	Reserves and ret. earnings (loss carryforward (b)	Reserve for currency translations (c)	Profit for the period (d)	Total (a+b+c+d)=e	Minority inter. in sharehold. equity (f)	Total shareholders' equity (e)+(f)
Balance at December 31, 2004	**4,259**	**1,094**	**-**	**354**	**5,707**	**469**	**6,176**
Restatements for adoption of IAS 32 and 39	-	38	-	-	38	-	38
Restatements for adoption of IFRIC 4	-	(2)	-	-	(2)	-	(2)
Balance at January 1, 2005. Restated IFRIC 4	**4,259**	**1,130**	**-**	**354**	**5,743**	**469**	**6,212**
Share capital increase due to the conversion of warrants	7	-	-	-	7	-	7
Appropriation of the 2004 profit	-	354	-	(354)	-	-	-
Result for the first half of 2005 with adoption of IAS 32 and IAS 39	-	3	-	-	3	-	3
Change in the scope of consolidation	-	-	-	-	-	(3)	(3)
Dividend distribution	-	-	-	-	-	(11)	(11)
Difference from translation of financial statements in foreign currencies and sundry items	-	6	(1)	-	5	-	5
Result for the first half of 2005 restated in accordance with IFRIC 4	-	-	-	200	200	9	209
Balance at June 30, 2005. Restated IFRIC 4	**4,266**	**1,493**	**(1)**	**200**	**5,958**	**464**	**6,422**
Share capital increase due to the award of stock options	7	4	-	-	11	-	11
Result for the second half of 2005 with adoption of IAS 32 and IAS 39	-	8	-	-	8	-	8
Change in the scope of consolidation	-	-	-	-	-	(301)	(301)
Difference from translation of financial statements in foreign currencies and sundry items	-	(13)	4	-	(9)	(1)	(10)
Result for the second half of 2005 restated in accordance with IFRIC 4	-	-	-	304	304	(3)	301
Balance at December 31, 2005 Restated IFRIC 4	**4,273**	**1,492**	**3**	**504**	**6,272**	**159**	**6,431**
Appropriation of the 2005 profit	-	504	-	(504)	-	-	-
Dividend distribution	-	(183)	-	-	(183)	(6)	(189)
Restatements for the period for adoption of IAS 39	-	10	-	-	10	-	10
Change in the scope of consolidation	-	-	-	-	-	(6)	(6)
Difference from translation of financial statements in foreign currencies and sundry items	-	(2)	(4)	-	(6)	-	(6)
Result for the period	-	-	-	398	398	3	401
Balance at June 30, 2006	**4,273**	**1,821**	**(1)**	**398**	**6,491**	**150**	**6,641**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2006

The Edison Group's consolidated semiannual financial statements, which consist of a balance sheet, an income statement, a statement of cash flow, a statement of changes in shareholders' equity and the accompanying notes, were prepared in accordance with Article 81 of Consob Regulation No. 11971 of May 14, 1999, as amended. The consolidated semiannual financial statements have been the subject of a limited audit.

The interim consolidated financial statements for the six months ended June 30, 2006 were prepared in accordance with International Financial Reporting Standards (IAS/IFRS), as issued by the International Accounting Standards Board and approved by the European Union. They also reflect the adoption of IAS 34 "Interim Financial Reporting," which provides guidelines for the preparation of interim financial statements.

With the exception of the new principles reviewed below, the principles of consolidation, the criteria used to translate financial statements denominated in foreign currencies and the valuation criteria and estimates used are consistent with those applied in the preparation of the Annual report at December 31, 2005, which should be consulted for more detailed information

Changes to Applicable Accounting Principles

The IASB and the IFRIC have approved certain changes to the IAS/IFRS principles, effective as of January 1, 2006, which have been published in the *Official Journal of the European Union* (OJEU). The main changes are reviewed below:

- IAS 39. The main change consists of the option to measure financial assets and liabilities at fair value, with any differences recognized in earnings. The Group has chosen not to adopt this option.
- IAS 21. The new version introduces new paragraphs of IAS 21 and amends others concerning investment in a foreign operation. These changes have no impact on the Group.
- Introduction of IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds," IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment" and IFRIC 7 "Applying the Restatement Approach under IAS 29." These changes had no impact on the Group's consolidated data.
- First-time adoption of IFRIC 4, which is discussed in the next section of the notes to the financial statements.

Impact of the Adoption of IFRIC 4

IFRIC 4 is an interpretation included in the International Financial Reporting Standards applicable as of January 1. 2006. It provides guidance in determining whether or not certain specific agreements constitute a lease and should be recognized in accordance with the provisions of IAS 17 (either finance leases or operating leases).

More specifically, a company may enter into an agreement that calls for a transactions, or a series of related transactions, that, while not formally a lease, convey the right to use an asset (an item of property, plant and equipment) in exchange for a payment or a series of payments.

This change required a restatement of the balance sheet, income statement, statement of cash flow and statement of changes in shareholders' equity

This interpretation, which became effective as of January 1, 2005, affected only Ibiritermo. The resulting changes, which required the restatement of comparative data, are reviewed below:

- *In the balance sheet:*
  - Derecognition of property, plant and equipment totaling 55 million euros at December 31, 2005 (59 million euros at June 30, 2005);
  - Concurrent recognition of non-current loans receivable amounting to 60 million euros at December 31, 2005 (same amount at June 30, 2005);

- Recognition of current financial liabilities of 2 million euros at December 31, 2005 (1 million euros at June 30, 2005);
- Establishment of a provision for deferred taxes of 1 million euros at December 31. 2005 (no change at June 30, 2005);
- An upward adjustment to shareholders' equity of 2 million euros at December 31, 2005 (unchanged at June 30, 2005 and downward adjustment of 2 million euros at December 31, 2004).

• *In the income statement,* which showed an overall improvement of 4 million euros in 2005 (2 million euros in the first half of 2005):
  - Derecognition of sales revenues totaling 21 million euros in 2005 (10 million euros in the first half of 2005);
  - A decrease of 3 million euros in service costs in 2005 (1 million euros in the first half of 2005);
  - A decrease in depreciation of 8 million euros in 2005 (4 million euros in the first half of 2005) due to the derecognition of property plant and equipment and the concurrent recognition of loans receivable;
  - Recognition of financial income totaling 16 million euros in 2005 (8 million euros in the first half of 2005);
  - Recognition of income taxes amounting to 2 million euros in 2005 (1 million euros in the first half of 2005).

Property, plant and equipment includes certain assets that are covered by agreements that, while not formally a lease, convey the right to use an item of property, plant and equipment in exchange for a series of payments. In accordance with IFRIC 4 and IAS 17, all of these contracts constitute operating leases. In the consolidated financial statements, the assets covered by such contracts involve some thermoelectric power plants with regard to which the Group has entered into contracts to supply energy and steam on an exclusive basis to users within the industrial parks where the power plants are located.
In all these contracts the consideration is based on the supply of energy and steam and not on the financial value of the facilities.

Change in the Depreciation Method Applied to Thermoelectric Power Plants with CIP 6/92 Status

In 2006, the Group revised the method it applies to compute the depreciation of power plants that sell energy to the GRTN under contracts the rates of which have been determined by Resolution No. 6/1992 issued by the Interministerial Price Committee (CIP 6/92).
Within the electric power operations, instead of the current straight-line depreciation method, which is based on the useful lives of the individual components, the Group applied exclusively to the CIP 6/92 thermoelectric power plants a system of regular depreciation based on margin differentials. This depreciation method is believed to reflect more appropriately, without having to change the remaining useful lives of the assets, the manner in which the economic benefits produced by the abovementioned power plants will be realized in the future, including after the expiration of the CIP 6/92 contracts.

The change from this method occurred in 2006 as a result of the following considerations:
1) After being in operation for about two years, the Italian Power Exchange (launched in 2004, with active bid trading introduced in 2005) is now sufficiently liquid to be viewed as being fully operational and provides a significant benchmark of current market conditions and expected output of electric power that can be used for valuation purposes.
2) In 2006, new Edison facilities with better technical characteristics than the CIP 6/92 power plants became fully operational, providing a further meaningful element of financial comparison.

The amortization rates have been calculated on the basis of the actual information of each plant.
The new method will be applied for the whole useful life of the plant.
The adoption of the new depreciation method caused depreciation expense to increase by about 32 million euros in the first half of 2006.
Since this process involved a valuation estimate, as defined in IAS 8, the comparative data were not restated.

Financial Statement Schedules

The presentation format used for the balance sheet, income statement and cash flow statement in the Semiannual Report at June 30, 2006, which is the same as the one used in the Annual Report at June 30, 2005, has the following characteristics:

Balance Sheet

Assets and liabilities are analyzed by maturity. Current and non-current items, which are due within or after 12 months, respectively, are shown separately.

Income Statement

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

Cash Flow Statement

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

Changes in the Scope of Consolidation Compared with December 31, 2005

The main changes in the scope of consolidation that occurred in the first half of 2006 are reviewed below:

Electric Power Operations

- STEL Spa, which previously was consolidated line by line, was liquidated and deconsolidated as of January 1, 2006.

In addition, the Group is in the process of disposing of 100% of Edison Rete Spa. Several potential industrial and financial investors have expressed an interest in this company. Negotiations for this divestiture, which was approved in broad terms by Edison's Board of Directors on June 15, 2006, are ongoing. In the second half of 2006, following the completion of the due diligence process late in June and early in July, the Edison Group received several offers, which will form a basis for negotiations with the objective of completing the sale before the end of this year. As a result, as required by IFRS 5, even though the activities of Edison Rete Spa do not constitute a separate business operation, the company's assets and liabilities of at June 30, 2006 were reclassified on the balance as "Assets held for sale" and "Liabilities held for sale." Revenue and expenses through June 30, 2006 are recognized line by line on the income statement. Fort the sake of presentation clarity, the data for the electric power operations included in the segment information schedule show separately the impact of Edison Rete and provide a comparison with the same-period data for 2005. The balance sheet and income statement of Edison Rete Spa at June 30, 2006 are provided in a subsequent section of this report entitled "Information About Discontinued Operations."

Water Operations

- International Water (Tunari) Sarl, which was consolidated by the proportional method, and its subsidiary Aguas del Tunari SA were sold in January and deconsolidated by the IWH Group.

Corporate Activities

- Edison Treasury Services is being consolidated line by line, following the exercise of the option to acquire 100% of this company in April 2006. This company was already consolidate in previous years, due to its nature as a special purpose company.

Financial Highlights of the First Half 2006 of Companies Consolidated by the Proportional Method

(in milioni di euro)	Edipower 50.00%	Serene 66.32%	Sel Edison 42.00%	Ibiritermo 50.00%	Parco Eolico Castelnuovo 50.00%	ED-Ina D.O.O. 50.00%	Galsi Spa 18.00%	IWH 50.00%	Bluefare 50.00%
INCOME STATEMENT									
Sales revenues	364	92	5	-	1	5	-	18	-
EBITDA	114	9	3	(3)	-	-	-	6	-
as a % of net revenues	31.4%	9.4%	66.7%	n.a.	0.0%	0.0%	-	33.3%	-
Depreciation, amortization and writedowns (-)	(61)	(9)	(2)	-	-	-	-	(1)	-
EBIT	**53**	**-**	**2**	**(3)**	**-**	**-**	**-**	**5**	**-**
Result of the period	**14**	**(1)**	**1**	**3**	**-**	**-**	**-**	**4**	**-**
STATO PATRIMONIALE									
Total assets	**2,533**	**247**	**62**	**87**	**3**	**2**	**-**	**43**	**-**
Shareholders' equity	**1,050**	**110**	**37**	**2**	**1**	**-**	**1**	**26**	**-**
Net borrowings (financial assets)	**1,005**	**17**	**22**	**(2)**	**1**	**-**	**(1)**	**(8)**	**-**

TYPES OF RISKS AND HEDGING STRATEGIES

The operations of the Edison Group are exposed to several types of risk, including fluctuations in interest rates, foreign exchange rates and prices, and cash flow risks.

The Group minimizes these risks through the use of derivative contracts that are executed within the framework of its risk management activities.

Edison uses a comprehensive, integrated and dynamic approach to manage risk. Accordingly, it has established dedicated staff functions that report to the Chief Financial Officer. 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.

The procedures adopted allow for the ongoing monitoring of the Group's net exposure, which is the sum of the transactions executed by all subsidiaries, and compares the total level of financial risk assumed (Profit at Risk) against a predetermined ceiling.

The Risk Management Committee, which is headed by a senior executive, reviews monthly the Group's exposure and, if the Profit at Risk is higher then the predetermined ceiling, defines the appropriate hedging strategies, which may involve the use of derivatives.

Management and Types of Financial Risks

Type of risk	Group exposure	Hedging strategy
Interest rate	40% of total exposure	Hedging of medium- and long-term positions (bonds and project financing in particular)
Currency	Low	Matching of invoicing and purchasing currencies
Price	High for all energy commodities	Minimum use of market, exploiting the horizontal and vertical integration of the different Group businesses
Credit	Average, related to commercial transactions in the deregulated market	Evaluation of customers with scoring grids
Liquidity	Average	Established credit lines guarantee the necessary financial flexibility

Interest Rate Risk

The strategy pursued by the Group is to have substantially balanced positions in its fixed- and variable-interest exposure, with the goal of minimizing the impact of market-rate fluctuations.

At June 30, 2006, the Group's exposure to the risk of changes in interest rates was roughly equivalent to 40% of its total exposure, despite the fact that some of the existing hedges entail the use of variable interest rates.

The most significant medium- and long-term positions have been hedged, with special emphasis on transactions involving bond issues and project financing. In the case of Edipower, the main purpose of hedging transactions is to minimize the risk component. Accordingly, the Group implemented a structure of financial derivatives based on an interest-rate corridor with rates ranging between about 3% and 4.20%.

Currency Risk

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

Price Risk

The Group is exposed to price risk, including the related currency risk, for all of the energy commodities with which it is involved, including electric power, natural gas, coal, oil and refined products. This risk exists because both purchases and sales are affected by changes in the prices of energy commodities, either directly or through pricing formulas and indexing mechanisms.

In its management of price risk, the Group uses the financial markets for hedging purposes only to a limited degree, relying instead on exploiting the vertical and horizontal integrations of its different business operations.
The first step toward achieving this goal is to plan how to physically balance the volumes of the Group's actual market sales of energy commodities among the various delivery deadlines by using proprietary production assets and the existing portfolio of medium/long-term contracts and spot contracts.
In addition, the Group pursues a policy designed to achieve homogeneity of physical sources and uses, so that the formulas and indexing mechanisms that affect revenues from the sale of energy commodities reflect, as closely as possible, the formulas and indexing mechanisms that have an impact on the costs the Group incurs to purchase energy commodities in the market and acquire supplies for its production assets.
To manage the residual risk, the Group can use the structured hedges that are available in the financial markets, in accordance with a cash flow hedging strategy. Hedging transactions can be used to lock in the margin on an individual transaction or a limited number of like transactions (operational hedging), or to protect a maximum level of exposure to price risk, computed in a centralized manner for the Group's entire net portfolio, for a legal entity that is part of the Group or a group of physical and contractual assets that, taken as a whole, are significant for the Group (strategic hedging). Transactions in financial derivative hedges are executed in a manner consistent with the Group's risk management policy and procedures and with the support of a special internal deal capture system

Credit Risk

A credit risk is the risk that one party to a contract that calls for a deferred cash settlement will fail to discharge a payment obligation and cause the other party to incur a financial loss.
This risk can arise from several factors that are technical/commercial or administrative/legal in nature (disputes over the type/quantity of goods supplied, the interpretation of contractual clauses, supporting invoices, etc.) or as a result of strictly financial issues that, in essence, reflect the credit standing of the counterparty.
Edison's exposure to credit risk is due mainly to its growing commercial activity as a seller of electric power and natural gas in the deregulated market.
To control this risk, the Group has adopted an organization and, having established credit management guidelines, implemented procedures and programs designed to evaluate customer credit worthiness (using specially designed scoring grids) and subsequently monitor the projected cash flows and any collection actions.
Lastly, when it comes to choosing counterparties for transactions to manage temporary excess liquidity, the Group deals only with top-flight, reliable entities that enjoy a high standing in the international markets.

Liquidity Risk

The Group follows a conservative policy in its management of liquidity risk, using a strategy designed to ensure that unexpected cash disbursements will not create a problem. The minimum goal is to make certain that, at all times, the Company has access to sufficient committed financing facilities to repay indebtedness that will come due over the following 12 months.
Consequently, the Group's funding needs are provided by long-term financing, consisting mainly of bond issues (about 57% of total indebtedness).

Default Risk and Loan Agreement Covenants

With regard to the Group's consolidated indebtedness, it is important to note that a deterioration of Edison's credit rating or the loss of rating would not trigger automatically a repayment obligation.
This applies both to bonds and bank debt. As for the obligations to maintain certain financial indicators above or below maximum or minimum levels (financial covenants), they do not apply to any of the Group's bond issues but do apply to about 234 million euros in bank debt owed by Edison and its sub-

sidiaries. The financial statement ratios that are taken into account have to do with the relationship between EBITDA and net borrowings and financial expense.
Lastly, specifically insofar as Edipower's financing is concerned, a lowering of Edison's credit rating below the minimum investment grade level would not trigger an early repayment obligation for Edipower. Edison would simply be required to achieve compliance with the abovementioned financial covenants, following a monitoring period. If Edison should be in violation of the financial covenants, following a monitoring period, it would be required to pay the amount it guaranteed in accordance with the Completion Equity Contribution Agreement and the Repowering Equity Contribution Agreement. Edipower's financial covenants have to do with the relationship between EBITDA and financial expense, net borrowings and EBITDA, and the maintenance of a minimum level of EBITDA.

ANALYSIS OF FORWARD TRANSACTIONS AND DERIVATIVES

The Edison Group uses financial derivatives as part of a cash flow hedge strategy to protect its physical and contractual assets from fluctuations in the price risk factors to which it is exposed, especially the prices of energy commodities (natural gas, oil and petroleum products, coal, and electric power) and the euro/US dollar exchange rate.

When disclosing hedging transactions in the financial statements, care is used to ensure compliance with the requirements of IAS 39 for hedge accounting purposes.

More specifically:

1) **Transactions that qualify as hedges in accordance with IAS 39.** They can be cash flow hedges or fair value hedges. In the case of cash flow hedges, which are the only ones used by the Group, results are included in EBITDA when realized. Their projected value is reflected in shareholders' equity.
2) **Transactions that do not qualify as hedges in accordance with IAS 39.** They can be:
    a. Margin hedges. For all hedging transactions that comply with internal risk policies and procedures, realized results and expected value are included in EBITDA.
    b. Trading transactions. For all remaining transactions, realized results and expected value are recognized as financial income or expense and included in EBITDA.

Absent a market forward curve, the fair value of financial derivatives related to electric power is computed on the basis of internal estimates using models that incorporate best industry practices.

Instrument Outstanding at June 30, 2006

The data shown in the quantitative analysis table provided below are:

1) derivatives that were outstanding at June 30, 2006, classified by maturity;

2) the value at which these contracts are reflected at June 30, 2006, which is their fair value on the date of the financial statements;

3) the fair value of the contracts that was recognized on the income statement for the transactions in question since inception.

With regard to the data presented in the last two columns of the schedules provided below, it is important to note that the difference between balance sheet carrying amounts and income statement fair values represents the fair value of cash flow hedges, which is posted directly to reserves.

A) Interest Rates and Foreign Exchange Rates

(in millions of euros)	Notional amount		Notional amount (*)	Notional amount (*)	Balance sheet value (**)	Cumulative impact on the income statement at 6/30/06 (***)
	due within 1 year receivable	payable	due between 1 and 5 years	due after 5 years		
Interest rate risk management						
- cash flow hedges in accordance with IAS 39			1,475	15	(3)	(2)
- contracts that do not qualify as hedges in accordance with IAS 39			6,075	94	(4)	(4)
Total interest-rate derivatives			**7,550**	**109**	**(7)**	**(6)**
Foreign exchange rate risk management						
- contracts that qualify as hedges in accordance with IAS 39						
• On commercial transactions	-	-			-	-
• On financial transactions	-	12			-	-
- contracts that do not qualify as hedges in accordance with IAS 39						
• On commercial transactions	209	14			(3)	(3)
• On financial transactions	-	-			-	-
Total foreign exchange rate derivatives	**209**	**26**			**(3)**	**(3)**

(*) Represent the sum of the notional amounts of the basic contracts that would result from an unbundling of complex contracts.
(**) Represent the net credit (+) or debit (-) recognized on the balance sheet following the measurement of derivatives.
(***) Represent the cumulative adjustment to fair value recognized on the income statement from the inception of the contract until the date of the financial statements.

B) Commodities

(in millions of euros)	Unit of measure of notional amount	Notional amount due within one year (*)	Balance sheet value (**)	Cumulative impact on the income statement at 6/30/06 (***)
Price risk management for energy products				
A. Cash flow hedges pursuant to IAS 39, broken down as follows:			**20**	**-**
- Electric power	TWh	7	20	-
- Other commodities	-	-	-	-
B. Contracts that qualify as fair value hedge pursuant to IAS 39			**-**	**-**
C. Contracts that do not qualify as fair value hedges pursuant IAS 39, broken down as follows			**3**	**3**
C.1 Margin hedges			(1)	(1)
- Electric power	TWh	1	2	2
- LNG and oil	Barrels	(2,366,801)	(6)	(6)
- Coal	Millions of tons	-	-	-
- CO_2	Millions of tons	1	3	3
C.2 Trading contracts			**4**	**4**
- Electric power	TWh	2	4	4
- LNG and oil	Barrels	-	-	-
Total		**23**	**3**	

(*) + for net purchases - for net sales
(**) Represents the net credit (+) or debit (-) recognized on the balance sheet following the measurement of derivatives.
(***) Represents the cumulative adjustment to fair value recognized on the income statement from the inception of the contract until the date of the financial statements.

Operating Results Generated by Derivative Transactions in the Fist Half of 2006

The table below provides an analysis of the operating results generated by derivative transactions in the first half of 2006.

(in millions of euro)	Realized	Change in fair value for the period	Amount recognized in earnings
Other revenues and income			
Price risk hedges for energy products			
- definable as hedges pursuant to IAS 39 (CFH)	122	-	122
- not definable as hedges pursuant to IAS 39	11	9	20
Total (A)	**133**	**9**	**142**
Raw materials and services used			
Price risk hedges for energy products			
- definable as hedges pursuant to IAS 39 (CFH)	(90)	-	(90)
- not definable as hedges pursuant to IAS 39 (margin hedges)	(9)	(7)	(16)
Total (B)	**(99)**	**(7)**	**(106)**
TOTAL INCLUDED IN EBITDA (A+B)	**34**	**2**	**36**
Net financial income (expense)			
Price risk hedges for energy products			
- Gains on trading transactions	18	(6)	12
- Losses on trading transactions	(9)	-	(9)
Margin on commodity trading transactions (C)	**9**	**(6)**	**3**
Interest rates hedges, broken down as follows:			
Financial income			
- definable as hedges pursuant to IAS 39	-	6	6
- not definable as hedges pursuant to IAS 39	4	34	38
Total financial income (D)	**4**	**40**	**44**
Financial expense			
- definable as hedges pursuant to IAS 39	(2)	(7)	(9)
- not definable as hedges pursuant to IAS 39	(20)	(23)	(43)
Total financial expense (E)	**(22)**	**(30)**	**(52)**
Margin on interest rate hedging transactions (D+E)=(F)	**(18)**	**10**	**(8)**
Foreign exchange rates hedges, broken down as follows:			
Foreign exchange gains			
- definable as hedges pursuant to IAS 39	-	-	-
- not definable as hedges pursuant to IAS 39	2	(2)	-
Total foreign exchange gains (G)	**2**	**(2)**	**-**
Foreign exchange losses			
- definable as hedges pursuant to IAS 39	-	-	-
- not definable as hedges pursuant to IAS 39	(7)	(2)	(9)
Total foreign exchange losses (H)	**(7)**	**(2)**	**(9)**
Margin on foreign exchange hedging transactions (G+H)= (I)	**(5)**	**(4)**	**(9)**
TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE) (C+F+I)	**(14)**	**-**	**(14)**

SEGMENT INFORMATION

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

INCOME STATEMENT	Electric Power				Hydrocarbons		Corporate Activities		Adjust. and eliminat.		Total Core Business	
	1st half 2006	Edison Rete	1st half 2005	Edison Rete	**1st half 2006**	1st half 2005	**1st half 2006**	1st half 2005	**1st half 2006**	1st half 2005	**1st half 2006**	1st half 2005
Sales revenues	**3,360**	**21**	**2,222**	**22**	**2,084**	**1,548**	**22**	**20**	**(1,218)**	**(801)**	**4,248**	**2,989**
- intra Group revenues	3	1	1		1,196	782	19	18	(1,218)	(801)		
EBITDA	**563**	**12**	**465**	**14**	**240**	**154**	**(35)**	**(36)**			**768**	**583**
as a % of sales revenues	16.8%	57.1%	20.9%	63.6%	11.5%	9.9%	n.s.	n.s.			18.1%	19.5%
Depreciation, amortization and writedowns	(294)	(5)	(226)	(5)	(59)	(44)	(5)	(4)			(358)	(274)
EBIT	**269**	**7**	**239**	**9**	**181**	**110**	**(40)**	**(40)**			**410**	**309**
as a % of sales revenues	8.0%	33.3%	10.8%	40.9%	8.7%	7.1%	n.s.	n.s.			9.7%	10.3%
Financial income (expense), net											(137)	(110)
Profit (loss) from investments valued by the equity method												11
Income taxes											119	(33)
Profit (loss) for the period											**397**	**225**
Minority interest in profit (loss) for the period											**3**	**8**
Group interest in profit (loss) for the period											**394**	**217**

BALANCE SHEET	Electric Power		Hydrocarbons		Corporate Activities		Adjustm. and eliminations		Totale Core Business	
	06.30.06	12.31.05	**06.30.06**	12.31.05	**06.30.06**	12.31.05	**06.30.06**	12.31.05	**06.30.06**	12.31.05
Total current and non current liabilities	**12,228**	**12,616**	**2,257**	**2,451**	**3,325**	**3,679**	**(2,541)**	**(2,885)**	**15,269**	**15,861**
Non-current liabilities	**2,422**	**2,886**	**249**	**239**	**3,457**	**4,065**	**(104)**	**(108)**	**6,024**	**7,082**
Current liabilities	**1,463**	**1,438**	**602**	**689**	**1,159**	**1,012**	**(581)**	**(763)**	**2,643**	**2,376**
Total current and non current liabilities	**3,885**	**4,324**	**851**	**928**	**4,616**	**5,077**	**(685)**	**(871)**	**8,667**	**9,458**
Net financial borrowings									**4,713**	**4,831**
Other information										
Capital expeditures	155	511	30	73	1	2			186	586
Investments intangibles	22	21			3	3			25	24
Investments in exploration			23	22					23	22
Total capital investments	**177**	**532**	**53**	**95**	**4**	**5**			**234**	**632**
Number of employees	1,902	1,992	438	441	525	526			2,865	2,959

Water		Engineering	Adjustments and eliminations		Total other activities		Discontinued operations	Edison Group	
1st half 2006	1st half 2005	1st half 2005	**1st half 2006**	1st half 2005	**1st half 2006**	1st half 2005	**from January 1, 2006** to June 30, 2006	**1st half 2006**	1st half 2005
18	**15**	**221**			**18**	**236**		**4,266**	**3,225**
6	**3**	**11**			**6**	**14**		**774**	**597**
33.3%	20.0%	5.0%	n.s.	n.s.	33.3%	5.9%		18.1%	18.5%
(1)	(1)	(2)			(1)	(3)		(359)	(277)
5	**2**	**9**			**5**	**11**		**415**	**320**
27.8%	13.3%	4.1%			27.8%	4.7%		9.7%	9.9%
					1	(2)		(136)	(112)
									11
					(2)	(4)		117	(37)
					4	**(16)**		**401**	**209**
						1		**3**	**9**
					4	**(17)**		**398**	**200**

Water		Engineering	Adjustments and elinations		Total other activities		Discontinued operations	Edison Group	
06.30.06	12.31.05	12.31.05	**06.30.06**	12.31.05	**06.30.06**	12.31.05	**06.30.06**	**06.30.06**	12.31.05
42	**39**		**(155)**	**(8)**	**(113)**	**31**	**211**	**15,367**	**15,892**
4	**5**				**4**	**5**		**6,028**	**7,087**
12	**10**				**12**	**10**	**43**	**2,698**	**2,386**
16	**15**				**16**	**15**	**43**	**8,726**	**9,473**
					(8)	**(11)**		**4,705**	**4,820**
5	11	1			5	12		191	598
								25	24
								23	22
5	**11**	**1**			**5**	**12**		**239**	**644**
3	4				3	4	82	2,950	2,963

NOTES TO THE BALANCE SHEET

Assets

Non-current Assets

1. Property, Plant and Equipment

Property, plant and equipment, which comprise the Group's production assets, totaled 8,256 million euros, or 326 million euros less than at December 31, 2005. The reclassification of the assets of Edison Rete Spa under "Discontinued operations" accounts for most of this decrease (195 million euros).

(in millions of euros)	Land and buildings	Plant and machinery	Manufact. and distrib. equipment	Other assets	Constr. in progress and advances	Total
Balance at 12/31/05 (A)	**882**	**6,139**	**21**	**12**	**1,528**	**8,582**
Changes at June 30, 2006:						
- Additions	2	20	3	-	166	191
- Disposals (-)	-	(14)	-	-	-	(14)
- Depreciation (-)	(21)	(274)	(1)	(1)	-	(297)
- Writedowns (-)	-	(20)	-	-	-	(20)
- Reclassification to discontinued operations	(1)	(193)	-	-	(1)	(195)
- Other changes	74	729	-	-	(794)	9
Total changes (B)	**54**	**248**	**2**	**(1)**	**(629)**	**(326)**
Balance at 6/30/06 (A+B)	**936**	**6,387**	**23**	**11**	**899**	**8,256**

The total value of the assets, virtually all of which are located in Italy, includes construction in progress and advances totaling 899 million euros for thermoelectric power plants that are in the final stages of construction, such as those that are being built in Torviscosa (UD) and Simeri Crichi (CZ).The commissioning of a thermoelectric facility in Altomonte (CS) and of a power plant in Piacenza (Edipower) accounts for the sizable reduction in "Construction in progress and advances" compared with December 31, 2005.

Additions, which totaled 191 million euros, are mainly the result of the following capital expenditures:

- The investments of the electric power operations, which totaled 155 million euros, were primarily used for the construction of new thermoelectric power plants in Simeri Crichi (CZ) (76 million euros), Altomonte (CS) (6 million euros) and Torviscosa (UD) (4 million euros). In addition, Edipower invested 44 million euros (Edison's pro rata share) for the repowering of the Turbigo (MI) and Mese power plants. In the area of wind power, the group invested 3 million euros and brought on stream a new wind farm in Ripabottoni (CB).
- The hydrocarbons operations invested 30 million euros. The main projects pursued in Italy included development of the Candela gas field and construction of the Caverzere-Minerbio natural gas pipeline.

Disposals include 9 million euros attributable to the Edipower Spa subsidiary, which sold off certain equipment components at their carrying value. Sales of unusable equipment, at a loss of 3 million euros, account for the difference.

Depreciation of property, plant and equipment included 273 million euros for the electric power operations (223 million euros at June 30, 2005) and 22 million euros for the hydrocarbons operations (21 million euros at June 30, 2005). Corporate activities and the water operations account for the balance. During the first half of 2006, the Group **wrote down** by 20 billion euros the carrying amount of a thermoelectric power plant. This writedown, which was effected after computing the asset's recoverable value by applying the same method used to determine impairment losses in the 2005 financial statements, reflects a decrease of the power plant's value upon the expiration of a contract pursuant to specific contract clauses.

Other changes include 11 million euros added to plant and machinery upon the recognition of decommissioning costs for the period applicable to power plants put into service during the period. The decrease in construction in progress is mainly due to the commissioning of the Altomonte power plant and the completion of the repowering of the Piacenza facility.
In addition:
- The net carrying amount of property, plant and equipment included assets transferable at no cost with an aggregate value of 669 million euros (704 million euros at December 31, 2005). Virtually all of the assets transferable at no cost are held by the Group's hydroelectric operations, which hold 70 concessions (including those of Edipower). The decrease reflects primarily the depreciation taken in the first half of 2006.
- Property, plant and equipment includes assets acquired under finance leases totaling 134 million euros (171 million euros at December 31, 2005), which are recognized in accordance with the IAS 17 (revised) method. A facility held under a finance lease by Termica Cologno, which has a carrying value of 34 million euros, was purchased outright in 2005. The balance outstanding on finance leases, which is shown under "Long-term borrowings and other financial liabilities," amounts to 34 million euros.

Lastly, Law No. 266 of December 23, 2005 (2006 Budget Bill) provided an automatic ten-year extension of concessions for large-scale diversion of public water for hydroelectric power plants, as long as the concession holder can demonstrate the effectiveness of significant investments made in plant modernization to improve a facility's energy efficiency and environmental performance. Such evidence must be provided during the six months that precede the expiration of the concession and is subject to verification by local government entities. Since the test of objective certainty cannot yet be met at this point, the useful lives of the Group's electric power assets affected by these provisions were not changed.

2. Investment Property

The Group's investment property, which consists of land and buildings that are not used for production purposes, totaled 47 million euros, or 2 million euros less than at December 31, 2005. The depreciation for the period and the sale of a building, which generated a gain of slightly less than 1 million euros, account for this decrease.

3. Goodwill

Goodwill totaled 3,505 million euros, unchanged since December 31, 2005. The remaining balance is an intangible asset with an indefinite useful life. As such, it cannot be amortized in regular installments but should be tested for impairment at least once a year.
A breakdown of goodwill by type of business is as follows:

Allocation of goodwill (in millions of euros)	**6/30/2006**	12/31/2005
- Electric power operations	2,823	2,823
- Hydrocarbons operations	682	682
Total	**3,505**	**3,505**

No impairment indicators were detected in the first half of 2006.

4. Hydrocarbons Concessions

Concessions for the production of hydrocarbons, which include 77 mineral leases in Italy and abroad (including 2 storage concessions), were valued at 326 million euros. The amortization for the period (13 million euros) accounts for all of the decrease from the amount reported at December 31, 2005. The value of these assets does not include capitalized financial expense.

Information About the Group's Concessions

The table below shows a breakdown of the concessions held by the Group. As explained earlier, the corresponding carrying amounts are included under "Intangibles" and Hydrocarbon concessions."

		Remaining life	
	Number	from	to
Storage concessions	2	9	19
Hydroelectric concessions	70	3	26
Distributions concessions	56	2	14
Hydrocarbon concessions	75	(*) "unit of production"	

(*) The amortization and the remaining life of mineral deposits is computed as a ratio of the quantity extracted to the available reserves.

5. Other Intangible Assets

The balance of 57 million euros refers to licenses and similar rights (32 million euros) and work in progress (3 million euros). It also includes CO_2 emission trading certificates valued at 22 million euros that were purchased to meet the needs of Group companies.

Hydrocarbon research and exploration costs, which are charged in full to income in the year they are incurred, totaled 23 million euros.

None of these costs met the requirement for capitalization of IFRS 6.

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

The total includes 59 million euros in investments in associates valued by the equity method and 88 million euros in available-for-sale investments. These investments, which are valued at fair value, consist of investments in publicly traded companies (30 million euros) and investments in subsidiaries that were not consolidated due to ownership restrictions (58 million euros).

The table below shows the main changes that occurred in the first half of 2006:

(in millions of euros)	Investments in associates	Available-for-sale investments
Balance at 12/31/2005 (A)	**59**	**74**
Changes in the first half of 2006:		
- Changes in share capital	-	22
- Revaluations	-	-
- Writedowns (-)	-	(3)
- Reclassifications and other changes	-	(5)
Total changes (B)	**-**	**14**
Balance at 6/30/2006	**59**	**88**

An analysis of the changes is as follows:

- **Changes in share capital** of 22 million euros include consist of capital contributions provided to the associated company Terminale GNL Adriatico Srl.
- **Writedowns** totaling 3 million euros refer to IPSE 2000 (2 million euros) and STEL (1 million euros).
- **Other changes** of 5 million euros are attributable mainly to the investment in IPSE 2000 and reflect the reclassification of a writedown previously posted to loans receivables.

7. Other Financial Assets

Other financial assets of 125 million euros include loans receivable due in more than one year and long-term equity investments.

The main components of loans receivable are a 60-million-euro receivable under a finance lease recognized as required by IFRIC 4 (3 million euros due within five years and 57 million euros due after five years); a 48-million-euro loan made to IPSE 2000, which is offset by a provision for risks of the same amount due to uncertainty about its repayment; and 8 million euros in bank deposits established with lender banks in connection with project financing facilities to secure commitments to repay on time short-term and long-term loan installments.

8. Deferred-tax Assets

Deferred-tax assets of 103 million euros reflect a tax-loss carryforward (47 million euros), differences in the valuation of property, plant and equipment (25 million euros) and tax-deductible provisions for risks (21 million euros). Other differences, including those stemming from the adoption of IAS 39, account for the balance. The adoption of IAS 39 resulted in the recognition of prepaid taxes totaling 4 million euros, the offset of which was posted to shareholders' equity.
The reclassification of Edison Rete Spa to "Discontinued operations" caused this item to decrease by 4 million euros.
With regard to the recognition of these assets, their valuation was made based on expectations of actual utilization over the limited time horizon of the industrial plans approved by the Company. Consequently, the theoretical deferred-tax assets computed on provisions for risks were partially written down.

9. Other Assets

Other assets totaled 291 million euros. They consisted mainly of tax refunds receivable, which amounted to 280 million euros including accrued interest through June 30, 2006, and the estimated tax payments made on future distributions of employee severance benefits paid pursuant to law.

10. Current Assets

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Inventories	332	315	17
Trade receivables	1,347	1,593	(246)
Current-tax assets	8	38	(30)
Other receivables	379	337	42
Current financial assets	73	76	(3)
Cash and cash equivalents	160	361	(201)
Total current assets	**2,299**	**2,720**	**(421)**

A review of the individual components is provided below:

Inventories

A breakdown is provided below:

(in millions of euros)	Engineering consumables	Stored natural gas	Green certificates	Fuel	Other	**Total at 6/30/06**	Total at 12/31/05	Change
Electric power operations	27	-	65	46	6	144	152	(8)
Hydrocarbons operations	7	160	-	15	3	185	161	24
Corporate activities	-	-	-	-	-	-	-	-
Total core businesses	**34**	**160**	**65**	**61**	**9**	**329**	**313**	**16**
Water	-	-	-	-	3	3	2	1
Total for the Group	**34**	**160**	**65**	**61**	**12**	**332**	**315**	**17**

The main reason for the increase of 17 million euros compared with December 31, 2005 is a larger inventory of stored natural gas and fuel oil.

Trade Receivables

Trade receivables totaled 1,347 million euros, or 246 million euros less than at December 31, 2005. A breakdown by type of business is as follows:

(in millions of euros)	6/30/2006	12/31/2005	Change
Electric power operations	1,139	1,133	6
Hydrocarbons operations	235	385	(150)
Corporate activities and eliminations	(39)	65	(104)
Total core businesses	**1,335**	**1,583**	**(248)**
Water	12	10	2
Total trade receivables	**1,347**	**1,593**	**(246)**

Trade receivables stem from contracts to supply energy and steam, contracts to supply natural gas, contracts to sell natural gas at virtual transfer points and Power Exchange transactions.
The above amounts are net of an allowance for doubtful accounts totaling 48 million euros.

In July 2006, following the early repayment of a bond issue by Edison Treasury Services Srl in April and the closing out the related securitization transaction, Edison and Edison Energia bought back from Edison Treasury Services Srl the entire remaining portfolio of receivables that had been assigned to Edison Treasury Services Srl.

Current-tax Assets

The balance of 8 million euros includes amounts owed by the tax authorities for overpayments of corporate income taxes (IRES) totaling 2 million euros and local income taxes (IRAP) amounting to 6 million euros.

Other Receivables

The main components of other receivables, which amounted to 379 million euros, are amounts owed by partners and associates in hydrocarbon exploration projects and royalty advances (95 million euros), advances paid to suppliers (31 million euros), amounts owed by customers but not yet invoiced (35 million euros), receivables from public institutions and local entities (39 million euros, including 24 million euros for hydroelectric fees), insurance premiums and settlements (20 million euros), credits arising from the valuation of commodity derivatives (38 million euros), receivables from the tax administration for VAT overpayments and other items (38 million euros) and amounts owed by the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (25 million euros).

Current Financial Assets

A breakdown of current financial assets, which totaled 73 million euros, is as follows:

(in millions of euros)	6/30/2006	12/31/2005	Change
Equity investments held for trading	9	29	(20)
Loans receivable	33	3	30
Derivatives	31	44	(13)
Total current financial assets	**73**	**76**	**(3)**

All of the items listed above are included in the computation of the Group's net borrowings. A review of these financial assets is provided below:

Equity Investments Held for Trading

These are investments in publicly traded companies. They include the following: ACEGAS Spa (5 million euros), ACSM Spa (3 million euros) and American Superconductor Corporation (1 million euros).Investments in ACEA and AMGA were sold during the first half of 2006, generating proceeds of 21 million euros and a gain of 2 million euros. The valuation of these investments at fair value did not produce significant gains or losses.

Loans Receivable

The main component (30 ml) refers to a financial loan due to Edison Rete, a company classified as "Discontinued Operation".

Derivatives Recognized as Current Assets

The table below provides a breakdown of receivables recognized on the balance sheet to reflect the fair value measurement in accordance with IAS 39 of derivatives outstanding at June 30, 2006:

(in millions of euros)	**6/30/2006**	12/31/2005
Foreign exchange transactions	1	3
Interest rate transactions	30	31
Commodities transactions	38	33
Fair value recognized in current assets	**69**	**67**
allocated as follows:		
- to Other receivables	38	23
- to Current financial assets	31	44

The portion of these receivables that represents cash flow hedges (20 million euros) is offset by a reserve included in shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents of 160 million euros include short-term bank and postal account deposits totaling 157 million euros and 3 million euros in readily marketable securities held by Edison Treasury Services.

Liabilities and Shareholders' Equity

11. Shareholders' Equity

The Group's interest in shareholders' equity amounted to 6,491 million euros, or 221 million euros more than at December 31, 2005. This increase is the net result of profit earned in the first half of 2006 (398 million euros) and of the distribution of dividends (183 million euros).

A breakdown of this item and the changes that occurred in Group interest and minority interest in shareholders equity are shown in a separate schedule entitled "Changes in Consolidated Shareholders' Equity at June 30, 2006."

At June 30, 2006, the subscribed and paid-in capital stock of Edison Spa totaled 4,273 million euros. It consisted of shares with a par value of 1 euro each, regular ranking for dividends, and was broken down as follows:

Share class	Number of shares	Millions of euros
Common shares	4,162,527,383	4,162
Nonconvertible savings shares	110,592,420	111
Total shares	**4,273,119,803**	**4,273**

The aggregate value of share capital and additional paid-in capital was little changed, compared with December 31, 2005, except for the exercise of 12,049 warrants. A total of 1,018,636,574 warrants was outstanding at June 30, 2006. Each warrant can be exercised until December 2007, to subscribe one new share at a price of 1 euro per share. No change affected the savings shares.

In keeping with the goal to provide full disclosure, the table below shows a breakdown of the reserve for cash flow hedges established upon the adoption of IAS 32 and IAS 39, which is included in shareholders' equity:

Reserve for cash flow hedge transactions

(in millions of euros)	Gross reserve	Taxes	Net reserve
- Reserve at December 31, 2005	6	(3)	3
- Changes in the first half of 2006	13	(3)	10
- Reserve at June 30, 2006	**19**	**(6)**	**13**

Non-current Liabilities

12. Provision for Employee Severance Indemnities and Provisions for Pensions

This reserve, which amounted to 72 million euros, reflects the accrued severance indemnities and other benefits owed to employees at June 30, 2006, computed in accordance with actuarial criteria. An analysis of the individual components of this item shows that the provision for employee severance indemnities decreased to 63 million euros. The reason for this change, compared with December 31, 2005, is the elimination of the provision attributable to Edison Rete, which amounted to 3 million euros.

The operating and financial parameters used for valuation purposes are listed below:

- Technical annual discount rate	min. 4.00%, max. 4.50%
- Annual inflation rate	min. 1.90%, max. 2.00%
- Estimated annual increase of the provision for severance indemnities	min. 2.00%, max. 2.95%
- Estimated annual increase of the wages used to compute the provision	min. 2.00%, max. 3.50%

The computation process also resulted in the recognition of financial expense totaling 1 million euros. The provision for severance indemnities amounts to 63 million euros; the decrease is due to the reclassification of Edison Rete's value (3 million euro) as Discontinued Operations.

The table below shows the changes that occurred in the first half of 2006:

(in millions of euros)	Provision for server. indemn.	Provision for pensions	Total
Balance at 12/31/05 (A)	**65**	**9**	**74**
Changes in the first half of 2006:			
- Additions	3	-	3
- Financial expense (+)	1	-	1
- Discounting gains (losses) (+/-)	-	-	-
- Utilizations (-)	(3)	-	(3)
- Change in scope of consolidation (-/+)	(3)	-	(3)
Total changes (B)	**(2)**	**-**	**(2)**
Total at 6/30/06 (A+B)	**63**	**9**	**72**

At June 30, 2006, counting the employees of discontinued operations, the Group and the companies that are consolidated line by line or by the proportional method had 2,950 employees, about the same as at the end of 2005. The average payroll included 2,959 employees.

A breakdown by type of business is as follows:

(number of employees)	**6/30/2006**	12/31/2005	Change
Electric Power operations	1,902	1,992	(90)
Hydrocarbons operations	438	441	(3)
Corporate activities	525	526	(1)
Total core businesses	**2,865**	**2,959**	**(94)**
Water	3	4	(1)
Discontinued operations	82	-	82
Total for the Group	**2,950**	**2,963**	**(13)**

13. Provision for Deferred Taxes

The balance of 782 million euros reflects mainly the deferred tax liability from the use during the transition process of fair value as deemed cost to value property, plant and equipment.
The following table shows a breakdown of this reserve by type of underlying temporary difference, keeping in mind that certain Group companies that met the requirements of IAS 12 offset their deferred-tax liability against prepaid taxes:

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Deferred-tax liabilities:			
- Differences in the valuation of property, plant and equipment	822	1,141	(319)
- Adoption of the standard on finance leases (IAS 17)	37	47	(10)
- Adoption of the standard on financial instruments (IAS 39) with impact on:			
- income statement	7	8	(1)
- shareholders' equity	7	14	(7)
- Other deferred taxes	8	8	-
Total deferred-tax liabilities (A)	**881**	**1,218**	**(337)**
Deferred-tax assets usable for offset purposes:			
- Taxed provisions for risks	90	54	36
- Tax loss carryforward	4	59	(55)
- Adoption of the standard on financial instruments (IAS 39)	2	4	(2)
- Other prepaid taxes	3	4	(1)
Total deferred-tax assets (B)	**99**	**121**	**(22)**
Total provision for deferred taxes (A-B)	**782**	**1,097**	**(315)**

Deferred-tax liabilities added directly to shareholders' equity amounted to 1 million euros. They are attributable to the valuation of financial instruments.
Edison Spa availed itself of the option of carrying out a partial realignment of values assigned to property, plant and equipment for statutory and tax purposes, which resulted in an extraordinary use of deferred-tax liabilities totaling 298 million euros. More detailed information is proved in the note on income taxes.

14. Provisions for Risks and Charges

At June 30, 2006, the reserves for risks and charges, which are established to cover contingent liabilities, totaled 925 million euros, a decrease of 77 million euros compared with the end of 2005. This decrease reflects the settlement of certain legal disputes, which required the payment of compensation to the opposing parties.
The table below shows the changes that occurred in the first half of 2006:

(in millions of euros)	12/31/2005	Additions	Utiliz.	Other	**6/30/2006**
- Disputed tax items	35	1	(6)	-	30
- Risks for disputes, litigation and contracts	172	7	(8)	-	171
- Charges for contractual guarantees on the sale of equity investments	208	-	(19)	-	189
- Provisions for decommissioning and remediation of industrial sites	173	4	(2)	10	185
- Environmental risks	180	-	(111)	-	69
- Risks on the sale of equity investments	15	-	-	-	15
- Other risks and charges	219	72	(12)	(13)	266
Total for the Group	**1,002**	**84**	**(158)**	**(3)**	**925**

The main changes that occurred in the first half of 2006 are reviewed below:

- The main components of **additions** of 84 million euro include 32 million euros set aside conservatively to cover a fine imposed by the European Commission for alleged anticompetitive practices in the chemical industry by Ausimont Spa, a former subsidiary of Montedison Spa (now Edison Spa), between 1995 and 2000. They also include a provision of 34 million euros to cover charges incurred under the emission quotas legislation for failure to secure sufficient CO_2 emission quotas, 8 million euros added to cover liabilities for pending disputes (including 4 million euros in statutory interest on existing provisions) and 4 million euros for interest expense incurred with the decommissioning and remediation of industrial sites.
- The main components of **utilizations,** which totaled 158 million euros, were the reduction of 111 million euros of the provision established to cover contractual obligations related to the Porto Marghera facility and 19 million euros related to the cancellation of guarantees provided in previous years in connection with the sale of equity investments. Utilizations of provisions for risks upon the settlement of pending disputes account for most of the remaining 28 million euros.

More detailed information about the entries that resulted in the current composition of the provisions for risks and charges is provided in the section of this Report entitled "Update of the Main Legal and Tax Disputes at June 30, 2006."

15. Bonds

The balance of 2,694 million euros includes 75 million euros in amortized cost (computed in accordance with IAS 39). A breakdown is as follows:

(in millions of euros)	Market where traded	Currency	Par value outstanding	Coupon	Rate	Maturity	Amortized cost	Fair value
Euro Medium Term Notes:								
Edison Spa	Luxembourg Securities Exchange	EUR	600	Annual in arrears	7.375%	7/20/07	641	664
Italenergia	Retail	euro	830	Semiannual in arrears	3.504%	8/26/07	831	844
Edison Spa	Luxembourg Securities Exchange	EUR	700	Annual in arrears	5.125%	12/1010	717	745
Edison Spa	Luxembourg Securities Exchange	EUR	500	Quarterly in arrears	3.365%	7/19/11	505	511
Total for the Group			**2,630**				**2,694**	**2,764**

In April, Edison Treasury Services Srl reimbursed ahead of schedule bonds totaling 195 million euros that were due on July 20, 2009.

16. Long-term Borrowings and Other Financial Liabilities

This account totaled 1,547 million euros (1,822 million euros at December 31, 2005), including 1,024 million euros owed by Edipower Spa. A breakdown is as follows:

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Due to banks	1,490	1,757	(267)
Due to leasing companies	23	30	(7)
Due to subsidiaries in liquidation	25	25	-
Due to other lenders	9	10	(1)
Total for the Group	**1,547**	**1,822**	**(275)**

At June 30, 2006, available and unused lines of credit totaled about 1,760 million euros.

17. Other Liabilities

Other liabilities of 8 million euros consist of interest-bearing deposits provided by customers in connection with contracts for the supply of natural gas. The decrease of 234 million euros compared with December 31, 2005 reflects the reclassification under current liabilities of the obligation arising from the put-and-call options related to the purchase of a 10% interest in Edipower.

Breakdown of Indebtedness by Maturity

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

(in millions of euros)	6/30/08	6/30/09	6/30/10	6/30/11	After 5 years	Total
Bonds	1.472	-	-	717	505	2.694
Borrowings and other financial liab.:	-					
- Bank debt	187	1.097	38	36	132	1.490
- Due to other lenders	11	10	4	6	26	57
Other liabilities	8	-	-	-	-	8
Total	**1.678**	**1.107**	**42**	**759**	**663**	**4.249**

18. Current Liabilities

(in millions of euros)	6/30/2006	12/31/2005	Change
Short-term borrowings	757	657	100
Trade payables	1,158	1,275	(117)
Current taxes payable	38	16	22
Other liabilities	702	438	264
Total current liabilities	**2,655**	**2,386**	**269**

The main current liability accounts are reviewed below:

- **Short-term borrowings** include 734 million euros due to banks for principal and accrued interest, 11 million euros owed to leasing companies and 12 million euros payable to other lenders. The bank debt includes 41 million euros generated by measuring at fair value interest rate and foreign exchange derivatives.

- **Trade payables**

(in millions of euros)	6/30/2006	12/31/2005	Change
Electric power operations	887	789	98
Hydrocarbons operations	299	450	(151)
Corporate activities and eliminations	(32)	33	(65)
Totale core business	**1,154**	**1,272**	**(118)**
Water	4	3	1
Total trade payables	**1,158**	**1,275**	**(117)**

Trade payables reflect mainly purchases of electric power, natural gas and other utilities, as well as services related to scheduled and extraordinary plant maintenance.

- **Current taxes payable** represent the liability for income taxes payable on the balance sheet date, less estimated payments made.

- The main components of **other liabilities** of 702 million euros include the following: the liabilities arising from the put-and-call options related to the purchase of a 10% interest in Edipower (241 million euros) and of a 20% interest in Finel Spa (135 million euros), the amount owed to the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (52 million euros), amounts owed to joint holders of permits and concessions for the production of hydrocarbons (91 million euros), payables owed for miscellaneous consulting and other services (58 million euros), amounts owed to shareholders of subsidiaries that are not wholly owned (6 million euros), liabilities stemming from the measurement of derivatives at fair value (15 million euros), advances (24 million euros), amounts payable to employees (22 million euros), licensing fees payable (8 million euros) and amounts owed to pension and social security institutions (14 million euros).

Disclosure of Derivative Positions on the Liability Side of the Balance Sheet

The table below provides a breakdown of the liabilities recognized on the balance sheet upon measurement at fair value of derivative positions outstanding on the date of the financial statements, as required by IAS 39.

(in millions of euros)	**6/30/2006**	12/31/2005
Foreign exchange transactions	4	2
Interest rate transactions	37	64
Commodity transactions	15	9
Fair value recognized under current liabilities	**56**	**75**
Posted to:		
- Other liabilities	15	9
- Short-term borrowings	41	66

The portion of these liabilities that represents cash flow hedges (1 million euros) is offset by a reserve included in shareholders' equity.

NOTES TO THE INCOME STATEMENT

The profit earned by the Edison Group in the first half of 2006 totaled 398 million euros, up from 198 million euros in the same period last year. This improvement was made possible by a significant increase in the operating result (+54.1%) and by the positive impact (202 million euros) of the realignment of the reporting value of certain assets to their tax value. This development is discussed in greater detail later in these notes. On the other hand, stated on a comparable scope of consolidation, the Group's tax rate increased and a change in the method used to depreciate certain assets of the electric power operations caused depreciation expense to increase by 32 million euros.

19. Sales Revenues

Sales revenues totaled 4,266 million euros, for an overall gain of 1,041 million euros (+32.3%) compared with the first six months of 2005. The Group's core businesses increased sales revenues by 1,259 million euros (+42.1%).

The table below provides a breakdown of sales revenues:

(in millions of euros)	**First half 2006**	First half 2005	Change	% change
Revenues from the sales of:				
- Electric power	2,948	1,976	972	49.2%
- Natural gas	846	772	74	9.6%
- steam	84	60	24	40.0%
- oil	43	30	13	43.3%
- green certificates	44	23	21	91.3%
- Water and other utilities	20	16	4	25.0%
- Other revenues	26	12	14	n.m.
Total sales revenues	**4,011**	**2,889**	**1,122**	**38.8%**
Revenues from contract work in progress	-	228	(228)	n.m.
Revenues from managing the electric network	18	19	(1)	(5.3%)
Revenues from services provided	8	8	-	n.m.
Storage services	4	1	3	n.m.
Transmission revenues	225	80	145	n.m.
Total for the Group	**4,266**	**3,225**	**1,041**	**32.3%**

Sales revenues were generated mainly in Italy. Revenues from contract work in progress shown for the first six months of 2005 refer almost exclusively to the Tecnimont Group, which was sold during the second half of 2005.

A breakdown of revenues by type of business is provided below.

Sales Revenues by Business

(in millions of euros)	First half 2006	First half 2005	Change	% change
Electric Power operations	3,360	2,222	1,138	51.2%
Hydrocarbons operations	2,084	1.548	536	34.6%
Corporate activities	22	20	2	10.0%
Eliminations	(1,218)	(801)	(417)	52.1%
Core businesses	**4,248**	**2,989**	**1,259**	**42.1%**
Water	18	15	3	20.0%
Other operations	**18**	**15**	**3**	**20.0%**
Engineering	-	221	(221)	n.m.
Divested operations	**-**	**221**	**(221)**	**n.m.**
Total for the Group	**4,266**	**3,225**	**1,041**	**32.3%**

At 4,266 million euros, sales revenues were 1,041 million euros higher (+32.3%) than in the first six months of 2005, when the revenue amount included 221 million euros generated by the engineering operations (Tecnimont Group). The 42.1% rise in sales revenues reported by the Group's core businesses (1,259 million euros) was made possible by the positive contribution of all businesses. More specifically:

- The electric power operations (+51.2% compared with the first half of 2005) boosted unit sales both in the deregulated market and under CIP 6/92 contracts and benefited from an increase in the average price charged, made possible by a rise in the fuel component.
- The hydrocarbons operations reported a 34.6% gain in sales revenues , due mainly to an increase in average revenues per unit that reflected a positive development in the benchmark oil markets.

20. Other Revenues and Income

Other revenues and income totaled 373 million euros. A breakdown is as follows:

(in millions of euros)	First half 2006	First half 2005	Change	% change
Commodity derivatives	142	258	(116)	(45.0%)
Recovery of costs from Edipower's Tollers	83	67	16	23.9%
Recovery of costs from partners in hydrocarbon exploration projects	9	8	1	12.5%
Recovery of costs from engineering joint venture partners	-	17	(17)	n.m.
Utilizations of provisions for risks	9	6	3	50.0%
Swaps and exchanges of oil and natural gas	20	2	18	n.m.
Out of period income	88	31	57	n.m.
Sundry items	22	23	(1)	n.m.
Total for the Group	**373**	**412**	**(39)**	**(9,5%)**

Out-of-period income includes the recovery of penalties paid for using the strategic gas reserve during the first quarter of 2005, and the renegotiation of the natural gas purchase price of long-term contract with ENI for the second semester 2005.

21. Raw Materials and Services Used

The cost of raw materials and services used, which rose in tandem with sales revenues, totaled 3,762 million euros, or 31.5% more than in the first six months of 2005. A breakdown is as follows:

(in millions of euros)	First half 2006	First half 2005	Change	% change
Purchases of:				
- Natural gas	1,792	1,251	541	43.2%
- Electric power	505	207	298	144.0%
- Dispatching and balancing services	80	90	(10)	(11.1%)
- Blast furnace, recycled and coke furnace gas	190	114	76	66.7%
- Oil and other fuels	194	159	35	22.0%
- Demineralized industrial water	17	14	3	21.4%
- Green certificates	64	37	27	73.0%
- Other materials and utilities	76	99	(23)	(23.2%)
Total purchases	**2,918**	**1,971**	**947**	**48.0%**
- Facilities design, construction and maintenance	107	168	(61)	(36.3%)
- Transmission of electric power	304	203	101	49.8%
- Transmission and treatment of natural gas	129	148	(19)	(12.8%)
- Professional services	38	49	(11)	(22.4%)
- Insurance services	15	17	(2)	(11.8%)
- Commodity derivatives	106	235	(129)	(54.9%)
- CO_2 Provisions	34	-	34	n.m.
- Additions to provisions for risks	7	12	(5)	(41.7%)
- Writedowns of trade receivables	13	5	8	160.0%
- Change in inventory of work in progress, semifinished goods and finished goods	(20)	(18)	(2)	11.1%
- Sundry charges	111	106	5	4.7%
Total for the Group	**3,762**	**2,896**	**866**	**29.9%**

Breakdown by Type of Business

(in millions of euros)	First half 2006	First half 2005	Change	% change
Electric Power operations	3,006	2,060	946	45.9%
Hydrocarbons operations	1,727	1,261	466	37.0%
Corporate activities	39	44	(5)	(11.4%)
Eliminations	(1,019)	(665)	(354)	53.2%
Core businesses	**3,753**	**2,700**	**1,053**	**39.0%**
Water	9	8	1	n.m.
Other operations	**9**	**8**	**1**	**n.m.**
Engineering	-	188	(188)	n.m.
Divested operations	**-**	**188**	**(188)**	**n.m.**
Total for the Group	**3,762**	**2,896**	**866**	**29.9%**

This expense item, which totaled 2,918 million euros (+48% compared with the first half of 2005), consists mainly of purchases of natural gas, electric power and other raw materials used in production processes. It also includes the cost of blast furnace, recycled and coke oven gases (190 million euros) used as fuel for the production of electric power, and 433 million euros in electric power and natural gas transmission costs (304 million euros and 129 million euros, respectively), which increased by 18.9% compared with the first half of 2005 reflecting a rise in unit sales and the costs incurred to import LNG.

Most of the additions to the provisions for risks were made to recognize the Group's inability to generate a sufficient quantity of CO_2 emission quotas.
The provisions for risks for CO_2 refer to changes due for emissions, as the Group's position is a deficit. Information about the impact of commodity derivatives is provided in a separate note.

22. Labor Costs

At 103 million euros, labor costs were 41 million euros less than in the first half of 2005. The change in the scope of consolidation caused by sale of the Tecnimont Group in the second half of 2005 accounts for this decrease.

23. EBITDA

At June 30, 2006, EBITDA amounted to 774 million euros, or 29.6% more than in the same period last year. A breakdown by type of business is as follows:

(in millions of euros)	**First half 2006**	as a % of sales revenues	First half 2005	as a % of sales revenues	% change
Electric Power operations	562	16.7%	465	20.8%	20.9%
Hydrocarbons operations	240	11.5%	154	10.0%	55.8%
Corporate activities	(34)	n.m.	(36)	n.m.	(5.6%)
Core businesses	**768**	**18.1%**	**583**	**19.5%**	**31.7%**
Water	6	33.3%	3	20.0%	n.s.
Other operations	**6**	**33.3%**	**3**	**20.0%**	**n.s.**
Engineering	-	-	11	4.8%	n.s.
Divested operations	**-**	**-**	**11**	**4.8%**	**n.s.**
Total for the Group	**774**	**18.1%**	**597**	**18.5%**	**29.6%**

The increase in EBITDA reported by the Group's core businesses (+31.7% compared with the first six months of 2005) is due to the contribution of the **electric power operations** (+21,1%) made possible by higher unit sales in the deregulated market (+41.7%), the optimization of the mix of sales channels and a positive performance by the power plants, which more than offset the loss of incentives for some CIP 6/92 facilities (21 million euros) and the impact of emissions trading charges.
The EBITDA reported by **hydrocarbons operations** (240 million euros, +55.8% compared with 154 million euros of 2005) are due to the positive effects of the prices scenario and the renegotation with ENI of the natural gas purchase price in long term contracts. The results take into consideration also the conservative decision to set aside about 50 million euros in connection with Resolutions No. 298/05 and No. 134/06 by which the AEEG updated gas rates for the first half of 2006 in accordance with resolution No. 248/05, which Edison is challenging.

24. Depreciation, Amortization and Writedowns

A breakdown of depreciation, amortization and writedowns, which totaled 359 million euros, is provided below:

(in millions of euros)	**First half 2006**	First half 2005	Change	% change
Depreciation of property, plant and equipment	297	247	50	20.2%
Depreciation of investment property	1	1	-	n.m.
Amortization of of hydrocarbon concessions	13	17	(4)	(23.5%)
Amortization of other intangible assets	28	12	16	133.3%
Total for the Group	**359**	**277**	**82**	**29.6%**

Breakdown by Type of Business

(in millions of euros)	**First half 2006**	First half 2005	Change	% change
Electric power operations	294	226	68	30.1%
Hydrocarbons operations	59	44	15	n.m.
Corporate activities	5	4	1	n.m.
Core businesses	**358**	**274**	**84**	**30.7%**
Water	1	1	-	n.m.
Engineering	-	2	(2)	n.m.
Other operations	**1**	**3**	**(2)**	**n.m.**
Total for the Group	**359**	**277**	**82**	**29.6%**

The increase in depreciation reported by the electric power operations reflects the combined impact of a change in the method used to compute depreciation for CIP 6/92 (32 milions euros) power plants and of the commissioning of power plants in Altomonte, in the first quarter of 2006, and Candela, in the second half of 2005.
Amortization of other intangible assets refers almost exclusively to the expensing out of hydrocarbon exploration costs (23 million euros).

25. Net Financial Income (Expense)

Net financial expense came to 136 million euros, or 24 million euros more than in the first six months of 2005.
A breakdown of net financial expense is as follows:

(in millions of euros)	**First half 2006**	First half 2005	Change
Financial income			
Financial income from commodity derivatives	12	5	7
Financial income from financial derivatives	44	66	(22)
Interest earned on finance leases	8	8	-
Interest earned on bank and postal accounts	4	4	-
Interest earned on amounts due from the tax administration	2	4	(2)
Other financial income	12	4	8
Total financial income	**82**	**91**	**(9)**
Financial expense			
Interest paid on bond issues	(71)	(65)	(6)
Financial expense from commodity derivatives	(9)	(17)	8
Financial expense from financial derivatives	(52)	(67)	15
Interest paid to banks	(51)	(34)	(17)
Bank fees	(6)	(5)	(1)
Interest paid on decommissioning projects	(4)	(3)	(1)
Interest paid on finance leases	(1)	(1)	-
Interest paid in connection with employee severance benefits	(1)	(1)	-
Interest paid to other lenders	(1)	(1)	-
Other financial expense	(12)	(3)	(9)
Total financial expense	**(208)**	**(197)**	**(11)**
Foreign exchange translation gains (losses)			
Foreign exchange translation gains	7	3	4
Foreign exchange translation losses	(17)	(9)	(8)
Net foreign exchange translation gain (loss)	**(10)**	**(6)**	**(4)**
Net financial income (expense) for the Group	**(136)**	**(112)**	**(24)**

Financial expense also includes a charge of 4 million euros that has as its offset a provision for risks related to the decommissioning and remediation of industrial sites by the hydrocarbons operations and a charge of 1 million euros related to the provision for employee severance benefits recognized as a result of the adoption of IAS 19.

As explained earlier in a separate disclosure contained in these notes, the financial impact of interest rate differentials reflects mainly the negative effect (10 million euros) of derivatives that hedge the risk of changes in the prices of raw materials.

26. Income from (Expense on) Equity Investments

A breakdown of the credit balance of 4 million euros is as follows:

Income:

- A gain of 3 million euros from the valuations of certain associated companies;
- A gain of 2 million euros on the sale of investments in AMGA and ACEA;
- Dividends totaling 3 million euros;

Expense:

- A charge of 4 million euros booked to recognize the writedowns of interests held in certain associated companies, with IPSE 2000 accounting for 2 million euros (after utilizing previsions totaling 4 million euros) and STEL for 1 million euros.

27. Other Income (Expense), Net

Other income of 1 million euros is the net result of certain items that are not related directly to the Group's industrial operations. The main items included in this account are:

Income:

- The total of 53 million euros includes 32 million euros from the recognition in earnings of existing provisions, made possible by the cancellation of guarantees provided upon the sale of equity investments and the settlement of certain disputes, and 21 million euros in out-of-period income consisting of refunds received from the French tax authorities for taxes paid in previous years;

Expense:

- The total of 52 million euros includes 32 million euros added to provisions for risks to cover the penalty imposed by the European Commission on the old Montedison (now Edison) for alleged anticompetitive practices by its former subsidiary Ausimont Spa between 1995 and 2005 and 8 million euros added to other provisions for risks, including accrued statutory interest of 4 million euros.

28. Income Taxes

As detailed in the table below, the income statement shows a net tax credit of 117 million euros (tax liability of 37 million euros at June 30, 2005) made possible primarily by the extraordinary positive impact of the realignment of the amounts at which certain components of property, plant and equipment are carried for tax purposes to the corresponding reporting amounts (202 million euros).

(in millions of euros)	**First half 2006**	First half 2005	Change
Current taxes	206	60	146
Net deferred-tax liabilities (assets)	(323)	(23)	(300)
Total for the Group	**(117)**	**37**	**(154)**

Edison Spa, availing itself of the option provided in the Single Article, Section 469, of Law No. 266 of December 23, 2005 (2006 Budget Law), elected to realign the values assigned for reporting and tax purposes to some of its depreciable assets and pay a 12% substitute tax in lieu of the corresponding liability for corporate income taxes (IRES) and local taxes (IRAP).

The realignment involved the entire amount of the differences between the reporting values (as shown in the financial statements at December 31, 2004 and maintained as of December 31, 2005) and the

values assigned for tax purposes to the same assets. The assets involved were chosen at the Company's discretion considering the requirement that the substitute tax was payable on the entire difference attributable to each one of the individual assets thus selected.
The new values thus selected become fully applicable from a tax standpoint and can be used to compute depreciation amounts that are fully deductible for IERS and IRAP purposes starting on the third year after the year when the substitute tax is paid (January 1, 2008, in most cases)

Having adopted these new value for tax purposes, the Company no longer owes future taxes originally recognized in view of the abovementioned valuation differences. Consequently, it no longer needs to recognize any deferred-tax liabilities for taxes owed in the future on valuation differences.

In June 2006, in order to avail itself of the abovementioned value realignment option, Edison Spa paid a substitute tax of about 96 million euros and was then able to utilize provisions for deferred taxes totaling 298 million euros, for a net positive effect of 202 million euros.

In addition to a substitute-tax payment amounting to more than 96 million euros, **Current taxes** include 86 million euros for IRES, 29 million euros for IRAP and 8 million euros for foreign taxes. The benefit of using a national consolidated return, which starting in 2006 is being filed by Transalpina di Energia, the Group's controlling company, amounts to 13 million euros.

Net deferred-tax assets totaled 323 million euros. This amount is the net result of the following:

- Recognition of deferred-tax liabilities totaling 35 million euros attributable mainly to valuation differences of property, plant and equipment, including 13 million euros for excess depreciation deducted for tax purposes. The tax liability generated by applying IAS 39 to the financial instruments held by Group companies and the impact of the adoption of IAS 17 to record finance leases accounts for the balance.
- Utilizations of deferred-tax liabilities totaling 382 million euros, including 298 million euros related to the partial realignment by Edison Spa of the carrying amounts and tax values of property, plant and equipment. The impact for the period of depreciation and writedowns of property, plant and equipment generated by the adoption of fair value measurement upon transition, which is not deductible for tax purpose, accounts for the balance.
- Booking of deferred-tax assets of 53 million euros attributable to taxed provisions for risks (44 million euros, including 38 million euros set aside by Edison Spa, the Group's Parent Company). The impact of the adoption of IAS 39 and valuation differences of non-current assets account for the balance.
- Utilization of 77 million euros in deferred-tax assets, including 54 million euros in tax loss carryforward and 8 million euros from the reversal of the amortization of goodwill by the Edipower subsidiary that cannot be recognized for IAS purposes Edipower. The impact of the adoption IAS 39 accounts for the balance.

As for the valuation of deferred-ax assets, they are computed assuming that all tax loss carryforwards will be utilized and the provisions for risks will be released within a limited time horizon (consistent with the Group's Industrial Plan).

A breakdown of deferred-tax liabilities and assets is as follows:

(in millions of euros)	12/31/05	Additions	Utilizations	IAS 39 to Sharehold. equity	Riclassifications Other	6/30/06
Provision for deferred taxes:						
Valuation difference of property, plant and equipment	1,141	31	(369)	-	19	822
Adoption of IAS 17 to value finance leases	47	1	-	-	(11)	37
Adoption of IAS 39 to value financial instruments:						
- impact on the income statement	8	2	(12)	-	9	7
- impact on shareholders' equity	14	-	-	1	(8)	7
Other deferred-tax liabilities	8	1	(1)	-		8
	1,218	**35**	**(382)**	**1**	**9**	**881**
Offsets	(121)	-	-	-	22	(99)
Provision for deferred taxes net of offsets	**1,097**	**35**	**(382)**	**1**	**31**	**782**
Deferred-tax assets:						
Tax loss carryforward	105	-	(54)	-	-	51
Taxed reserves for risks	71	44	(4)	-	-	111
Adoption of IAS 39 to value financial instruments:						
- impact on the income statement	1	3	(4)	-	4	4
- impact on shareholders' equity	7	-	-	(4)	(3)	-
Other deferred-tax assets	41	6	(15)	-	4	36
	225	**53**	**(77)**	**(4)**	**5**	**202**
Offsets	(121)	-	-	-	22	(99)
Deferred-tax assets net of offsets	**104**	**53**	**(77)**	**(4)**	**27**	**103**

29. Profit (Loss) per Share

The table below provides a breakdown of the computation of earnings or loss per share in accordance with IAS 33, which are shown at the bottom of the income statement.

Earnings per share have been computed taking into account the potential common shares represented by the outstanding portion of the warrants issued in 2003 and the stock options awarded to Group executives.

2005 full year restated in accordance with IFRIC 4	(in millions of euros)	**First half 2006**	First half 2005 restated in accordance with IFRIC 4
504	Group interest in profit (loss)	398	200
(3)	Net income attributable to convertible and nonconvertible savings shares[1]	(3)	(3)
501	Group interest in net income attributable to the common shares (A)	395	197
	Weighted average number of shares outstanding (common and savings) determined for the purpose of computing earnings per share:		
4,266,333,515	- basic (B)	4,273,113,922	4,264,443,322
4,688,483,256	- diluted (C)[2]	4,679,285,975	4,674,399,537
	Profit (Loss) per share (in euros)		
0.1173	- basic (A/B)	0.0924	0.0462
0.1068	- diluted (A/C)[2]	0.0844	0.0421

(1) 3% of par value for the higher dividend paid to the savings shares compared with the common shares. Savings shares are treated as common shares, since the portion of net income attributable to the savings shares has been deducted from Group interest in net income.

(2) When the Group reports a loss, the potential shares are deemed to have no dilutive effect.

OTHER INFORMATION

Information About the Discontinued Operations (IFRS 5)

As explained earlier in this Report, the Group is in the process of disposing of 100% of Edison Rete Spa. Several potential industrial and financial investors have expressed an interest in this company. Negotiations for this divestiture, which was approved in broad terms by Edison's Board of Directors on June 15, 2006, are ongoing. In the first half of 2006, following the completion of the due diligence process late in June and early in July, the Edison Group received several offers, which will form a basis for negotiations with the objective of completing the sale before the end of this year. As a result, the balance sheet of Edison Rete Spa has been reclassified under "Assets and liabilities held for sale." Balance sheet and income statement data of Edison Rete Spa are provided below:

(in millions of euros)

6/30/2005	BALANCE SHEET OF EDISON RETE Spa	**6/30/2006**	12/31/2005
202	Non-current assets	199	200
18	Current assets	12	18
220	**Total assets**	**211**	**218**
168	Group interest in shareholders' equity	168	171
-	Minority interest in shareholders' equity	-	-
168	**Total shareholders' equity**	**168**	**171**
6	Non-current liabilities	5	6
46	Current liabilities	38	41
220	**Total liabilities and shareholders' equity**	**211**	**218**

2005 full year	INCOME STATEMENT OF EDISON RETE Spa	**1st half 2006**	1st half 2005
42	Sales revenues	21	22
26	EBITDA	12	14
(10)	Depreciation and amortization	(5)	(5)
16	EBIT	7	9
(2)	Net financial expense	(1)	(1)
14	Profit before taxes	6	8
(6)	Income taxes	(2)	(3)
8	**Net profit**	**4**	**5**

Contingent Commitments and Risks

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Guarantee provided	2,519	2,655	(136)
Collateral provided	2,153	2,441	(288)
Other commitments and risks	686	656	30
Total for the Group	**5,358**	**5,752**	**(394)**

Guarantees Provided

Guarantees provided totaled 2,519 million euros. This figure is equal to the undiscounted amount of potential commitments on the balance sheet date. It includes the following:

- 611 million euros for guarantees provided by Edison Spa to customers of Tecnimont Spa (590 million euros) and Protecma Srl (21 million euros) for the performance of supply contracts.
- 772 million euros in guarantees provided by Edison Spa to the Milan tax office on behalf of subsidiaries for offsetting VAT credits and those provided to subsidiaries in connection with the intra-Group assignment of tax credits.
- 96 million euros in sureties provided by Edison Spa to banks to secure project financing, facilities and credit lines provided to Group companies.
- 25 million euros for a commitment to contribute capital and/or provide the subordinated financing needed by the Edipower Spa affiliate for its repowering program (Repowering Equity Contribution Agreement).

In addition, as part of the refinancing of Edipower Spa, Edison Spa has agreed to provide this joint venture with sufficient additional capital and/or subordinated financing to guarantee the successful implementation of Edipower's repowering program in terms of capital expenditure overruns, delays in implementation and power, efficiency and performance of the power plants upon completion of the repowering program (coverage of cost overruns, defects liability costs and underperformances) that Edipower Spa may incur in connection with its repowering program (100 million euros) – (Completion Equity Contribution Agreement).

Moreover, pursuant to the Tolling and Power Purchasing Agreements, Edison is responsible for the commercial obligations undertaken by its Edison Trading Spa subsidiary toward Edipower Spa, but only in the event of serious default or insolvency by Edison Trading (300 million euros).

Collateral Provided

Collateral provided, which came to 2,153 million euros, reflects the carrying amounts of the assets or rights pledged as collateral on the balance sheet date. This account includes collateral provided for liabilities listed on the balance sheet, including the value of Edipower shares (808 million euros) pledged to a pool of banks to secure financing facilities.

Collateral provided also includes additional collateral for liabilities listed on the balance sheet (1,345 million euros), which generally consist of mortgages and encumbrances granted on thermoelectric facilities to secure financing. A total of 617 million euros refers to repaid mortgages that are in the process of being cancelled.

Other Commitments and Risks

Other commitments and risks of 686 million euros reflect commitments undertaken to complete construction of the Simeri Crichi and Torviscosa power plants, as well as other ongoing projects (for a total 249 million euros), commitments undertaken by Edison Stoccaggio for gas storage facilities and pipelines (132 million euros) and commitments of Edipower toward suppliers for purchase and construction contracts (Edison's pro rata share was 305 million euros).

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

- The Group's **hydrocarbons** operations have entered into contracts for the importation of natural gas.

As is usually the case, contracts of this magnitude and of these durations contain take-or-pay clauses that obligate the buyer to pay for any shortage between the stipulated maximum quantities and the quantity actually used (unless the shortage is due to causes not provided for in the contract), with the option for the buyer to make up, at certain conditions, the paid but unused volume over the life of the contract. The import contracts with Russia, Libya and Norway, which are already operational, provide total supplies of 7.4 billion cubic meters of natural gas a year. In addition, the Group signed an import contract with Qatar that calls for deliveries to begin upon completion of an LNG terminal in the Northern Adriatic, which is currently being built and is expected to go on stream in 2007. When this agreement is fully operational, Qatar will supply a total of 6.6 billion cubic meters of natural gas a year. Payments required as a result of the take-or-pay clause are made on the basis of a price that reflects the contract price but is indexed to current market terms. These contracts have terms ranging between 10 and 25 years. When all of the contracts are fully operational, the annual supply of natural gas will amount to 14 billion cubic meters a year.

- Insofar as the **electric power** operations are concerned, loans received by Termica Milazzo and Termica Celano are secured by a negative pledge of Edison Spa shares and, for Termica Celano, a pledge commitment toward the lender bank, should certain noncompliance conditions occur. Termica Celano Srl granted to its lender banks a special pledge on the equipment of its cogenerating power plant. Termica Milazzo Srl granted to its lender banks a mortgage and special pledge on all of the production facilities it owns.
  The loans received by Parco Eolico San Giorgio and Parco Eolico Foiano have been repaid. Consequently, the Agent Bank has been asked to release all guarantees provided under any title.
- As part of the agreements among the shareholders of RCS Mediagroup who are members of the Blocking and Consultation Syndicate, any Participant who, in response to a tender offer, wishes to exit the Syndicate will be required to sell the syndicated shares to the other Participants. The buyers will have the right, but not the obligation, to buy the shares that are being offered in proportion to the percentage of the shares they contributed to the Syndicate.
- In addition, the agreement executed in connection with the sale of Edison LNG, now Terminale GNL Adriatico Srl, in May 2005 includes the following conditions:
  - For all shareholders, the obligation not to transfer their equity interest until 36 months have passed from the startup of the terminal, but, in any case, not later than July 1, 2011 (lockup clause);
  - For Edison, the right to buy the 90% it does not own or sell its 10% upon the occurrence of certain events, for which the two majority shareholders are responsible, that would prevent the construction of the terminal (put-and-call clause);
  - For the two majority shareholders, the right to buy the 10% interest held by Edison if the supply contract with RasGas should be cancelled for reasons for which Edison is responsible (call clause);
  - A price for the sale of shares if the put or call options are exercised, which will be determined based on the value of the company's shareholders' equity when the options are exercised;
  - A commitment by the shareholders, each for its pro rata share, to provide the company with sufficient financial resources to build the terminal;
  - Lastly, once the terminal that is being built in the Northern Adriatic has been completed, Edison, while owning just 10% of the infrastructure, will become its main user and will have access to about 80% of the terminal's gasification capacity for 25 years.

- Lastly, Edison has agreed to sell to Cartiere Burgo Spa its interest in GEVER Spa after 15 years have passed from the date the supply contract became commercially operational (2017). If Cartiere Burgo does not exercise this rights, Edison will have the right to sell, and Cartiere Burgo will be obliged to buy, the abovementioned interest at a price equal to the company's shareholders' equity.

Update of the Main Legal and Tax Disputes at June 30, 2006

The current status of the principal **legal and tax disputes** that have arisen from past events and that are likely to result in a cash outlay of an amount that cannot reasonably be estimated as a result of obligations that existed on the balance sheet date, based on available information, is reviewed in the paragraph "Legal disputes representing potential liabilities".

The current status of the principal **legal disputes** that are likely to result in a cash outlay for an amount that can be estimated as a result of obligations existing at the balance sheet date and for which provisions, based on available information, have been established, is reviewed below.

Legal Disputes with Corresponding Provisions

A) Edison Spa

European Commission – Antitrust Proceedings Against Ausimont

On May 9, 2006, the European Commission provided Edison with the text of its decision on the proceedings regarding violations of Article 81 of the EC Treaty and Article 53 of the SEE Agreement concerning a cartel in the market for hydrogen peroxide and its derivatives, sodium perborate and sodium percarbonate. 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 infractions and sold it to Solvay in 2002. Edison is being fines 58.1 million euros, 25.6. million euros of which are payable jointly with Solvay Solexis Spa. 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, The Company has set aside ample provisions.

Stava Dam Disaster

Negotiations are continuing to settle the remaining claims of parties injured by the collapse of the Prestavel Dams in 1985.

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

There were no significant new development in the proceedings pending before the courts for damages caused by the operation of certain facilities prior to their transfer to Enimont. The status of pending lawsuits is as follows: (i) The suit filed in the Court of Milan by the Region of Lombardy against EniChem, BASF Italia, Dibra and Montecatini (now Edison) for environmental damages caused by the operation of a factory in Cesano Maderno is still in the investigative phase; and (ii) The action in which Dibra is suing EniChem and Montecatini for damages stemming from the sale of the Cesano Maderno factory has been suspended, pending the outcome of the related lawsuit mentioned above.

Claims for Damages Caused by Exposure to Asbestos

In recent years, there has been a significant increase in the number of claims for damages arising from the deaths or illnesses of workers that were allegedly caused by exposure to different forms of asbestos at factories formerly owned by Montedison (now Edison). Without rendering an opinion on the merits of these claims, considering the long latency of illnesses related to exposure to different types of asbestos and the industrial activities carried out in the past by Group companies that belonged to the chemical industry, the presence of these companies throughout Italy and the manufacturing technologies used (considering the dates when these activities were carried out and the state of technological advancement at the time), which complied fully with the laws in force at that time, the possibility that new legitimate claims for damages may emerge in addition to those that are already the subject of several civil and criminal proceedings cannot be excluded. Therefore, based on past experience and on the knowledge acquired over time in connection with similar events, the Company thought it appropriate to set aside, in addition to provisions established specifically for certain pending disputes, a further provision of an amount estimated on the basis of the average between the value of the claims for damages for similar events that the Company received and paid in recent years and the claims that the Company has received thus far as a result of judicial and extrajudicial actions.

Sale of Ausimont: Solvay Arbitration

The arbitration proceedings filed on May 11, 2005 by Solvay Sa and Solvay Solexis Spa, acting through the International Chamber of Commerce (ICC) – International Arbitration Chamber, against Edison in connection with certain disputes that have arisen between the parties with respect to the representations and warranties contained in the contract covering Edison's sale of its interest in Agorà Spa (parent company of Ausimont Spa) is still in the discovery phase.

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

In the proceedings in the combined lawsuits pending before the Court of Milan, in which the Joint Representative of the savings shareholders and UBS AG sued Edison, Italenergia Spa and others challenging the merger of the abovementioned companies and asking the Court to award them compensation for damages, there have been non significant developments subsequent to the filing of a report by the technical consultant appointed by the Investigating Judge, who, while finding that the valuation criteria used were indeed adequate, concluded that there were some flaws in the valuation process (lack of control methods) and instances of incorrect application of the chosen valuation criteria that may have produced adverse consequences for the holders of savings shares.

Val Martello Flood

On June 28, 2006, in performance of the agreement executed on August 6, 2004, which settled all pending legal disputes with the Province of Bolzano and the individuals who suffered damages in the Val Martello flood., Edison paid the last installment owed to the Province of Bolzano, which amounted to 650,000 euros.

B) Other Group Companies

Farmoplant – 1988 Accident at the Massa Facility

The civil action filed by the Province of Massa-Carrara and the Municipalities of Massa and Carrara for damages caused by an accident that occurred at Farmoplant's Massa facility in 1988 is now in the investigative phase before the Court of Genoa.

Montedison Finance Europe – Bankruptcy of Domp BV

The appeal against a decision by the Dutch trial court that found Montedison Finance Europe liable for J. Domp's bankruptcy and, therefore, liable for all of the respective liabilities, which have been quantified by the Trustee in Bankruptcy at a total of about 11.6 million euros, is continuing.

Montedison (former Immobiliare Assago) – Nepa Arbitration

The final award that settled a dispute between Immobiliare Assago and Nepa with regard to the sale of a building in Milan was filed on April 26, 2006. The award ordered Immobiliare Assago to pay Nepa the sum of 1.53 million euros to compensate it for loss of profit. A partial award filed in May 2004 had already ordered Immobiliare Assago to pay Nepa the amount of 1.25 million euros for damages incurred.

Legal Disputes Representing Potential Liabilities

Environmental Legislation

In recent years, we have witnessed an expansion and evolution of environmental laws, specifically with regard to liability for environmental damages, which is especially relevant to the purposes of

these notes. In particular, the discussion and adoption in several legal systems of the principle of "internalization" of environmental costs (summarized in the expression "those who pollute must pay") have resulted in the development of two new types of liabilities for the act of polluting-objective liability (which does not require the objective element of guilt) and indirect liability (which stems from the actions of others), which can arise as a result of an earlier act that constitutes a violation of acceptable contamination levels under current laws.
In Italy, this approach is becoming established practice at both the administrative level (the provisions of Ministerial Decree No. 471/99, issued to implement the regulations set forth in Article 17 of Legislative Decree No. 22/97, are being enforced very aggressively) and the judicial level (criminal laws and civil liability provisions concerning instances of environmental damage are being interpreted very restrictively).
In this area, several proceedings are pending before administrative judges, at different stages of development and judicial levels, against decisions issued by national and local governments ordering the Company to carry out environmental remediation projects both at facilities that the Company no longer owns and at industrial properties that it still owns (mainly thermoelectric power plants) that were contaminated by work carried out in past years. More in general, without questioning the validity of these new legislative assumptions and the procedural accuracy of their implementation and interpretation, and taking into account the current and past scope of the Company's industrial operations, particularly in the chemical industry, their wide geographical distribution and their environmental impact based on the time when they were being carried out and the technology existing at the time, which was in compliance with the statutes then in force, it cannot be excluded that in light of current legislation, new charges may be levied against the Company in addition to those issued in the existing administrative and civil proceedings. It is also probable that current legislation will be applied with the strictness and severity mentioned above to all contamination events that occurred in the past.
At this point, based on the available information and the documents filed in the proceedings reviewed above, it is impossible to determine whether damages will in fact be assessed nor the amount of those damages.

A) Edison Spa

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

In the criminal proceedings for injuries caused by exposure to monovinyl chloride and for damages to the environment at the Porto Marghera petrochemical facility, the Italian Supreme Court upheld a decision handed down by the Court of Appeals of Venice on December 15, 2004. In this decision, which partially reversed a lower court's decision, the Court of Appeals found five former Montedison Directors and executives guilty of involuntary manslaughter in the death of an employee, who died of liver sarcoma in 1999, and ordered the defendants and Edison, along with Edison in its capacity as defendant in the civil action, to pay damages, refund the legal fees of other parties in the civil action and pay court costs.

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

The proceedings against former Montedison Directors and executives for alleged injuries caused by exposure to monovinyl chloride and polyvinyl chloride and damages to the environment continued before the Court of Brindisi with a hearing to discuss the briefs opposing the motion filed by the Office of the Public Prosecutor of Brindisi on May 4, 2004 asking that the case be dropped.

Mantua Petrochemical Complex – Criminal Proceedings for Personal Injuries and Environmental Damages

The preliminary investigation into an allegedly statistically significant excess of mortality from tumors among the local population and the employees of the Mantua facility due to the environmental impact of the waste incinerator and landfills located within the complex is continuing. No significant developments have occurred thus far.

Priolo Petrochemical Complex – Criminal Proceedings for Injuries to Public Health

As part of an investigation targeting certain former Directors and executives of Montedison (now Edison) for allegedly dumping effluents containing mercury into the sea from the Priolo plant, the Public Prosecutor at the Court of Syracuse, in Sicily, requested a report form a technical consultant. The mercury allegedly poisoned the water and the marine fauna and flora, causing miscarriages and extremely serious injuries to residents of the province of Syracuse.

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

There was no significant new development in the action filed against certain former Directors and executives of Montefibre in connection with events at the Verbania plant. The proceedings are expected to come to a conclusion in June 2006.

Liability Suit under Article 2393 of the Italian Civil Code (former Calcemento)

A decision is pending in the corporate liability suit against the former Chairman of Calcemento, Lorenzo Panzavolta, for violation of the duties of proper and diligent management, which caused a foreseeable injury to the company, approved by the shareholders of Calcemento Spa (now Edison Spa) at the Meeting of May 1997. The suit refers specifically to the acquisition of the Pizzo Sella (Poggio Mondello) real estate development and the companies Heracles and Halkis.

Montedison (now Edison) – Finanziaria Agroindustriale Merger

No significant new developments have occurred with regard to the appeal to overturn the decision handed down by the Court of Genoa in December 2000 in the suit filed by Mittel Investimenti Finanziari and other shareholders of Finanziaria Agroindustriale. The parties that refused to join in the settlement concluded by Edison and Mittel Investimenti Finanziari are still waiting for a decision.

Sale of Tecnimont: Edison/Falck Arbitration

In the arbitration proceedings concerning the dispute that arose when Falck failed to purchase Edison's interest in Tecnimont, the Board of Arbitrators appointed its own technical consultant and defined the query submitted to the consultant, which is quite broad and exhaustive and covers all of the potential issues that contributed to the formation of the damages suffered by Edison because of Falck's failure to perform its obligations.

MEMC Lawsuits

In the two proceedings filed by MEMC against Edison and Edison Energia before the Court of Milan and the Court of Venice in connection with business transactions involving the sale and supply of electric power, an appeal has been filed against the decision handed down by the Court rejecting all of the claims of the opposing party and ordering payment of all costs.

B) Other Group Companies

Pizzo Sella Real Estate Development and Seizure of Assets in Sicily

There are no significant new developments worth mentioning with regard to the negative assessment action filed by Finimeg, parent company of Poggio Mondello (currently in receivership), asking the administrative law judge to rule that the seizure of the Pizzo Sella real estate development for unlawful property subdivision ordered by the Court of Palermo and upheld by the Italian Supreme Court in December 2001 be ruled unenforceable against Finimeg and Poggio Mondello is continuing. The seizure also covers other real estate assets owned by Poggio Mondello.

In the matter of the lawsuits filed by certain buyers and prospective purchasers of the homes included

in the real estate development affected by the order of seizure for criminal violations at the Pizzo Sella development, who sued Poggio Mondello and the Municipality of Palermo to recover damages incurred as a result of the seizure of their properties, the Court of Palermo recently handed down two decisions ruling that the sales transactions were null and void but found that Poggio Mondello could not be held liable. The actions filed before the Court of Appeals against the decision handed down by the Court of Palermo, according to which a seizure for criminal violations cannot be enforced against bona fide third-party buyers who have registered their ownership title prior to the recording of any administrative penalty measure are continuing. All other disputes concerning sales of homes in the abovementioned development are still pending before the lower court.
The Court of Appeals of Palermo has not filed yet its decision in the proceedings concerning a challenge to an order of attachment, which was later converted into the confiscation of the shares, partnership interests and assets of the Finsavi and Generale Impianti affiliates and of the Calcestruzzi Palermo, Frigotecnica and Poggio Mondello subsidiaries issued by the Court of Palermo on May 15, 2002 within the context of an action involving the issuance of preventive measures.

Disputes Concerning the Supply of Electric Power
As a result of business transactions involving the sale and supply of electric power, a former customer filed a lawsuit, alleging that repeated interruptions in the supply of electric power caused extensive damage to the customer's production system.

Challenges to Resolutions Adopted by the Shareholders' Meetings of Sarmato Energia and Consorzio di Sarmato
There were no significant new developments in (i) the lawsuit filed by a shareholder challenging a resolution in which the Regular Shareholder's Meeting of Sarmato Energia agreed to amend the lease amount payable under a lease signed with Consorzio di Sarmato for the Sarmato power plant; and (ii) two related proceedings filed by the same shareholder, who is challenging the resolutions of the Shareholders' Meetings of Sarmato Energia and Consorzio di Sarmato that approved the respective financial statements at December 31, 2001.

Edison Trading and Edipower – Brindisi Coal Storage Facility
Following the issuance of an order of seizure on March 3, 2005 by Public Prosecutor of the Court of Brindisi in response to the excessive dust caused by the coal storage facility at Edipower's Brindisi North power plant, the technical consultant appointed by the Public Prosecutor of the Court of Brindisi is currently working to determine the existence, if any, of contamination of the subsoil and aquifer.

Tedesco and Ferro Arbitration
The arbitration proceedings launched on August 30, 2005 by Messrs. Tedesco and Ferro against Montedison Srl in connection with a preliminary sales contract valued at 2 million euros for an area located in Mazara del Vallo continued without any significant new developments.

Tax disputes

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

The assessment for 1998 has also been settled in the course of the proceedings and, in 2005, the Provincial Tax Commission upheld the main aspects of the appeal filed against the assessment for 1997.

Edison Spa Tax Audit for the 2002 Fiscal Year

Between November 2004 and February 2005, the Regional Revenue Office of Lombardy began a general tax audit of Edison Spa for the 2002 fiscal year.

The Audit Report assessed additional corporate income tax (IRPEG) of about 17 million euros in connection with certain expenses that were found not to apply to the year in question or not to be deductible. However, because of the unused tax loss carryforward, the assessment required no additional tax payments.

At the end of December, as the Company did not agree with and was not willing to pay the amount assessed by the Revenue Office, it was notified with IRPEG, IRAP and VAT assessments that, while not entailing significantly higher taxes or penalties, reflected the objections raised by the Regional Revenue Office, reducing by about 17 million euros the unused tax loss carryforward.

The Company believes that a significant portion of the costs that the Revenue Office disallowed should be tax deductible and will file an appeal in due course asking that these assessments be reversed.

Transactions Among Group Companies and with Related Parties

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

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

All of the transactions listed above are governed by contracts with conditions that are consistent with market terms, with the exception of those related to the VAT Pool, which are executed pursuant to law. In the area of commercial transactions, the Group's Parent Company, Edison Spa, sells natural gas and electric power to Edison Trading Spa and Edison Energia Spa, respectively, under special contracts that, taking into account the specific functions of the two buyer companies within the Group, provide the seller with adequate coverage of its fixed and variable costs. In addition, the rate earned on transactions involving intra-Group current accounts is the Deposit Rate of the European Central Bank, while the rate paid is the Marginal Refinance Rate of the European Central Bank.

In addition, Edison Spa issued sureties and other guarantees to credit institutions to secure loans and lines of credit provided to subsidiaries and affiliated companies, chief among them the facilities provided to Edipower, which are discussed in detail in the note to the financial statements that reviews contingent commitments and risks.

Consolidated VAT Return – Edison Spa files a consolidated VAT return (so-called VAT Pool) that includes those companies of the Edison Group that meet the requirements of Article 73, Section 3, of Presidential Decree No. 633/72, as amended, and of the Ministerial Decree dated December 13, 1979. Under the consolidated return system, Group companies transfer to Edison Spa, either monthly or quarterly, VAT payable and receivable positions in order to allow Edison Spa to offset these positions and pay only the resulting debit balance, if any. The Group VAT return for June 2006 shows that the Group has a credit balance of about 7 million euros.

Consolidated Corporate Income Tax (IRES) Return – In 2006, Edison Spa agreed to a proposal made by Transalpina di Energia, its controlling company, to be included in a consolidated income tax return filed by Transalpina, as allowed by Article 117 and following of Presidential Decree No. 917/86 (Uniform Income Tax Code, abbreviated as TUIR in Italian), for three years from 2006 to 2008. Consequently, in accordance with the provisions of Article 13 of the Ministerial Decree dated June 9, 2004, the preexisting option to file a consolidated return headed directly by Edison for three years from 2005 to 2007 was dropped.
All of the Edison subsidiaries that qualified for inclusion in the new consolidated return filed by Transalpina have agreed to join the filing.
Once the Boards of Directors of all of the companies involved gave their approval and before officially informing the tax administration of the chosen filing status, which occurred on June 19, 2006, Transalpina di Energia Srl and each consolidated company signed a bilateral agreement governing their mutual relationship for the purposes of the abovementioned filing status. Under the terms of these agreements, which are identical for all consolidated companies, all consolidated companies will be held harmless from any negative effect of the change in scope of the IRES tax filing compared with their status in 2005.

Other Transactions with Related Parties Within the Edison Group

During the first half of 2006, Edison Spa and its subsidiaries engaged in a number of commercial and financial transactions with some of its current shareholders and/or companies controlled by them. An overview of these transactions, which were carried out in the normal course of business based on contractual terms mutually agreed upon by the parties, is provided below.

(in millions of euros)	AEM Group	EdF Group	ENIA Group	SEL Group	Banca Popolare di Milano	Mediobanca
Balance sheet transactions						
Value of trade receivables	32	43	50			
Value of trade payables	29	9	6	1		
Value of loans receivable						
Value of loans payable					15	82
Income statement transactions						
Sales of goods and services	89	145	228			
Purchases of goods and serv.	40	69	23	5		
Financial income						
Financial expense						1

Commercial Transactions

Electric Power Operations – The following transactions were executed with the EdF Group:
- A contract for the supply of electric power in France, which resulted in the purchase of electric power worth about 30 million euros; the purchase of about 17 million euros worth of electric power in Italy; and the sale of electric power valued at 134 million euros. In addition, revenues from transmission services amounted to 7 million euros.
- Operation and maintenance contracts with Fenice Spa (EdF Group) for the Rivalta, Cassino, Sulmona, Termoli, Melfi and Pomigliano D'Arco thermoelectric power plants valued at 14 million euros.
- The EdF Group provides technical, engineering and management services at power plants in Taranto and Piombino, and at the Milan headquarters.

During the first half of 2006, Edison Spa supplied AEM Spa with steam valued at about 3 million euros from its Sesto San Giovanni power plant. In addition, Consorzio di Sarmato booked revenues of about 6 million euros from the sale of electric power generated by the Sarmato power plant to the Enia consortium affiliate.

Acting within the framework of the Tolling Agreement with Edipower Spa, Edison Trading Spa agreed to work on behalf of other Tollers in supplying fuel to certain production facilities. As a result, it generated revenues of 33 million euros from the sale of fuel oil to Aem Trading Srl.
Edipower booked revenues of about 53 million euros from the sale of electric and costs of about 32 million from purchases of fuel oil to the Aem Trading.
In addition, as part of the electric power procurement operations, Edison Trading made the following purchases of electric power: 5 million euros from Sel Edison Spa (SEL Group) and 14 million euros from Enia Spa.
Lastly, electric power transmission costs paid to AEM Elettricità totaled 4 million euros.

Hydrocarbons Operations – During the first half of 2006, the hydrocarbons operations purchased natural gas from ENBW Trading GmbH (EdF Group) at a cost of 8 million euros.
Transactions with Blumet, an associated company that is part of the Enìa Group, generated revenues from natural gas sales totaling 222 million euros and receivables amounting to 50 million euros. In addition, natural gas was also purchased from Blumet Spa at a cost of 6 million euros.

Corporate Activities – Edison Spa received revenues totaling 4 million euros from Fenice Spa (EdF Group) for maintenance services at the Termoli and Sulmona power plants.

Financial Transactions

The main financial transactions executed by Edison Spa in which its shareholder banks played a significant role are reviewed below:

- The Group executed foreign exchange transactions with an aggregate value of about USD200 million with JPMorganChase.
- Banca Popolare di Milano provided a 30-million-euro revocable line of credit and a 40-million-euro committed line of credit. 10 million euros and 40 million euros, respectively, had been drawn from these two lines of credit as of June 30, 2006. Both lines of credit accrue interest at market rates. The same bank also provided bank sureties totaling about 14 million euros.

SIGNIFICANT EVENTS OCCURRING SINCE JUNE 30, 2006

The Acquisition of Eurogen (Now Edipower) Was Carried Out in Compliance with All Rules

In response to remarks made by the Italian antitrust authorities with regard to the share ownership of Edison and Edipower, Edison wishes to point out that Edipower's acquisition (completed in 2002) was carried out in full compliance with the terms and conditions of the Prime Minister's Decree of November 8, 2000 and that, at that time, virtually all of Edison's shares were privately held. In any case, aside from legal and formal considerations, Edison did not alter its market behavior following a change in its shareholder base in 2005.

SCOPE OF CONSOLIDATION
at June 30, 2006

SCOPE OF CONSOLIDATION AT JUNE 30, 2006

List of Equity Investments

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 6/30/06	12/31/05
A) Investments in Companies Included in the Scope of Consolidation					
A.1) Companies Consolidated Line by Line					
Parent Company					
Edison Spa	Milan (IT)	EUR	4,273,119,803		
Core Businesses – Electric Power Operations					
Electric Power Business Unit					
Consorzio di Sarmato Soc. Cons. P.A.	Milan (IT)	EUR	200,000	52.500	52.500
Ecofuture Srl (single shareholder)	Milan (IT)	EUR	10,200	100.000	100.000
Gever Spa	Milan (IT)	EUR	10,500,000	51.000	51.000
Hydro Power Energy Srl - Hpe Srl (single shareholder)	Bolzano (IT)	EUR	50,000	100.000	100.000
Jesi Energia Spa	Milan (IT)	EUR	5,350,000	70.000	70.000
Sarmato Energia Spa	Milan (IT)	EUR	14,420,000	61.000	61.000
Sondel Dakar Bv	Rotterdam (NL)	EUR	18,200	100.000	100.000
Termica Boffalora Srl	Milan (IT)	EUR	14,220,000	70.000	70.000
Termica Celano Srl	Milan (IT)	EUR	259,000	70.000	70.000
Termica Cologno Srl	Milan (IT)	EUR	9,296,220	65.000	65.000
Termica Milazzo Srl	Milan (IT)	EUR	23,241,000	60.000	60.000
Renewable Sources					
Edison Energie Speciali Spa (single shareholder)	Milan (IT)	EUR	4,200,000	100.000	100.000
Monsei Esco Srl (single shareholder)	Milan (IT)	EUR	100,000	100.000	100.000
Parco Eolico Faeto Srl (single shareholder)	Milan (IT)	EUR	11,300	100.000	100.000
Parco Eolico Foiano Srl (single shareholder)	Milan (IT)	EUR	683,000	100.000	100.000
Parco Eolico San Giorgio Srl (single shareholder)	Milan (IT)	EUR	8,911,200	100.000	100.000
Core Businesses – Hydrocarbons Operations					
Hydrocarbons Business Unit					
Edison D.G. Spa (single shareholder)	Selvazzano Dentro (PD) (IT)	EUR	460,000	100.000	100.000
Edison International Spa	Milan (IT)	EUR	17,850,000	100.000	100.000
Edison Stoccaggio Spa (single shareholder)	Milan (IT)	EUR	81,497,301	100.000	100.000
Euroil Exploration Ltd	London (GB)	GBP	9,250,000	100.000	100.000

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

List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 6/30/06	12/31/05
Core Businesses – Energy Management					
Energy Management Business Unit					
Edison Trading Spa (single shareholder)	Milan (IT)	EUR	30,000,000	100.000	100.000
Volta Spa	Milan (IT)	EUR	130,000	51.000	51.000
Core Businesses – Marketing and Distribution					
Marketing and Distribution Business Unit					
Edison Energia Spa (single shareholder)	Milan (IT)	EUR	22,000,000	100.000	100.000
Edison Per Voi Spa (single shareholder)	Selvazzano Dentro (PD) (IT)	EUR	3,592,000	100.000	100.000
Core Businesses – Corporate Activities					
Italian and Foreign Holding Companies					
Atema Limited	Dublin 2 (IE)	EUR	1,500,000	100.000	100.000
Edison Hellas Sa	Athens (GR)	EUR	263,700	100.000	100.000
Finanziaria di Partecipazioni Elettriche Finel Spa	Milan (IT)	EUR	194,000,000	100.000	100.000
Montedison Finance Europe Nv	Amsterdam (NL)	EUR	4,537,803	100.000	100.000
Selm Holding International Sa	Luxembourg (LU)	EUR	24,000,000	100.000	100.000
Real Estate Companies					
Montedison Srl (single shareholder)	Milan (IT)	EUR	2,583,000	100.000	100.000
Nuova Alba Srl (single shareholder)	Milan (IT)	EUR	2,016,457	100.000	100.000
Dormant Companies and Other Companies					
Edison Treasury Services Srl (single shareholder)	Conegliano (TV) (IT)	EUR	10,000	100.000	100.000
Available-for-sale Investments					
Electric Power Business Unit					
Edison Rete Spa (single shareholder)	Milan (IT)	EUR	106,778,200	100.000	100.000

A.2) Companies Consolidated by the Proportional Method

Name	Head office	Currency	Share capital	6/30/06	12/31/05
Core Businesses – Electric Power Operations					
Electric Power Business Unit					
Bluefare Ltd	London (GB)	GBP	1,000	50.000	50.000
Ibiritermo Sa	Ibirite' - Estado De Minas Gerais (BR)	BRL	7,651,814	50.000	50.000
Sel Edison Spa	Castelbello (BZ) (IT)	EUR	84,798,000	42.000	42.000
Seledison Net Srl (single shareholder)	Castelbello Ciardes (BZ) (IT)	EUR	200,000	42.000	42.000
Serene Spa	Milan (IT)	EUR	25,800,000	66.320	66.320
Renewable Sources					
Parco Eolico Castelnuovo Srl	Castelnuovo di Conza (SA) (IT)	EUR	10,200	50.000	50.000

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Type of investment relationship (e)
100.000	Edison Spa	-	- h	SUB
51.000	Edison Spa	-	-	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison D.G. Spa (single shareholder)	-	- h	SUB
100.000	Edison Spa	-	-	SUB
100.000	Edison Spa	-	-	SUB
80.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	-	SUB
99.950	Edison Spa	-	-	SUB
0.050	Montedison Srl (single shareholder)			
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
100.000	Edison Spa	-	- h	SUB
50.000	Edison Spa	-	-	JV
50.000	Edison Spa	-	-	JV
42.000	Edison Spa	-	-	JV
100.000	Sel Edison Spa	-	- o	JV
66.320	Edison Spa	-	- g	JV
50.000	Edison Energie Speciali Spa (single shareholder)	-	-	JV

List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

Name	Head office	Currency	Share capital	Consolidated Group interest % (a) 6/30/06	12/31/05
Other Electric Power Assets					
Edipower Spa	Milan (IT)	EUR	1,441,300,000	50.000	50.000
Core Businesses – Hydrocarbons Operations					
Hydrocarbons Business Unit					
Ed-ina D.o.o.	Zagreb (HR)	HRK	20,000	50.000	50.000
Soc. Stud. Prom. Gasdot. Alg-Ita V. Sardeg. Galsi Spa	Milan (IT)	EUR	3,850,000	18.000	18.000
Other Operations					
Water					
Internat. Water Serv. (Guayaquil) Interagua C. Ltda	Guayaquil (EC)	USD	20,890,000	26.550	26.550
International Water (Tunari) Bv	Amsterdam (NL)	EUR	20,000	50.000	50.000
International Water (UK) Limited	London (GB)	GBP	1,001	50.000	50.000
International Water Holdings Bv	Amsterdam (NL)	EUR	40,000	50.000	50.000
International Water Services (Guayaquil) Bv	Amsterdam (NL)	EUR	20,000	29.500	29.500
International Water Services Limited	George Town - Grand Cayman (GBC)	USD	45,100	49.890	49.890
International Water Services Ltd	Zug (CH)	CHF	100,000	50.000	50.000
Iwl (Asia Pacific) Pte Ltd	Singapore (SG)	SGD	2	50.000	50.000
Iwl Adelaide Pty Ltd (in liquid.)	Sydney - Nsw (AU)	AUD	1,020,460	50.000	50.000
Iwl Corporate Limited	London (GB)	GBP	1	50.000	50.000
Iwl Services Holdings (UK) Limited	London (GB)	GBP	2	50.000	50.000

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

List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/05
B) Investments in Companies Valued by the Equity Method				
Core Businesses – Electric Power Operations				
Electric Power Business Unit				
Consorzio Barchetta	Jesi (AN) (IT)	EUR	2,000	
Consorzio Montoro	Narni (IT)	EUR	4,000	
Consorzio Vicenne	Celano (IT)	EUR	1,000	
Gti Dakar Ltd	George Town Gran Caiman (GBC)	EUR	14,686,479	
Kraftwerke Hinterrhein Ag	Thusis (CH)	CHF	100,000,000	
Roma Energia Srl	Rome (IT)	EUR	50,000	
Renewable Sources				
Sistemi di Energia Spa	Milan (IT)	EUR	10,475,000	
Core Businesses – Hydrocarbons Operations				
Hydrocarbons Business Unit				
Nile Valley Gas Company (Nvgc) S.A.E.	Cairo (EG)	EGP	50,000,000	
Core Businesses – Marketing and Distribution				
Marketing and Distribution Business Unit				
Blumet Spa	Reggio Emilia (IT)	EUR	7,600,000	
Estgas Spa	Udine (IT)	EUR	495,000	
Eta 3 Spa	Arezzo (IT)	EUR	2,000,000	
Gasco Spa	Bressanone (BZ) (IT)	EUR	350,000	
Prometeo Spa	Osimo (AN) (IT)	EUR	1,938,743	
S.A.T. - Servizi Ambiente Territorio Spa	Sassuolo (MO) (IT)	EUR	27,752,560	
Utilità Spa	Milan (IT)	EUR	2,307,692	
Core Businesses – Corporate Activities				
Real Estate Companies				
Iniziativa Universitaria 1991 Spa	Varese (IT)	EUR	16,120,000	
Soc. per la Gest. del Palazzo Centro Congressi Srl	Assago (MI) (IT)	EUR	10,200	
Dormant Companies and Other Companies				
Syremont Spa	Messina (IT)	EUR	750,000	

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
50.000	Jesi Energia Spa	-	-		ASS
25.000	Edison Spa	-	-		ASS
50.000	Termica Celano Srl	-	-		ASS
30.000	Sondel Dakar Bv	-	-	3.7	ASS
20.000	Edison Spa	-	-	15.6	ASS
35.000	Edison Spa	-	-	0.4	ASS
40.570	Edison Spa	-	-	3.9	ASS
37.500	Edison International Spa	-	-	3.6	ASS
28.320	Edison Spa	-	-	3.7	ASS
33.330	Edison Spa	-	-	0.2	ASS
33.010	Edison Spa	-	-	1.4	ASS
40.000	Edison Spa	-	-	0.1	ASS
21.000	Edison Spa	-	-	0.4	ASS
40.000	Edison Spa	-	-	21.5	ASS
35.000	Edison Spa	-	-	0.8	ASS
32.260	Montedison Srl (single shareholder)	-	- m	3.9	ASS
44.820	Montedison Srl (single shareholder)	-	-		ASS
40.000	Edison Spa	-	-		ASS

List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/05
C) Investments in Companies Valued at Cost Because in liquidation or Ownership Subject to Long-term Restrictions				
Core Businesses – Electric Power Operations				
Electric Power Business Unit				
Biomasse Emilia Romagna Srl (in liquid.)	Cesena (FO) (IT)	EUR	10,000	
Core Businesses – Hydrocarbons Operations				
Hydrocarbons Business Unit				
Auto Gas Company S.A.E. (in liquid.)	Cairo (EG)	EGP	1,700,000	
Core Businesses – Corporate Activities				
Dormant Companies and Other Companies				
Codest Srl	Pavia di Udine (UD) (IT)	EUR	15,600	
Consorzio Friulano Per Il Tagliamento	Udine (IT)	EUR	10,330	
In Liquidation and Subject to Restrictions				
C.F.C. Consorzio Friulano Costruttori (in liquid.)	Udine (IT)	LIT	100,000,000	
Calbiotech Srl (in bankruptcy)	Ravenna (IT)	LIT	90,000,000	
Calcestruzzi Palermo Srl (in liq.) (in receiver.) (single sharehold)	Palermo (IT)	EUR	108,360	
Cempes Scrl (in liquid.)	Villa Adriana - Tivoli (RM) (IT)	EUR	15,492	
CI.FAR. Scarl (in bankruptcy)	Udine (IT)	LIT	20,000,000	
Compo Chemical Company (in liquid.)	Wilmington - Delaware (US)	USD	1,000	
Compo Shoe Machinery Corp. Of Canada (in liquid.)	Montreal - Quebec (CA)	CAD	500	
Coniel Spa (in liquid.)	Rome (IT)	EUR	1,020	
Consorzio Carnia (in liquid.)	Sesto San Giovanni (MI) (IT)	EUR	51,645	
Consorzio Carnia Scrl (in liquid.)	Rome (IT)	EUR	45,900	
Convolci Scnc (in liquid.)	Sesto San Giovanni (MI) (IT)	EUR	5,165	
Ferruzzi Trading France Sa (in liquid.)	Parigi (FR)	EUR	7,622,451	
Finimeg Spa (single shareholder) (in liquid.)	Milan (IT)	EUR	2,425,200	
Finsavi Srl in receivership	Palermo (IT)	EUR	18,698	
Frigotecnica Srl (single shareholder) in receivership (in liquid.)	Palermo (IT)	EUR	76,500	
Groupement Gambogi-Cisa (in liquid.)	Dakar (SN)	XAF	1,000,000	
Inica Sarl (in liquid.)	Lisbon (PT)	PTE	1,000,000	
Nuova C.I.S.A. Spa (in liquid.) (single shareholder)	Milan (IT)	EUR	1,549,350	
Nuova I.S.I. Impianti Selez. Inerti Srl (in bankruptcy)	Vazia (RI) (IT)	LIT	150,000,000	
Poggio Mondello Srl (single shareholder) in receivership	Palermo (IT)	EUR	364,000	
Rosfid Srl (in liquid.)	Milan (IT)	LIT	46,000,000	
Sistema Permanente di Servizi Spa (in bankruptcy)	Rome (IT)	EUR	154,950	
Soc. Gen. per Progr. Cons. e Part. Spa (under extraord. admin.)	Rome (IT)	LIT	300,000,000	
Sorrentina Scarl (in liquid.)	Rome (IT)	EUR	46,480	
Stel Spa (in liquid.)	Milan (IT)	EUR	520,000	75.000
Trieste Tre Srl (in liquid.)	Ravenna (IT)	EUR	10,400	

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

List of Equity Investments (continued)

(including disclosure required by Article 126 of Consob Resolution No. 11971 of 5/14/99)

Name	Head office	Currency	Share capital	Consolidated Group interest % 12/31/05
D) Investments in Other Companies Valued at Fair Value				
D.1) Trading Investments				
Core Business - Corporate Activities				
Publicly Traded Securities				
Acegas - Aps Spa	Trieste (IT)	EUR	282,983,213	
Acsm Spa	Como (IT)	EUR	37,496,500	
Amsc - American Superconductor	N/A (USA)	USD	19,128,000	
D.2) Available-for-sale Investments				
Core Business - Corporate				
Dormant Companies and Other Companies				
IPSE 2000 Spa	Rome (IT)	EUR	150,500,000	
Maire Tecnimont Spa	Rome (IT)	EUR	142,857,143	
Publicly Traded Securities				
RCS Mediagroup Spa	Milan (IT)	EUR	762,019,050	
Investments in companies that are not publicly traded				
Total				

Interest held in share capital % (b)	by	Voting securities held % (c)	Exercisable voting rights % (d)	Carrying value (in millions of euros) (f)	Type of investment relationship (e)
1.300	Edison Spa	-	-	4.9	OC
3.970	Edison Spa	-	-	3.3	OC
0.840	Edison Spa	-	-	1.1	OC
7.910	Edison Spa	-	-		OC
19.500	Edison Spa	-	-		OC
0.970	Edison Spa	1.010	1.010	29.6	OC
				58.6	
				156.7	

Notes

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

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

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

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

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

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

(g) Subsidiary pursuant to Article 2359 of the Italian Civil Code.

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

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

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

(m) This investment is encumbered by an attachment. The voting rights are held by the trustee of the attached assets. On May 5, 2006, the Court of Milan upheld a challenge to the attachment filed by Montedion Srl. The court decision has not been published yet.

(n) As required by Article 2493 of the italian Civil Code, this company has filed its final liquidation financial statements.

(o) Company subject to the oversight and coordination of Self - Edison Spa.

The currency codes used in the preceding schedules are those of the ISO 4217 Standard.

AUD Australian dollar	HRK Croatian Kuna
BRL Brazilian real	LIT Italian lire
CAD Canadian dollar	PTE Portuguese escudo
CHF Swiss franc	SGD Singapore dollar
EGP Egyptian pound	NLG Netherlands guilder
EUR Euro	USD U.S. dollar
GBP British pound	XAF Central African franc

SEPARATE COMPANY FINANCIAL STATEMENTS

at June 30, 2006

Edison Spa - Balance Sheet at June 30, 2006

6/30/2005	(in millions of euros)	See Note	6/30/2006	12/31/2005
	ASSETS			
4,618	Property, plant and equipment	1	4,638	4,686
26	Investment property	2	17	17
2,632	Goodwill	3	2,632	2,632
269	Hydrocarbon concessions	4	256	268
38	Other intangible assets	5	35	35
2,355	Investments in associates	6	2,230	2,403
203	Available-for-sale investments	6	74	58
80	Other financial assets	7	84	79
51	Deferred-tax assets	8	80	94
371	Other assets	9	235	249
10,643	**Total non-current assets**		**10,281**	**10,521**
192	Inventories		206	184
494	Trade receivables		622	942
81	Current-tax assets		2	23
222	Other receivables		229	369
411	Current financial assets		529	511
4	Cash and cash equivalents		2	16
1,404	**Total current assets**	10	**1,590**	**2,045**
-	**Assets held for sale**	11	**161**	**-**
12,047	**Total assets**		**12,032**	**12,566**
	LIABILITIES AND SHAREHOLDERS' EQUITY			
4,266	Share capital		4,273	4,273
-	Statutory reserve		18	-
437	Other reserves		594	428
(58)	Retained earnings (Loss carryforward)		97	(58)
268	Profit (Loss) for the period		442	516
4,913	**Total shareholders' equity**	12	**5,424**	**5,159**
37	Provision for employee severance indemnities and provisions for pensions	13	39	38
895	Provision for deferred taxes	14	489	836
872	Provision for risks and charges	15	831	921
2,639	Bonds	16	2,694	2,642
388	Long-term borrowings and other financial liabilities	17	339	449
-	Other liabilities	18	-	-
4,831	**Total non-current liabilities**		**4,392**	**4,886**
1,555	Short-term borrowings		1,366	1,366
554	Trade payables		708	882
24	Current taxes payable		6	12
170	Other liabilities		136	261
2,303	**Total non-current liabilities**	19	**2,216**	**2,521**
-	**Liabilities held for sale**		**-**	**-**
12,047	**Total liabilities and shareholders' equity**		**12,032**	**12,566**

Edison Spa - Income Statement for the First Half of 2006

2005 full year	(in millions of euros)	See note	**First half 2006**	First half 2005
4,058	Sales revenues	20	2,470	1,882
147	Other revenues and income	21	119	35
4,205	**Total net revenues**		**2,589**	**1,917**
(3,441)	Raw materials and services used (-)	22	(2,157)	(1,572)
(127)	Labor costs (-)	23	(63)	(57)
637	**EBITDA**	24	**368**	**288**
(331)	Depreciation, amortization and writedowns (-)	25	(199)	(142)
306	**EBIT**		**169**	**146**
(155)	Net financial income (expense)	26	(111)	(72)
200	Income from (Expense on) equity investments	27	157	136
29	Other income (expense), net	28	2	38
380	**Profit before taxes**		**217**	**248**
100	Income taxes	29	226	20
480	**Profit (Loss) from continuing operations**		**442**	**268**
36	Profit (Loss) from discontinued operations		-	-
516	**Profit (Loss) for the period**		**442**	**268**

Cash Flow Statement for the First Half of 2006

2005 full year	(in millions of euros)	First half 2006	First half 2005
516	Profit (loss)	442	268
307	Amortization and depreciation	199	142
-	Interest in the result of companies valued by the equity method (-)	-	-
-	Dividends received from companies valued by the equity method	-	-
(136)	(Gains) Losses on the sale of non-current assets	3	(1)
25	(Revaluations) Writedowns of intangibles and property, plant and equipment	-	-
(1)	Change in the provision for employee severance indemnities	1	(1)
(491)	Change in other operating assets and liabilities	(263)	(350)
220	**A. Cash flow from continuing operations**	**382**	**58**
(433)	Additions to intangibles and property, plant and equipment (-)	(139)	(193)
(250)	Additions to non-current financial assets (-)	(29)	(27)
9	Proceeds from the sale of intangibles and property, plant and equipment	2	2
452	Proceeds from the sale of non-current financial assets	-	53
-	Capital grants received during the year	-	-
102	Other current assets	8	89
(120)	**B. Cash used in investing activities**	**(158)**	**(76)**
233	Receipt of new medium-term and long-term loans	979	-
(177)	Redemption of new medium-term and long-term loans and reclassification of short-term installments (-)	(1.089)	(31)
17	Capital contributions provided by controlling companies or other shareholders	-	7
-	Dividends paid to controlling companies or minority shareholders (-)	(183)	-
(166)	Change in short-term debt	55	37
(93)	**C. Cash used in financing activities**	**(238)**	**13**
7	**D. Net increase (decrease) in cash and cash equivalents (A+B+C+D)**	**(14)**	**(5)**
9	**E. Cash and cash equivalents at beginning of period**	**16**	**9**
16	**F. Cash and cash equivalents at end of period (E + F)**	**2**	**4**

Changes in Shareholders' Equity in the First Half of 2006

	Shareholders' Equity				
(in millions of euros)	Share Capital (a)	Statutory reserve (b)	Other res. and ret. earnings (loss carryforward) (c)	Profit for the period (d)	Total (a+b+c+d)=e
Balance at December 31, 2004	**4,259**	**-**	**56**	**285**	**4,600**
Restatements for adoption of IAS 32 and 39	-	-	33	-	33
Restatements for adoption of IFRIC 4	-	-	-	-	-
Balance at January 1, 2005	**4,259**	**-**	**89**	**285**	**4,633**
Share capital increase due to the conversion of warrants	7	-	-	-	7
Appropriation of the 2004 profit	-	-	285	(285)	-
Result for the first half of 2005 with adoption of IAS 32 and IAS 39	-	-	5	-	5
Dividend distribution	-	-	-	-	-
Result for the first half of 2005, as restated	-	-	-	268	268
Balance at June 30, 2005	**4,266**	**-**	**379**	**268**	**4,913**
Share capital increase due to the award of stock options	7	-	4	-	11
Result for the second half of 2005 with adoption of IAS 32 and IAS 39	-	-	(13)	-	(13)
Result for the second half of 2005, as restated	-	-	-	248	248
Balance at December 31, 2005	**4,273**	**-**	**370**	**516**	**5,159**
Appropriation of the 2005 profit	-	18	498	(516)	-
Dividend distribution	-	-	(183)	-	(183)
Restatements for the period for adoption of IAS 39	-	-	6	-	6
Result for the period	-	-	-	442	442
Balance at June 30, 2006	**4,273**	**18**	**691**	**442**	**5,424**

ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

Starting with the current fiscal year, Legislative Decree No. 38 of February 28, 2005, "Exercise of the Options Provided Under EC Regulation No. 1606/2002 on the International Financial Reporting Standards," requires all issuers of securities, including Edison Spa, to prepare their statutory financial statements (so-called separate financial statements) in accordance with the International Financial Reporting Standards (IAS/IFRSs) issued by the International Accounting Standards Board (IASB) and published in the *Official Journal of the European Union* (OJEU).
Edison Spa opted for the early adoption alternative, starting with its 2006 Semiannual Report. Consequently, the interim separate financial statements for the period from January 1, 2006 to June 30, 2006 have been prepared in accordance with the International Financial Reporting Standards (IAS/IFRSs) issued by the International Accounting Standards Board (IASB) and approved by the European Union. Specifically, they comply with the requirements of IAS 34 "Interim Financial Reporting," which provides guidelines for the preparation of interim financial statements.

The abbreviation IAS/IFRSs is used to signify the International Financial Reporting Standards (IFRS), which represent a recent evolution of the International Accounting Standards (IAS), and all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).
The following choices were made with regard to the adoption of the new principles:
- IFRS 6 "Exploration for and Evaluation of Mineral Resources" was applied retroactively to previous years.
- IAS 32 and IAS 39 are being applied as of January 1, 2005 and, consequently, any data at December 31, 2004 that are affected by these standards are not comparable.
- IFRS 4 "Insurance Contracts," IAS 26 "Accounting and Reporting by Retirement Benefit Plans" and IAS 41 "Agriculture" were not relevant and were not applied.
- The adoption of IFRIC 4 had no impact on the separate financial statements.

As required by IFRS 1, a separate document showing the impact of the transition to the international accounting principles on the separate financial statements of Edison Spa is annexed to the Semiannual Report. This document was audited by PricewaterhouseCoopers Spa. For any topic that is not specifically covered in these notes (including the comparative schedules), reference should be made to the abovementioned document. For the sake of greater clarity of presentation, the annexed document includes reconciliation schedules upon transition to the IAS/IFRS showing comparative semiannual data at June 30, 2005. These data have not been audited.

The Semiannual Report of Edison Spa was prepared in accordance with Article 81 of Consob Regulation No. 11971 of May 14, 1999, as amended, and was the subject of a limited audit.

Change in the Depreciation Method Applied to Thermoelectric Power Plants with CIP 6/92 Status

Starting on January 1, 2006, the depreciation method applied to thermoelectric power plants that sell electric power under the financial terms set forth in the CIP 6/92 Ordinance has changed. Assuming that the remaining useful lives have not changed, the old straight-line method based on the useful lives of the different components has been replaced with depreciation based on regular declining installments in order to take into account the differences between the financial terms set forth in the CIP 6/92 Ordinance (for an incentive-based period of eight years followed by a contract-term period of seven years) and market terms (applicable from the expiration of CIP 6/92 contracts until the end of the facilities' useful lives).
Because of the abovementioned difference between the financial terms of the CIP 6/92 contracts and market terms, a different rate of depreciation was chosen for each of the periods in question (CIP 6/92

incentive-based period, CIP 6/92 contract-term period and market-term period). The resulting depreciation process follows a "step-down" profile, with straight-line depreciation within each of the abovementioned periods.
The adoption of this method (and the resulting change in estimates) became possible only after January 1, 2006 because of the following circumstances:

1) After being in operation for about two years, the Italian Power Exchange (launched in 2004, with active bid trading introduced in 2005) is now sufficiently liquid to be viewed as being fully operational and provides a significant benchmark of current market conditions and expected output of electric power that can be used for valuation purposes.
2) In 2006, new Edison facilities with better technical characteristics than the CIP-6 power plants became fully operational, providing a further meaningful element of financial comparison, particularly in terms of assessing the impact of technological obsolescence.

The depreciation rates applied for each of the abovementioned periods were determined separately for each power plant, based on available information. The determination of the depreciation rates included defining a method that would be applied consistently over the entire remaining useful life of each power plant.
The changes made to the affected estimates resulted in the recognition of additional depreciation for the period totaling 24 million euros.
Since this change involved an estimate revision allowed under IAS 8, the comparative data for prior periods were not restated.

Content and Presentation of the Financial Statements

The separate financial statements of Edison Spa consist of a balance sheet, an income statement, a statement of cash flow, a statement of changes in shareholders' equity and the accompanying notes.
The following presentation formats were used:

- In the balance sheet, assets and liabilities are analyzed by maturity. Current and non-current items, which are due within or after 12 months, respectively, are shown separately.
- For the income statement, the Company selected a step-by-step statement, with the different components analyzed by type.
- The cash flow statement was prepared in accordance with the indirect method.

Information about related parties and transactions with such parties and information about subsequent events is provided in separate section of the Group's consolidated financial statements.

Valuation Criteria

Property, Plant and Equipment and Investment Property

Property, plant and equipment used in the production process are classified as "Property, plant and equipment." Land and buildings that are not used in the production process are classified as "Investment property."
In the financial statements, these assets are shown at purchase or production cost, or at their conveyance value, including any attributable incidental costs and direct costs deemed necessary to make them operable, net of any capital grants.
Individual components of a facility that have different useful lives are recognized separately, so that each component may be depreciated at a rate consistent with its useful life. Under this principle, the value of a building and the value of the land over which it has been erected are recognized separately and only the building is depreciated.
Any costs that the Group expects to incur in the decommissioning of industrial sites are recognized as an amortizable asset component. The value at which these costs are recognized is equal to the present value of the costs that the Group expects to incur in the future.

Scheduled maintenance costs are charged in full to income in the year they are incurred.
Costs incurred for major maintenance that is performed at regular intervals are added to the respective assets and are written off over the remaining useful lives of the assets.
The estimated realizable value that the Group expects to recover at the end of an asset's useful life is not depreciated. With the exception of thermoelectric power plants with CIP 6/92 status (see the relevant section earlier in this Report) and facilities linked with hydrocarbon concessions, property, plant and equipment is depreciated each year on a straight-line basis at rates based on technical and financial estimates of the assets' remaining useful lives.
The various depreciation rates applied to these assets are summarized below:

	Electric Power Operations	Hydrocarbons Operations	Corporate Activities
- Buildings	2.4% - 11.1%	17.3%	2.0%
- Plant and machinery	2.8% - 21.9%	1% - 18.4%	5% – 21%
- Manufacturing and distribution equipment	5.0% - 10.0%	17.5% - 35.0%	5% – 30%
- Other assets	6.0% - 25.0%	6.0% - 25.0%	6% – 20%
- Investment property			1.6% - 2.6%

Items of property, plant and equipment appurtenant to hydrocarbon production concessions are depreciated in accordance with the unit-of-product method, which is used to amortize the underlying concessions. Accordingly, depreciation is computed on the value determined by the ratio between the quantities produced during the fiscal year and the estimated remaining available reserves at the beginning of the year.
The depreciation of assets transferable free of charge is taken on a straight-line basis over the remaining term of the respective contracts or their estimated useful lives, whichever is less.
Assets acquired through financial leases must be booked under property, plant and equipment, with an offsetting entry of equal amount made to loans payable.
The liability is gradually eliminated in accordance with the principal repayment schedule of the respective lease agreement. The value of the asset is depreciated on a straight-line basis, based on technical and financial estimates of its useful life.
Upon initial adoption of the IAS/IFRS principles, the Group used fair value as deemed cost. As a result, accumulated depreciation and amortization and the provision for writedowns booked through January 1, 2004 were derecognized.
The accumulated depreciation and amortization and the provision for writedowns discussed in the notes to the financial statements refer exclusively to depreciation, amortization and writedowns booked after January 1, 2004.
If there are indications of a decline in value, assets are subjected to an impairment test in the manner described below under Impairment of Assets. When the reasons for a writedown no longer apply, the asset's cost is reinstated. Financial expense is not capitalized.

Goodwill

Goodwill, which is being carried at the same amount as in the statutory financial statements at December 31, 2003, and other intangible assets with indefinite useful lives are not amortized on a straight-line basis, but the recoverability of the carrying amounts is checked annually (impairment test) for each Cash Generating Unit (CGU) or group of CGUs to which assets with indefinite lives can be reasonably allocated. The impairment test is described below in the section entitled Impairment of Assets. When the reasons for a writedown no longer apply, the asset's cost is not reinstated.
The decision to take the conservative approach of using for the transition to the IAS/IFRS principles on January 1, 2004 the same values as those used in the statutory financial statements prepared in accordance with Italian accounting principles is justified by the uncertainty that currently exists with respect to the accounting treatment that should be applied to these assets in the separate financial statements prepared in accordance with the IAS/IFRS principles.

Hydrocarbon Concessions and Other Intangible Assets

Only identifiable assets that are controlled by the Company and are capable of producing future benefits can be identified as intangible assets. They include goodwill, when it is acquired for consideration. Intangibles are recorded at purchase or internal production cost, including incidentals, in accordance with the same criteria used for property, plant and equipment. Development costs can be capitalized, provided they can be identified reliably and it can be demonstrated that the asset is capable of producing future economic benefits.

Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives, starting when they are available for use.

The costs incurred to acquire mineral leases or extend the duration of existing permits are recognized as intangible assets. If an exploration project is later abandoned, the residual cost is charged immediately to income.

Exploration costs and costs incurred in connection with geological surveys, exploratory testing, geological and geophysical mapping and exploratory drilling are recognized as intangible assets but their full amount is amortized in the year they are incurred.

Development costs related to successful mineral wells and production costs incurred to build facilities to extract and store hydrocarbons are recognized as property, plant and equipment, depending on the type of asset, and are depreciated in accordance with the unit of production (UOP) method.

Costs incurred to close mineral wells, clear the well areas and dismantle or remove structures are recognized as assets and amortized in accordance with the UOP method.

Hydrocarbon production concessions are amortized in accordance with the unit-of-product method. The amortization rate is computed on the value determined by the ratio between the quantities produced during the fiscal year and the estimated remaining available reserves at the beginning of the fiscal year, taking into account any significant change to reserves that occurred during the fiscal year. In addition, a test is conducted each year to make sure that the carrying amounts of these assets are not greater than their realizable value computed by discounting future cash flows, which are estimated based on future production programs and market values.

Allocations and purchases of emission quotas are recognized as intangible assets at the cost incurred to acquire them. These assets are not amortized. If on the balance sheet date the value of the actual emission is greater than the value of allocated or purchased emission quotas, the excess is covered by establishing a separate provision for risks. If acquired emission quotas exceed the Company's requirements on the balance sheet date, the excess is included in inventory. Any quotas returned each year by the beneficiaries, based on the quantities of polluting gases released into the atmosphere each calendar year, are eliminated and the corresponding intangible assets derecognized.

Equity Investments in Subsidiaries and Affiliated Companies

Subsidiaries are companies with respect to which Edison, either on its own or jointly with others, has the power to make strategic corporate decisions for the purpose of obtaining the resulting benefits. As a rule, control is presumed to exist when the controlling company holds, directly or indirectly, more than half of the votes that can be cast at an Ordinary Shareholders' Meeting, also counting the so-called "potential votes" (i.e., votes conveyed by convertible instruments).

Affiliated companies are companies with respect to which Edison exercises a significant influence over the process of making strategic corporate decisions, even though it does not have control, when the so-called "potential votes" (i.e., votes conveyed by convertible instruments) are counted. A significant influence is presumed to exist when the controlling company holds, directly or indirectly, more than 20% of the votes that can be cast at an Ordinary Shareholders' Meeting.

Equity investments in subsidiaries and affiliated companies are valued at cost, written down to reflect any distributions of share capital or equity reserves or any impairment losses discovered as a result of an impairment test. If the reasons that justified the writedown cease to apply in subsequent years, the original cost is reinstated.

Impairment of Assets

IAS 36 requires that an entity test its property, plant and equipment and intangible assets for impairment when there are indications that impairment has occurred.

In the case of goodwill and other assets with indefinite lives or assets that are not available for use, this test must be conducted annually.

The recoverability of a carrying amount is tested by comparing it against an asset's fair value, less cost to sell, when there is an active market, or its value in use, whichever is greater.

Value in use is the present value of future cash flows expected to be derived from an asset or a CGU and from its disposal at the end of its useful life.

CGUs, which have been identified in a way that is consistent with the Group's organizational and business structure, are homogeneous groups of assets that generate cash inflows independently, through the continued use of the assets included in each group.

Translation of Items Denominated in Foreign Currencies

Transactions in foreign currencies are translated into euros at the exchange rate in force on the transaction date. At the end of a reporting period, cash assets and liabilities are translated at the exchange rates in force on the balance sheet date. Any resulting foreign exchange translation differences are recognized in earnings. Non-cash assets and liabilities denominated in foreign currencies are valued at cost and translated at the exchange rates in force on the transaction date.

Financial Instruments

Financial instruments include equity investments that are available for sale, investments held for trading and other non-current financial assets such as securities that the Company plans to hold to maturity, long-term loans and receivables, trade receivables and other receivables generated by the Company, as well as current financial assets such as cash and cash equivalents. Cash and cash equivalents include bank and postal account deposits, readily marketable securities purchased as temporary investments of cash and loans receivable due within three months. This item also includes loans payable, trade and other payables, financial liabilities and derivatives.

The initial measurement of financial instruments should include the directly attributable transaction costs incurred upon purchase or the issuance costs that are included in the initial valuation of all those assets and liabilities that can be classified as financial instruments. Subsequent measurements will depend on the type of instrument, as follows:

- Assets held for trading are valued at fair value, and any resulting gains or losses are recognized in the income statement.
- Available-for-sale assets are valued at fair value, and any resulting gains or losses are recognized directly in equity until disposal, when they are transferred to the income statement.
- Financial assets with fixed or determinable payments and fixed maturity that the Company intends to hold to maturity (other than equity investments) are valued at their amortized cost, which is determined by using the original effective interest rate. In other words, future cash flows are discounted to the balance sheet date by using the effective interest rate.
- Other financial liabilities are valued at their amortized cost. More specifically, the costs incurred to secure loans (transaction costs) and any issue premiums or discounts are posted directly as adjustments to the face value of the loan. The net financial expense for a given period is determined by using the effective interest rate method.
- Items hedged with derivatives are valued at fair value when the price risk has been hedged (fair value hedge) or at their amortized value or fair value if their future cash flow has been hedged (cash flow hedge).
- Derivatives must be recognized at their fair value in the financial statements. When a derivative cannot be defined as a hedging instrument pursuant to IAS 39 or if it hedges price risks (fair value hedge), any resulting gain or loss is reflected in the income statement. Gains or losses are recognized in equity when the derivative hedges a future cash flow or a contractual commitment that remains outstanding on the balance sheet date (cash flow hedge).

The valuation of receivables must also take into account the solvency of creditors and the level of credit risk, which is indicative of individual debtors' ability to pay. Receivables assigned with recourse can be derecognized only when they meet the derecognition requirements of IAS 39.

Inventories

Inventories are valued at the lesser of purchase or production cost, including incidental expenses, or estimated realizable value, based on market conditions. Cost is determined primarily by the FIFO method.

Employee Benefits

The provision for employee severance indemnities and the provision for pensions are computed on an actuarial basis. The value of benefits due to employees who have become vested during the year is charged to income under labor costs. The theoretical finance charge that the Company would incur if it were to borrow in the marketplace an amount equal to the provision for employee severance indemnities is posted to financial income (expense). Actuarial gains and losses that arise from changes in the actuarial assumptions used are reflected in the income statement, taking into account the average working lives of the employees.
Stock option plans are valued at the time the options are awarded by determining the fair value of the option rights issued. This value is allocated over the plan's vesting period. The corresponding cost is recognized in earnings, with offsetting entry posted to an equity reserve.

Provisions for Risks and Charges

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

Recognition of Revenues and Expenses

Revenues and income and costs and expenses are reflected in the financial statements net of returns, discounts, allowances, bonuses and any taxes directly related to the sale of products or the provision of services. Sales revenues are recognized when title to the goods passes to the buyer. As a rule, this occurs when the goods are delivered or shipped. Financial income and expense is recognized when accrued. Dividends are recognized when the shareholders are awarded the rights to collect them, which generally occurs in the year when the disbursing investee company holds a Shareholders' Meeting that approves a distribution of earnings or retained earnings.

Income Taxes

Income taxes for the fiscal year are determined on the basis of an estimate of taxable income, computed in accordance with the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and taking into account any applicable exemptions or available tax credits.
Deferred-tax assets and liabilities are computed on the temporary differences between the values attributed to assets and liabilities for statutory and tax purposes, using the tax rates that are expected to be in force when the temporary differences are reversed. Deferred-tax assets are recognized only when their future recovery is reasonably certain. Otherwise, their value is written down. The valuation of deferred-tax assets must be carried out taking into account the taxable income stream projected by the Company in its approved industrial plans. When gains and losses are recognized directly in equity, the corresponding deferred-tax assets or liabilities must also be reflected under shareholders' equity.

Use of Estimated Values

The preparation of the financial statements and the related notes requires the use of estimates and assumptions both in the measurement of certain assets and liabilities and in the valuation of contingent assets and liabilities. The actual results that arise upon the occurrence of the relevant events could differ from these estimates. Estimates are also used to measure certain sales revenues, the reserves for risks and charges, the allowances for doubtful accounts, depreciation and amortization, as well as to value derivatives, employee benefits, income taxes and impairment losses. Estimates and assumptions are revised on a regular basis, and the impact of any such revision is immediately recognized in the income statement.

Types of Financial Risks and Hedging Strategies

Edison's operations are exposed to several types of risk, including fluctuations in interest rates, foreign exchange rates and prices, and cash flow risks. Edison minimizes these risks through the use of derivative contracts that are executed within the framework of its risk management activities.
All such transactions are carried out in accordance with special organizational guidelines that govern the Company's risk management activities. In particular, Edison has adopted procedures designed to monitor all transactions that involve derivative instruments.
Additional information on this topic is provided in a separate section of the Groups' consolidated financial statements.

Analysis of Forward Transactions and Derivatives

Edison uses financial derivatives as part of a cash flow hedge strategy to protect its physical and contractual assets from fluctuations in the price risk factors to which the Group is exposed, especially the prices of energy commodities (natural gas, oil and petroleum products, coal, and electric power), the euro/US dollar exchange rate and interest rates mainly within the context of a cash flow hedging strategy.
When disclosing hedging transactions in the financial statements, care is used to ensure compliance with the requirements of IAS 39 for hedge accounting purposes.

More specifically:
1) **Transactions that qualify as hedges in accordance with IAS 39.** They can be cash flow hedges or fair value hedges. In the case of cash flow hedges, which are the only ones currently used, results are included in EBITDA when realized. Their projected value is reflected in shareholders' equity.
2) **Transactions that do not qualify as hedges in accordance with IAS 39.** They can be:
   a. Margin hedges. For all hedging transactions that comply with internal risk policies and procedures, realized results and expected value are included in EBITDA.
   b. Trading transactions. For all remaining transactions, realized results and expected value are recognized as financial income or expense and included in EBITDA.

Absent a market forward curve, the fair value of financial derivatives related to electric power is computed on the basis of internal estimates using models that incorporate best industry practices.

Instrument Outstanding at June 30, 2006

The schedules that follow provide the following information:
- Derivatives that were outstanding at June 30, 2006, classified by maturity;
- The value at which these contracts are reflected at June 30, 2006, which is their fair value at the date of the financial statements;
- The portion of the abovementioned fair value of the contracts that was recognized on the income statement on the reporting date.

Lastly, the difference between balance sheet carrying amounts (see item 2 above) and income statement fair values (see item 3 above) represents the fair value of contracts that qualify as cash flow hedges, which, as required by the applicable accounting principles, is posted directly to equity reserves.

A) Interest Rates and Foreign Exchange Rates

(in millions of euros)	Notional amount		Notional amount (*)	Notional amount (*)	Balance sheet value (**)	Cumulative impact on the income statement at 6/30/06 (***)
	due within 1 year receivable	payable	due between 1 and 5 years	due after 5 years		
Interest rate risk management						
- cash flow hedges in accordance with IAS 39			1,475	-	(3)	(2)
- contracts that do not qualify as hedges in accordance with IAS 39			3,435	-	4	-
Total interest-rate derivatives			**4,910**	**-**	**1**	**(2)**
Foreign exchange rate risk management						
- contracts that qualify as hedges in accordance with IAS 39						
• On commercial transactions	-	-	-	-	-	-
• On financial transactions	-	12	-	-	-	-
- contracts that do not qualify as hedges in accordance with IAS 39						
• On commercial transactions	140	6	1	-	(1)	(1)
• On financial transactions	-	-			-	-
Total foreign exchange rate derivatives	**140**	**18**	**1**	**-**	**(1)**	**(1)**

(*) Represent the sum of the notional amounts of the basic contracts that would result from an unbundling of complex contracts.
(**) Represent the net credit (+) or debit (-) recognized on the balance sheet following the measurement of derivatives.
(***) Represent the cumulative adjustment to fair value recognized on the income statement from the inception of the contract until the date of the financial statements.

B) Commodities

(in millions of euros)	Unit of measure of notional amount	Notional amount due within one year (*)	Balance sheet value (**)	Cumulative impact on the income statement at 6/30/06 (***)
Price risk management for energy products				
A. Cash flow hedges pursuant to IAS 39, broken down as follows:		**-**	**-**	**-**
- Electric power	TWh	-	-	-
- Other commodities	-	-	-	-
B. Contracts that qualify as fair value hedge pursuant to IAS 39		**-**	**-**	**-**
C. Contracts that do not qualify as fair value hedges pursuant IAS 39, broken down as follows			**(7)**	**(7)**
C.1 Margin hedges			(7)	(7)
- Electric power	TWh	-	-	-
- LNG and oil	Barrels	(2,541,169)	(7)	(7)
- Coal	Millions of tons	-	-	-
C.2 Trading contracts			**-**	**-**
- Electric power	TWh	-	-	-
- LNG and oil	Barrels	-	-	-
Total		**-**	**(7)**	**(7)**

(*) + for net purchases - for net sales
(**) Represents the net credit (+) or debit (-) recognized on the balance sheet following the measurement of derivatives.
(***) Represents the cumulative adjustment to fair value recognized on the income statement from the inception of the contract until the date of the financial statements.

Operating Results Generated by Derivative Transactions in the Fist Half of 2006

The table below provides an analysis of the operating results generated by derivative transactions in the first half of 2006.

(in millions of euro)	Realized	Change in fair value for the period	Amount recognized in earnings
Other revenues and income			
Price risk hedges for energy products			
- definable as hedges pursuant to IAS 39 (CFH)	6	6	12
- not definable as hedges pursuant to IAS 39	-	-	-
Total (A)	**6**	**6**	**12**
Raw materials and services used			
Price risk hedges for energy products			
- definable as hedges pursuant to IAS 39 (CFH)	-	-	-
- not definable as hedges pursuant to IAS 39 (margin hedges)	(4)	(13)	(17)
Total (B)	**(4)**	**(13)**	**(17)**
TOTAL INCLUDED IN EBITDA (A+B)	**2**	**(7)**	**(5)**
Net financial income (expense)			
Price risk hedges for energy products			
- Gains on trading transactions (A)	-	-	-
- Losses on trading transactions (B)	-	-	-
Margin on commodity trading transactions (C)	**-**	**-**	**-**
Interest rates hedges, broken down as follows:			
A. Financial income			
- definable as hedges pursuant to IAS 39	-	5	5
- not definable as hedges pursuant to IAS 39	3	30	33
Total financial income (D)	**3**	**35**	**38**
B. Financial expense			
- definable as hedges pursuant to IAS 39	(2)	(7)	(9)
- not definable as hedges pursuant to IAS 39	(13)	(27)	(40)
Total financial expense (E)	**(15)**	**(34)**	**(19)**
Margin on interest rate hedging transactions (D+E)=(F)	**(12)**	**1**	**(11)**
Foreign exchange rates hedges, broken down as follows:			
A. Foreign exchange gains			
- definable as hedges pursuant to IAS 39	-	-	-
- not definable as hedges pursuant to IAS 39	2	-	2
Total foreign exchange gains (G)	**2**	**-**	**2**
Foreign exchange losses			
- definable as hedges pursuant to IAS 39	-	-	-
- not definable as hedges pursuant to IAS 39	(5)	(1)	(6)
Total foreign exchange losses (H)	**(5)**	**(1)**	**(6)**
Margin on foreign exchange hedging transactions (G+H)=(I)	**(3)**	**(1)**	**(4)**
TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE) (C+F+I)	**(15)**	**-**	**(15)**

NOTES TO THE BALANCE SHEET

Assets

Non-current Assets

1. Property, Plant and Equipment

Property, plant and equipment, which comprise the Company's production assets, totaled 4,638 million euros, or 48 million euros less than at December 31, 2005. The table below provides a breakdown of this item and shows the changes that occurred during the first half of 2006.

(in millions of euros)	Land and buildings	Plant and machinery	Manufact. and distrib. equipment	Other asset	Constrs. in progress and advances	Total
Balance at 12/31/05 (A)	**489**	**3,019**	**7**	**5**	**1,166**	**4,686**
Changes at June 30, 2006:						
- Additions	2	13		-	110	125
- Disposals (-)	-	(3)	-	-	-	(3)
- Depreciation (-)	(10)	(163)		(1)	-	(174)
- Other changes	38	459	-	-	(493)	4
Total changes (B)	**30**	**306**	**-**	**(1)**	**(383)**	**(48)**
Balance at 6/30/06 (A+B)	**519**	**3,325**	**7**	**4**	**783**	**4,638**

The total value of these assets includes construction in progress and advances totaling 783 million euros for thermoelectric power plants that are in the final stages of construction, such as those that are being built in Torviscosa and Simeri Crichi. The commissioning of a thermoelectric facility in Altomonte accounts for the sizable reduction in "Construction in progress and advances" compared with December 31, 2005.

Additions, which totaled 125 million euros, are mainly the result of the following capital expenditures:

- The investments of the thermoelectric operations, which totaled 95 million euros, were primarily used for the construction of new thermoelectric power plants in Simeri Crichi (76 million euros), Torviscosa (4 million euros) and Altomonte (6 million euros).
- The natural gas operations invested 17 million euros. The main projects pursued included development of the Candela gas field (8 million euros) and the Rospo Mare, Daria, Anemone and Emma projects (5 million euros).
- The lion's share of the 11 million euros invested by the hydroelectric operations was used to rebuild the main tunnel of Ponte Gardena (6 million euros) power plant.

Disposals of 3 million euros refer to the replacement of components at the Taranto and Piombino thermoelectric power plants.

Depreciation of property, plant and equipment included 42 million euros for the hydroelectric power operations (40 million euros at June 30, 2005), 116 million euros for the thermoelectric power operations (69 million euros at June 30, 2005), 14 million euros for the hydrocarbons operations (15 million euros at June 30, 2005) and 2 million euros for corporate activities (2 million euros at June 30, 2005). The increase compared with the first half of 2005 is due mainly to the commissioning of new power plants and to the change mentioned earlier in this Report in the way certain CIP 6/92 power plants belonging to the thermoelectric operations are being valued.

Other changes include 4 million euros added to plant and machinery upon the recognition of decommissioning costs for the period applicable to power plants put into service during the period. The decrease in construction in progress is mainly due to the commissioning of the Altomonte power plant.

In addition:
- The net carrying amount of property, plant and equipment included assets transferable at no cost with an aggregate value of 340 million euros (366 million euros at December 31, 2005). Most of the assets transferable at no cost are held by the Edison's hydroelectric operations, which hold 35 concessions. The decrease reflects primarily the depreciation taken in the first half of 2006.
- Property, plant and equipment includes assets acquired under finance leases totaling 3 million euros (4 million euros at December 31, 2005), which are recognized in accordance with the IAS 17 (revised) method. The balance outstanding on finance leases, which is shown under "Long-term borrowings and other financial liabilities," amounts to 1 million euros.

Lastly, Law No. 266 of December 23, 2005 (2006 Budget Bill) provided an automatic ten-year extension of concessions for large-scale diversion of public water for hydroelectric power plants, as long as the concession holder can demonstrate the effectiveness of significant investments made in plant modernization to improve a facility's energy efficiency and environmental performance. Such evidence must be provided during the six months that precede the expiration of the concession and is subject to verification by local government entities. Since the test of objective certainty cannot yet be met at this point, the useful lives of the Company's electric power assets affected by these provisions were not changed.

2. Investment Property

Edison's investment property, which consists of land and buildings that are not used for production purposes, totaled 17 million euros, slightly less than at December 31, 2005. The depreciation for the period and the sale of a building, which generated a loss of less than 1 million euros, account for this decrease.

3. Goodwill

Goodwill totaled 2,632 million euros. The outstanding balance is an intangible asset with an indefinite useful life. As such, it cannot be amortized in regular installments but should be tested for impairment at least once a year.
No impairment indicators were detected in the first half of 2006.

4. Hydrocarbon Concessions

Concessions for the production of hydrocarbons, which include 46 hydrocarbon production leases in Italy, were valued at 256 million euros. The amortization for the period accounts for most of the 12-million-euro decrease from the amount reported at December 31, 2005.
The value of these assets does not include capitalized financial expense.

Information About the Concessions Held by Edison Spa

The table below shows a breakdown of the concessions held by Edison. As explained earlier, the corresponding carrying amounts are included under "Intangibles" and Hydrocarbon concessions."

		Remaining life	
	Number	from	to
Hydroelectric concessions	35	3	23
Hydrocarbon concessions	46	(*) "unit of production"	

(*) The amortization and the remaining life of mineral deposits is computed as a ratio of the quantity extracted to the available reserves.

5. Other Intangible Assets

The balance of 35 million euros refers mainly to licenses and similar rights (30 million euros) and work in progress (4 million euros). Licenses and similar rights include 17 million euros in costs incurred to secure an exclusive 10-year right related to the construction of a complex of floricultural greenhouses.
Hydrocarbon research and exploration costs, which are charged in full to income in the year they are incurred, totaled 11 million euros.

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

The total of 2,230 million euros includes 1,408 million euros in investments in subsidiaries and 982 million euros in investments in affiliated companies. Available-for-sale investments were valued at 74 million euros. They consist of investments in privately held companies (45 million euros) and publicly traded companies (29 million euros).

The table below shows the main changes that occurred in the first half of 2006:

(in millions of euros)	Investments in associates	Available-for-sale investments
Balance at 12/31/05 (A)	**2,403**	**58**
Changes in the first half of 2006:		
- Changes in share capital	-	22
- Revaluations	-	-
- Writedowns (-)	(12)	-
- Reclassification of assets held for sale	(161)	-
- Other changes	-	(6)
Total changes (B)	**(173)**	**16**
Balance at 6/30/06	**2,230**	**74**

An analysis of the changes is as follows:

- Changes in share capital of 22 million euros consist of capital contributions provided to the associated company Terminale GNL Adriatico and IPSE 2000.
- Writedowns totaling 12 million euros refer to the Gever (9 million euros) and Montedison Srl (3 million euros) subsidiaries. Specifically, the investment in Gever was written down to bring its carrying amount in line with its realizable value.
- As explained in greater detail in Note 11 below, reclassification of assets held for sale refers to the Edison Rete subsidiary.
- Other changes of 6 million euros are attributable mainly to the investment in IPSE 2000 and reflect the reclassification of a writedown previously posted to loans receivable.

7. Other Financial Assets

Other financial assets of 84 million euros include loans receivable due in more than one year and long-term equity investments.
The main components of loans receivable are a 48-million-euro loan made to IPSE 2000, which is offset by a separate provision for risks, and 34 million euros in loans receivable from subsidiaries.

8. Deferred-tax Assets

Deferred-tax assets of 80 million euros represent prepaid taxes on items that will have a tax impact in the future. With regard to the recognition of these assets, their valuation was made based on expectations of actual utilization over the limited time horizon of the industrial plans approved by the Company. Consequently, the theoretical deferred-tax assets computed on provisions for risks were partially written down. All of the tax assets available at December 31, 2005 were used during the first half of 2006.

9. Other Assets

Other assets totaled 235 million euros. They consisted mainly of tax refunds receivable and accrued interest through June 30, 2006 (2 million euros).

10. Current Assets

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Inventories	206	184	22
Trade receivables	622	942	(320)
Current-tax assets	2	23	(21)
Other receivables	229	369	(140)
Current financial assets	529	511	18
Cash and cash equivalents	2	16	(14)
Total current assets	**1.590**	**2.045**	**(455)**

A review of the individual components is provided below:

Inventories

Inventories, which increased to 206 million euros (22 million euros more than at December 31, 2005) due mainly to a larger inventory of stored natural gas and fuel oil, include hydrocarbon products (159 million euros) and supplies and equipment used to maintain and operate the Company's facilities (34 million euros).

Trade Receivables

Trade receivables totaled 622 million euros, or 320 million euros less than at December 31, 2005. A breakdown by type of business is as follows:

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Electric power operations	434	512	(78)
Hydrocarbons operations	187	428	(241)
Corporate activities	1	2	(1)
Total	**622**	**942**	**(320)**

Trade receivables stem from contracts to supply energy and steam, contracts to supply natural gas and contracts to sell natural gas at virtual transfer points.
The above amounts are net of an allowance for doubtful accounts totaling 27 million euros.

Current-tax Assets

The balance of 2 million euros is 21 million euros less than at December 31, 2005.

Other Receivables

Other receivables amounted to 229 million euros, net of a 15-million-euro allowance for doubtful accounts. The main components of this account are receivables for the provision of technical, administrative and financial services and under leases (50 million euros); amounts owed by partners and associates in hydrocarbon exploration projects and royalty advances (27 million euros), dividends receivable (26 million euros); amounts owed by investee companies (15 million euros); receivables from public institutions and local entities for hydroelectric fees (15 million euros); receivables from foreign governments for recoveries of tax credits (11 million euros; amounts owed by the controlling company (Transalpina di Energia) in connection with the filing of a consolidated tax return (7 million euros); receivables from the tax administration for VAT overpayments (6 million euros); security deposits receivable (6 million euros); credits arising from the valuation of derivatives (4 million euros); advances paid to suppliers (4 million euros); amounts receivable under maintenance contracts (4 million euros) and receivables generated by the sale of a building (2 million euros).

Current Financial Assets
A breakdown of current financial assets, which totaled 529 million euros, is as follows:

(in millions of euros)	6/30/2006	12/31/2005	Change
Equity investments held for trading	9	29	(20)
Loans receivable	487	451	36
Derivatives	33	31	2
Total current financial assets	**529**	**511**	**18**

All of the items listed above are included in the computation of the Company's net borrowings. A review of these financial assets is provided below:

Equity Investments Held for Trading
These are investments in companies that qualify as being publicly traded under IFRS principles. They include the following: ACEGAS Spa (5 million euros), ACSM Spa (3 million euros) and ACSM Spa (3 million euros). Investments in ACEA and AMGA were sold during the first half of 2006, generating a gain of 2 million euros.

Loans Receivable
Loans receivable of 487 million euros reflect financial transactions with subsidiaries and affiliated companies. They represent the balances in the corresponding intra-Group current accounts.

Derivatives Recognized as Current Assets
The table below provides a breakdown of receivables recognized on the balance sheet to reflect the fair value measurement in accordance with IAS 39 of derivatives outstanding at June 30, 2006:

(in millions of euros)	6/30/2006	12/31/2005
Foreign exchange transactions	1	-
Interest rate transactions	32	31
Commodities transactions	4	-
Fair value recognized in current assets	**37**	**31**
allocated as follows:		
- to Other receivables	4	-
- to Current financial assets	33	31

The portion of these receivables that represents cash flow hedges (23 million euros) is offset by a reserve included in shareholders' equity.

Cash and Cash Equivalents
Cash and cash equivalents of 2 million euros consist of short-term bank and postal account deposits.

11. Assets Held for Sale
This item, which totals 161 million euros, refers to the Edison Rete subsidiary. Negotiations for this divestiture, which was approved in broad terms by Edison's Board of Directors on June 15, 2006, are ongoing. In the second half of July 2006, following the completion of the due diligence process late in June and early in July, Edison received several offers, which will form a basis for negotiations with the objective of completing the sale before the end of this year. As a result, this equity investment has been reclassified under "Assets held for sale."

Liabilities and Shareholders' Equity

12. Shareholders' Equity

Edison's shareholders' equity amounted to 5,424 million euros, or 265 million euros more than at December 31, 2005. This increase is the net result of profit earned in the first half of 2006 (442 million euros) and of the distribution of dividends (183 million euros).

A breakdown of this item and the changes that occurred in shareholders equity are shown in a separate schedule entitled "Changes in Shareholders' Equity at June 30, 2006."

At June 30, 2006, the subscribed and paid-in capital stock of Edison Spa totaled 4,273 million euros. It consisted of shares with a par value of 1 euro each, regular ranking for dividends, and was broken down as follows:

Share class	Number of shares	Millions of euros
Common shares	4,162,527,383	4,162
Nonconvertible savings shares	110,592,420	111
Total shares	**4,273,119,803**	**4,273**

The aggregate value of share capital and additional paid-in capital was little changed, compared with December 31, 2005, except for the exercise of 12,049 warrants. A total of 1,018,636,574 warrants was outstanding at June 30, 2006. Each warrant can be exercised until December 2007, to subscribe one new share at a price of 1 euro per share. No change affected the savings shares.

In keeping with the goal to provide full disclosure, the table below shows a breakdown of the reserve for cash flow hedges established upon the adoption of IAS 32 and IAS 39, which is included in shareholders' equity:

Riserva su operazioni di Cash Flow Hedge

(in millions of euros)	Gross reserve	Deferred taxes	Net reserve
- Reserve at December 31, 2005	(11)	3	(8)
- Changes in the first half of 2006	10	(4)	6
- Reserve at June 30, 2006	**(1)**	**(1)**	**(2)**

Non-current Liabilities

13. Provision for Employee Severance Indemnities and Provisions for Pensions

This reserve, which amounted to 39 million euros, reflects the accrued severance indemnities and other benefits owed to employees at June 30, 2006, computed in accordance with the actuarial criteria provided in IAS 19.

The operating and financial parameters used for valuation purposes are listed below:

- Technical annual discount rate	min. 4.00%, max. 4.50%
- Annual inflation rate	min. 1.90%, max. 2.00%
- Estimated annual increase of the provision for severance indemnities	min. 2.00%, max. 2.95%
- Estimated annual increase of the wages used to compute the provision	min. 2.00%, max. 3.50%

The computation process also resulted in the recognition of financial expense totaling less than 1 million euros.

The table below shows the changes that occurred in the first half of 2006:

(in millions of euros)	Provision for sever. indemn.	Provision for pensions	Total
Balance at 12/31/2005 (A)	**38**	**-**	**38**
Changes in the first half of 2006:			
- Additions	3	-	3
- Financial expense (+)	1	-	1
- Utilizations (-)	(3)	-	(3)
Total changes (B)	**1**	**-**	**1**
Total at 6/30/2005 (A+B)	**39**	**-**	**39**

At June 30, 2006, the Company had 1,778 employees.

14. Provision for Deferred Taxes

The balance of 489 million euros reflects mainly the deferred tax liability from the use during the transition process of fair value as deemed cost to value property, plant and equipment.
The following table shows a breakdown of this reserve by type of underlying temporary difference:

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Provision for deferred taxes			
- Differences in the valuation of property, plant and equipment	451	794	(343)
- Adoption of the standard on finance leases (IAS 17)	30	32	(2)
- Adoption of the standard on financial instruments (IAS 39) with impact on:			
- the income statement	3	5	(2)
- shareholders' equity	5	5	-
Total provision for deferred taxes	**489**	**836**	**(347)**
Deferred-tax assets			
- Tax loss carryforward	-	46	(46)
- Taxed provisions for risks	77	44	33
- Adoption of the standard on financial instruments (IAS 39)	-	3	(3)
- Other prepaid taxes	3	1	2
Total deferred-tax assets	**80**	**94**	**(14)**

Edison Spa availed itself of the option of carrying out a partial realignment of values assigned to property, plant and equipment for statutory and tax purposes, which resulted in an extraordinary use of deferred-tax liabilities totaling 298 million euros. More detailed information is provided in the note on income taxes.

15. Provisions for Risks and Charges

At June 30, 2006, the reserves for risks and charges, which are established to cover contingent liabilities, totaled 831 million euros, a decrease of 90 million euros compared with the end of 2005. This decrease reflects the settlement of certain legal disputes, which required the payment of compensation to the opposing parties. The table below shows the changes that occurred in the first half of 2006:

(in millions of euros)	12/31/2005	Additions	Utiliz.	Other	**6/30/2006**
- Disputed tax items	35	-	(6)	-	29
- Risks for disputes, litigation and contracts	156	6	(7)	-	155
- Charges for contractual guarantees on the sale of equity investments	203	-	(19)	-	184
- Provisions for decommissioning and remediation of industrial sites	148	4	(2)	5	155
- Environmental risks	180	-	(111)	-	69
- Risks on the sale of equity investments	12	-	-	-	12
- Provision for EU Directive No. 2003/83 (Emissions Rights)	21	13	(1)	-	33
- Other risks and charges	166	35	(3)	(4)	194
Total provisions for risks and charges	**921**	**58**	**(149)**	**1**	**831**

The main changes that occurred in the first half of 2006 are reviewed below:

- The main components of **additions** of 58 million euro include 32 million euros set aside conservatively to cover a fine imposed by the European Commission for alleged anticompetitive practices in the chemical industry by Ausimont Spa, a former subsidiary of Montedison Spa (now Edison Spa), between 1995 and 2000. They also include a provision of 13 million euros to cover charges incurred under the emission quotas legislation for failure to secure sufficient CO_2 emission quotas, 4 million euros added to cover liabilities for pending disputes (including 4 million euros in statutory interest on existing provisions) and 4 million euros for interest expense incurred with the decommissioning and remediation of industrial sites.
- The main components of **utilizations,** which totaled 149 million euros, were the reduction of 111 million euros of the provision established to cover contractual obligations related to the Porto Marghera facility and 19 million euros related to the cancellation of guarantees provided in previous years in connection with the sale of equity investments. Utilizations of provisions for risks upon the settlement of pending disputes account for most of the remaining 14 million euros.

More detailed information about the entries that resulted in the current composition of the provisions for risks and charges is provided in the section of the Consolidated Semiannual Report entitled "Update of the Main Legal and Tax Disputes at June 30, 2006."

16. Bonds

The balance of 2,694 million euros includes 75 million euros in accrued interest at June 30, 2006. A breakdown is as follows:

(in millions of euros)	Market where traded	Currency	Par value outstanding	Coupon	Rate	Maturity	Ammortized cost	Fair value
Euro Medium Term Notes:								
Edison Spa	Luxembourg Securities Exchange	EUR	600	Annual in arrears	7,375%	7/20/07	641	664
Italenergia	Retail	EUR	830	Semiannual in arrears	3,504%	8/26/07	831	844
Edison Spa	Luxembourg Securities Exchange	EUR	700	Annual in arrears	5,125%	12/10/10	717	745
Edison Spa	Luxembourg Securities Exchange	EUR	500	Quarterly in arrears	3,365%	7/19/11	505	511
Total			**2,630**				**2,694**	**2,764**

17. Long-term Borrowings and Other Financial Liabilities

This account totaled 339 million euros. A breakdown is as follows:

(in millions of euros)	6/30/2006	12/31/2005	Change
Due to banks	337	445	(108)
Due to other lenders	2	4	(2)
Totale	**339**	**449**	**(110)**

At June 30, 2006, available and unused lines of credit totaled about 1,500 million euros.

18. Other Liabilities

This account had a zero balance at June 30, 2006.

Breakdown of Indebtedness by Maturity

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

(in millions of euros)	6/30/2008	6/30/2009	6/30/2010	6/30/2011	After 5 years	Total
Bonds	1,472	-	-	717	505	2,694
Borrowings and other financial liab.:						
- Bank debt	81	135	14	14	93	337
- Due to other lenders	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total	**1,553**	**135**	**14**	**731**	**598**	**3,031**

19. Current Liabilities

(in millions of euros)	6/30/2006	12/31/2005	Change
Short-term borrowings	1,366	1,366	-
Trade payables	708	882	(174)
Current taxes payable	6	12	(6)
Other liabilities	136	261	(125)
Total current liabilities	**2.216**	**2.521**	**(305)**

The main current liability accounts are reviewed below:

- Short-term borrowings include 640 million euros due to banks for principal and accrued interest and 721 million euros owed to subsidiaries. The bank debt includes 32 million euros generated by measuring at fair value interest rate and foreign exchange derivatives.

- **Trade payables**

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Electric power operations	383	410	(27)
Hydrocarbons operations	295	439	(144)
Corporate activities	30	33	(3)
Total	**708**	**882**	**(174)**

Trade payables reflect mainly purchases of electric power, natural gas and other utilities, as well as services related to scheduled and extraordinary plant maintenance.

- **Current taxes payable** represent the liability for income taxes and other taxes payable on the balance sheet date, less estimated payments made.

- The main components of **other liabilities** of 136 million euros include the following: amounts owed to joint holders of permits and concessions for the production of hydrocarbons (52 million euros), accounts payable to subsidiaries and affiliated companies under technical services contracts (14 million euros), Group VAT payable (18 million euros), payables owed for miscellaneous consulting and other services (24 million euros), amounts payable to employees (14 million euros) and amounts owed to pension and social security institutions (10 million euros).

Disclosure of Derivative Positions on the Liability Side of the Balance Sheet

The table below provides a breakdown of the liabilities recognized on the balance sheet upon measurement at fair value of derivative positions outstanding on the date of the financial statements, as required by IAS 39.

(in millions of euros)	**6/30/2006**	12/31/2005
Foreign exchange transactions	4	-
Interest rate transactions	28	47
Commodity transactions	13	1
Fair value recognized under current liabilities	**45**	**48**
Posted to:		
- Other liabilities	13	1
- Short-term borrowings	32	47

The portion of these liabilities that represents cash flow hedges (7 million euros) is offset by a reserve included in shareholders' equity.

NOTES TO THE INCOME STATEMENT

The profit earned by Edison Spa in the first half of 2006 totaled 442 million euros, up from 268 million euros in the same period last year. This increase was made possible by a significant improvement in operating performance (EBITDA rose from 288 to 368 million euros) and by the positive impact (about 202 million euros) of the realignment of the reporting value of certain assets to their tax value, as described below, offset in part by a 24-million-euro increase in depreciation caused by a revision of the estimated values assigned to certain CIP 6/92 facilities of the thermoelectric operations.

20. Sales Revenues

Sales revenues totaled 2,470 million euros, for an overall gain of 588 million euros (+31.2%) compared with the first six months of 2005. The Group's core businesses increased sales revenues by 580 million euros (+31.3%).

The table below provides a breakdown of sales revenues:

(in millions of euros)	**First half 2006**	First half 2005	Change	% change
Revenues from the sales of:				
- Electric power	1,295	879	416	47.3%
- Natural gas	1,035	901	134	14.9%
- Steam	60	44	16	36.4%
- Oil and fluxing chemicals	44	30	14	46.7%
- Other revenues	1	1	-	-
Total sales revenues	2,435	1,855	580	31.3%
Revenues from property sales	1	4	(3)	n.m.
Revenues from services provided	22	21	1	4.8%
Revenues from power plant maintenance	9	-	9	n.m.
Transmission revenues	3	2	1	50.0%
Total	**2,470**	**1,882**	**588**	**31.2%**

Sales revenues were generated mainly in Italy. Revenues from foreign companies totaled 41 million euros. Revenues from services provided refer mainly to coordination support provided by Edison Spa to Group companies, maintenance services at the Termoli and Sulmona power plants and engineering services.

Revenues from power plant maintenance were generated by work performed at power plants owned by Group companies.

A breakdown of revenues by type of business is provided below.

Sales Revenues by Business

(in millions of euros)	**First half 2006**	First half 2005	Change	% change
Electric power operations	1,357	925	432	46.7%
Hydrocarbons operations	1,078	930	148	15.9%
Corporate activities	35	27	8	29.6%
Totale	**2,470**	**1,882**	**588**	**31.2%**

Sales revenues increased by 588 million euros, or 31.2% more than in the first six months of 2005. The reasons for this improvement are reviewed below:

- The electric power operations (+46.7% compared with the first half of 2005) boosted unit sales both in the deregulated market and under CIP 6/92 contracts and benefited from an increase in the average price charged, made possible by a rise in the fuel component.
- The hydrocarbons operations reported a 15.9% gain in sales revenues, due mainly to an increase in average revenues per unit that reflected a positive development in the benchmark oil markets.

21. Other Revenues and Income

Other revenues and income grew to 119 million euros, a gain of 84 million euros compared with the first six months of 2005. A breakdown is as follows:

(in millions of euros)	**First half 2006**	First half 2005	Change	% change
Commodity derivatives	12	-	12	-
Recovery of payroll costs	3	1	2	-
Recovery of costs from partners in hydrocarbon exploration projects	8	7	1	14.3%
Revenues from the sale of miscell. materials	3	1	2	-
Utilizations of provisions for risks	4	3	1	33.3%
Swaps and exchanges of oil and natural gas	20	2	18	-
Out of period income	56	7	49	-
Leases of Company-owned property	1	1	-	-
Sundry items	12	13	(1)	n.m.
Total	**119**	**35**	**84**	**240.0%**

Out-of-period income reflects a reduction of the penalties paid for using the strategic gas reserve during the first quarter of 2005 and the portion attributable to the second half of 2005 of the benefit generated by renegotiating the price paid for natural gas under long-term contracts with ENI.

22. Raw Materials and Services Used

The cost of raw materials and services used, which rose in tandem with sales revenues, totaled 2,157 million euros, or 37.2% more than in the first six months of 2005. A breakdown is as follows:

(in millions of euros)	First half 2006	First half 2005	Change	% change
Purchases of:				
- Natural gas	1,522	1,075	447	41.6%
- Electric power	27	26	1	3.8%
- Blast furnace, recycled and coke furnace gas	190	113	77	68.1%
- Oil and other fuels	32	14	18	128.6%
- Demineralized industrial water	16	13	3	23.1%
- Green certificates	26	16	10	62.5%
- Other materials and utilities	38	17	21	123.5%
Total purchases	1,851	1,274	577	45.3%
- Facilities design, construction and maintenance	44	34	10	29.4%
- Transmission of electric power	4	3	1	33.3%
- Transmission and treatment of natural gas	129	144	(15)	(10.4%)
- Professional services	35	38	(3)	(7.9%)
- Insurance services	9	9	-	0.0%
- Commodity derivatives	17	-	17	(17%)
- Additions to provisions for risks	16	6	10	n.m.
- Writedowns of trade receivables	4	1	3	n.m.
- Change in inventory of work in progress, semifinished goods and finished goods	(6)	5	(11)	n.m.
- Sundry charges	54	58	(4)	(6.9%)
Total	**2,157**	**1,572**	**585**	**37.2%**

Breakdown by Business

(in millions of euros)	First half 2006	First half 2005	Change	% change
Electric power operations	388	275	113	41.1%
Hydrocarbons operations	1,731	1,276	455	35.7%
Corporate activities	38	21	17	81.0%
Total	**2,157**	**1,572**	**585**	**37.2%**

This expense item consists mainly of purchases of natural gas, electric power and other raw materials used in production processes, which totaled 1,851 million euros (+45.3% compared with the first half of 2005). It also includes the cost of blast furnace, recycled and coke oven gases (190 million euros) used as fuel for the production of electric power, and 133 million euros in electric power and natural gas transmission costs (4 million euros and 129 million euros, respectively), which decreased by 10.5% compared with the first half of 2005.

Most of the additions to the provisions for risks were made to recognize the Group's shortfall (12 million euros) in generating a sufficient quantity of CO_2 emission quotas.

Information about the impact of commodity derivatives is provided in a separate note.

23. Labor Costs

At 63 million euros, labor costs were 6 million euros more than in the first half of 2005. A breakdown of the Company's total payroll is provided below:

	Number at 1/1/06	Additions in 1st half 2006	Reductions 1st half 2006	Changes in classification and other changes	Number at 6/30/06	Average for 1st half 2006
Executives	134	1	(8)	1	128	130
Middle managers	332	4	(13)	6	329	328
Office staff	934	17	(10)	3	944	940
Production staff	382	8	(6)	(7)	377	380
Total staff (1)	**1.782**	**30**	**(37)**	**3**	**1.778**	**1.778**

(1) Including transfers among Group companies and promotions to higher classifications.

24 EBITDA

At June 30, 2006, EBITDA amounted to 368 million euros, or 27.8% more than in the same period last year.

25. Depreciation, Amortization and Writedowns

A breakdown of depreciation, amortization and writedowns, which totaled 199 million euros, is provided below:

(in millions of euros)	**First half 2006**	First half 2005	Change	% change
Depreciation of property, plant and equipment	174	126	48	38%
Amortization of of hydrocarbon concessions	11	14	(3)	(21%)
Amortization of other intangible assets	14	2	12	-
Total	**199**	**142**	**57**	**40.14%**

The increase in depreciation compared with the first half of 2005 is due mainly to the commissioning of power plants in Candela, in the second half of 2005 and Altomonte, in February 2006.
As mentioned earlier in this Report, a change was made during the first half of 2006 to the estimates applied to certain facilities of the thermoelectric operations that operate under contracts with the operator of the national transmission grid (GRTN) the financial terms of which were set by the Interministerial Committee on Prices with Ordinance No. 6/1992 (CIP 6/92 Contracts). This change caused depreciation to increase by about 24 million euros.

Amortization of other intangible assets refers almost exclusively to the expensing out of hydrocarbon exploration costs (11 million euros).

26. Net Financial Income (Expense)

Net financial expense came to 111 million euros, or 39 million euros more than in the first six months of 2005.

A breakdown of net financial expense is as follows:

(in millions of euros)	First half 2006	First half 2005
Financial income		
Financial income from financial derivatives	38	61
Financial income from Group companies	10	10
Interest earned on trade receivables	1	-
Interest earned on amounts due from the tax administration	2	3
Other financial income	6	5
Total financial income	**57**	**79**
Financial expense		
Interest paid on bond issues	(70)	(55)
Financial expense from financial derivatives	(49)	(64)
Financial expense paid to Group companies	(11)	(11)
Interest paid to banks	(19)	(12)
Bank fees	(4)	(6)
Interest paid on decommissioning projects	(4)	(3)
Interest paid to other lenders	(2)	(1)
Interest paid in connection with employee severance benefits	(1)	(1)
Other financial expense	(1)	(1)
Total financial expense	**(161)**	**(154)**
Foreign exchange translation gains (losses)		
Foreign exchange translation gains	7	10
Foreign exchange translation losses	(14)	(7)
Net foreign exchange translation gain (loss)	**(7)**	**3**
Net financial income (expense)	**(111)**	**(72)**

Financial expense also includes a charge of 4 million euros that has as its offset a provision for risks related to the decommissioning and remediation of industrial sites by the hydrocarbons operations and a charge of 1 million euros related to the provision for employee severance benefits recognized as a result of the adoption of IAS 19.

As explained earlier in a separate disclosure contained in these notes, the financial impact of interest rate differentials reflects mainly the negative effect (10 million euros) of derivatives that hedge the risk of changes in the prices of raw materials.

27. Income from (Expense on) Equity Investments

The main component of the credit balance of 157 million euros is 169 million euros in dividends from Group companies (the largest contributors were Finel with 70 million euros, Edison Energia with 19 million euros, Serene with 13 million euros, Termica Milazzo with 9 million euros and Edison Trading with 9 million euros), offset in part by writedowns of equity investments totaling 13 million euros (Gever for 9 million euros, Montedison Srl for 3 million euros and Stel for 1 million euros).

28. Other Income (Expense), Net

Other income of 2 million euros is the net result of certain nonrecurring items that are not related directly to the Group's industrial operations. The main items included in this account are:

Income:

- The total of 48 million euros includes 32 million euros from the recognition in earnings of existing provisions, made possible by the cancellation of guarantees provided upon the sale of equity investments and the settlement of certain disputes, and 16 million euros in out-of-period income, 11 million euros of which represent refunds received from the French tax authorities for taxes paid in previous years;

Expense:

- The total of 46 million euros includes 32 million euros added to provisions for risks to cover the penalty imposed by the European Commission on the old Montedison (now Edison) for alleged anticompetitive practices by its former subsidiary Ausimont Spa between 1995 and 2000, 8 million euros added to other provisions for risks, including accrued statutory interest of 4 million euros and 6 million euros in sundry nonoperating charges.

29. Income Taxes

As detailed in the table below, the income statement shows a net tax credit of 226 million euros (tax credit of 20 million euros at June 30, 2005) made possible primarily by the extraordinary positive impact of the realignment of the amounts at which certain components of property, plant and equipment are carried for tax purposes to the corresponding reporting amounts (202 million euros).

(in millions of euros)	**First half 2006**	First half 2005	Change	% change
Current taxes	108	12	96	88.9%
Net deferred-tax liabilities (assets)	(334)	(32)	(302)	90.4%
Total	**(226)**	**(20)**	**(206)**	**n.m.**

Edison Spa, availing itself of the option provided in the Single Article, Section 469, of Law No. 266 of December 23, 2005 (2006 Budget Law), elected to realign the values assigned for reporting and tax purposes to some of its depreciable assets and pay a 12% substitute tax in lieu of the corresponding liability for corporate income taxes (IRES) and local taxes (IRAP).

The realignment involved the entire amount of the differences between the reporting values (as shown in the financial statements at December 31, 2004 and maintained as of December 31, 2005) and the values assigned for tax purposes to the same assets. The assets involved were chosen at the Company's discretion considering the requirement that the substitute tax was payable on the entire difference attributable to each one of the individual assets thus selected.

The new values thus selected become fully applicable from a tax standpoint and can be used to compute depreciation amounts that are fully deductible for IRES and IRAP purposes starting on the third year after the year when the substitute tax is paid (January 1, 2008, in most cases)

Having adopted these new values for tax purposes, the Company no longer owes future taxes originally recognized in view of the abovementioned valuation differences. Consequently, it no longer needs to recognize any deferred-tax liabilities for taxes owed in the future on valuation differences.

In June 2006, in order to avail itself of the abovementioned value realignment option, Edison Spa paid a substitute tax of about 96 million euros and was then able to utilize provisions for deferred taxes totaling 298 million euros, for a net positive effect of 202 million euros.

In addition to a substitute-tax payment amounting to more than 96 million euros, current taxes include 14 million euros for IRAP and a credit of 1 million euros generated by the filing of a consolidated tax return.

Net deferred-tax assets totaled 334 million euros. This amount is the net result of the following:

- 298 million euros related to the partial realignment by Edison Spa of the carrying amounts and tax values of property, plant and equipment.
- 45 million euros from the positive impact for the period of depreciation and writedowns of property, plant and equipment generated by the adoption of fair value measurement upon transition.
- 46 million euros from the utilization of the deferred-tax assets attributable by the tax loss carryforward balance at December 31, 2005.
- 39 million euros from the recognition of new deferred-tax assets stemming from the recoverability of provisions for risks and other items with the potential of generating temporary differences.

A breakdown of deferred-tax liabilities and assets is as follows:

(in millions of euros)	12/31/05	Additions	Utilizations	IAS 39 to Sharehold. equity	Reclassifications	**6/30/06**
Provision for deferred taxes:						
Valuation difference of property, plant and equipment	794	-	(342)	-	-	452
Adoption of IAS 17 to value finance leases	32	-	(3)	-	-	29
Adoption of IAS 39 to value financial instruments:						
- impact on the income statement	5	-	(2)	-	-	3
- impact on shareholders' equity	5	-	-	-	-	5
	836	**-**	**(347)**	**-**	**-**	**489**
Deferred-tax assets:						
Tax loss carryforward	46	-	(46)	-	-	-
Taxed reserves for risks	44	39	(4)	-	-	79
Adoption of IAS 39 to value financial instruments:						
- impact on the income statement	-	-	-	-	-	-
- impact on shareholders' equity	4	-	(5)	-	-	(1)
Other deferred-tax assets	-	2	-	-	-	2
	94	**41**	**(55)**	**-**	**-**	**80**

CONTINGENT COMMITMENTS AND RISKS

(in millions of euros)	**6/30/2006**	12/31/2005	Change
Guarantees provided	2,594	2,658	(64)
Collateral provided	1,421	1,639	(218)
Other commitments and risks	594	631	(37)
Total	**4,609**	**4,928**	**(319)**

Guarantees Provided

Guarantees provided of 2,594 million euros include the following:

- 772 million euros in guarantees provided to the Milan VAT office on behalf of subsidiaries for offsetting VAT credits and those provided to subsidiaries in connection with the intra-Group assignment of tax credits.
- 59 million euros for a counterguarantee provided to secure the obligation undertaken by the Bluefare Ltd affiliate toward The Royal Bank of Scotland Plc, which owns a put option for the Edipower shares it holds (equal to 5% of the share capital of Edipower Spa). This option is exercisable starting on the fifth year after the signing of the Coinvestment Agreement. If Bluefare Ltd fails to perform its obligation, the industrial shareholders of Edipower can be held jointly responsible, but they retain the right to pursue Bluefare Ltd.
- 96 million euros in sureties provided by Edison Spa to banks to secure project financing, facilities and credit lines provided to Group companies.
- 25 million euros for a commitment to provide capital and/or a subordinated loan to fund Edipower's financial needs in connection with its repowering plan (Repowering Equity Contribution Agreement).
- 611 million euros for guarantees provided mostly to customers of Tecnimont Spa (590 million euros) and Protecma Srl (21 million euros) for the performance of supply contracts.

In addition, as part of the refinancing of Edipower Spa, Edison Spa has agreed to provide this affiliated company with sufficient additional capital and/or subordinated financing to guarantee the successful implementation of Edipower's repowering program in terms of capital expenditure overruns, delays in implementation and power, efficiency and performance of the power plants upon completion of the repowering program (coverage of cost overruns, defects liability costs and underperformances) that Edipower Spa may incur in connection with its repowering program (100 million euros) – (Completion Equity Contribution Agreement).

Moreover, pursuant to the Tolling and Power Purchasing Agreements, Edison is responsible for the commercial obligations undertaken by its Edison Trading Spa subsidiary toward Edipower Spa for a maximum amount of 50 million euros and for any cancellation of the abovementioned contracts, but only in the event of serious default or insolvency by Edison Trading (300 million euros).

Collateral Provided

Collateral provided totaled 1,421 million euros. It consists primarily of Edipower Spa shares (801 million euros) pledged to banks to secure financing. Collateral for liabilities listed on the balance sheet refers to mortgages that have not yet been cancelled even though the underlying loans has been repaid (534 million euros) and liens provided to secure financing (50 million euros).

Other Commitments and Risks

The largest components of other commitments and risks of 594 million euros include:

- 182 million euros related to the potential exercise of a put option by Edison's financial shareholders, which would cause Edison Spa to purchase a 7.5% interest in Edipower. This option is exercisable starting in 2007.
- 233 million euros for commitments undertaken in connection with the construction of facilities.
- 4 million euros representing the value of VAT credits offset against liabilities of subsidiaries that were later absorbed by Edison.

The Company's hydrocarbons operations have entered into contracts for the importation of natural gas. As is usually the case, contracts of this magnitude and of these durations contain take-or-pay clauses that obligate the buyer to pay for any shortage between the stipulated maximum quantities and the quantity actually used (unless the shortage is due to causes not provided for in the contract), with the option for the buyer to make up, at certain conditions, the paid but unused volume over the life of the contract. The import contracts with Russia, Libya and Norway, which are already operational, provide total supplies of 7.4 billion cubic meters of natural gas a year. In addition, the Group signed an import contract with Qatar that calls for deliveries to begin upon completion of an LNG terminal in the Northern Adriatic, which is currently being built and is expected to go on stream in 2007. When this agreement is fully operational, Qatar will supply a total of 6.6 billion cubic meters of natural gas a year.
Payments required as a result of the take-or-pay clause are made on the basis of a price that reflects the contract price but is indexed to current market terms. These contracts have terms ranging between 10 and 25 years. When all of the contracts are fully operational, the annual supply of natural gas will amount to 14 billion cubic meters a year.
In addition:

- Insofar as the electric power operations are concerned, loans received by Termica Milazzo and Termica Celano are secured by a negative pledge of Edison Spa shares and, for Termica Celano, a pledge commitment toward the lender bank, should certain noncompliance conditions occur. Termica Celano Srl granted to its lender banks a special pledge on the equipment of its cogenerating power plant. Termica Milazzo t6granted to its lender banks a mortgage and special pledge on all of the production facilities it owns.
  The loans received by Parco Eolico San Giorgio and Parco Eolico Foiano have been repaid. Consequently, the Agent Bank has been asked to release all guarantees provided under any title.
- On November 30, 2005, further to the terms of the Shareholders' Agreement executed by Edison Spa and Edf International SA that defines Finel's governance structure, Edison Spa purchased a 20% interest in Finel Spa from EdF International SA, which partially exercised its right to terminate its investment in Finel's share capital. Following this transaction, Edison owns 80% of Finel's share capital. The remaining 20% is held by EdF International. The terms of the Shareholders' Agreement executed by the parties on November 26 and 30, 2004, will continue to apply to the remaining 20% of Finel's share capital, giving EdF International the option of selling the remaining 20% of Finel's share capital starting on December 1, 2006.
- As part of the agreements among the shareholders of RCS Mediagroup who are members of the Blocking and Consultation Syndicate, any Participant who, in response to a tender offer, wishes to exit the Syndicate will be required to sell the syndicated shares to the other Participants. The buyers will have the right, but not the obligation, to buy the shares that are being offered in proportion to the percentage of the shares they contributed to the Syndicate.
- The agreement executed in connection with the sale of Terminale GNL Adriatico Srl includes the following conditions:
  - For all shareholders, the obligation not to transfer their equity interest until 36 months have passed from the startup of the terminal, but, in any case, not later than July 1, 2011 (lockup clause).

  - For Edison, the right to buy the 90% it does not own or sell its 10% upon the occurrence of certain events, for which Edison is not responsible, that would prevent the construction of the terminal (put-and-call clause).
  - For the two majority shareholders, the right to buy the 10% interest held by Edison if the supply contract with RasGas should be cancelled for reasons for which Edison is responsible (call clause).
  - A price for the sale of shares if the put or call options are exercised, which will be determined based on the value of the advances on future capital contributions provided up to that point.
  - A commitment by the shareholders, each for its pro rata share, to provide the company with sufficient financial resources to build the terminal. Once the terminal that is being built in the Northern Adriatic has been completed, Edison, while owning just 10% of the infrastructure, will become its main user and will have access to about 80% of the terminal's gasification capacity for 25 years.
- Edison provided Cartiere Burgo Spa with a call option on 51% of Gever's share capital. This option will become exercisable upon the expiration of the contract pursuant to which Gever supplies Cartiere Burgo with electric power and steam (by 2017) at a price equal to the corresponding pro rata share of the company's shareholder's equity.

Milano, 2 agosto 2006

Per il Consiglio di Amministrazione
Il Presidente
Giuliano Zuccoli

LIST OF EQUITY INVESTMENTS
at June 30, 2006

LIST OF EQUITY INVESTMENTS

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
A.1) Equity Investments in Subsidiaries							
Atema Ltd	Dublin (IE)						
Balance at 6/30/06		EUR	1,500,000	0.50	100.000	3,000,000	1,381,681
Biomasse Emilia Romagna Srl in liquidation (*)	Cesena (FC)						
Balance at 6/30/06		EUR	10,000	-	51.000	5,100	1
Calbiotech Srl in bankruptcy	Ravenna						
Balance at 6/30/06		LIT	90,000,000	-	55.000	49,500,000	1
Calcestruzzi Palermo Srl in receivership (single shareholder)	Palermo						
Balance at 6/30/06		EUR	108,360	-	100.000	108,360	1
Consorzio di Sarmato Soc. Cons. P.A.	Milan						
Balance at 6/30/06		EUR	200,000	1.00	52.500	105,000	98,849
Ecofuture Srl (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	10,200	-	100.000	10,200	359,801
Edison D.G. Spa (single shareholder) (*)	Selvazzano Dentro (PD)						
Balance at 6/30/06		EUR	460,000	1.00	100.000	460,000	42,467,948
Edison Energia Spa (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	22,000,000	1.00	100.000	22,000,000	44,978,075
Edison Energie Speciali Spa (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	4,200,000	1.00	100.000	4,200,000	205,242,647
Edison Gas Espana Sa (Sociedad Unipersonal en liq.)	Barcelona (ES)						
Balance at 6/30/06		EUR	60,200	1.00	100.000	60,200	1
Edison Hellas Sa	Athens (GR)						
Balance at 6/30/06		EUR	263,700	2.93	100.000	90,000	179,458
Edison International Spa (*)	Milan						
Balance at 6/30/06		EUR	17,850,000	1.00	70.000	12,495,000	53,978,794
Edison Stoccaggio Spa (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	81,497,301	1.00	100.000	81,497,301	81,497,301
Edison Trading Spa (single sharehold.) (*)	Milan						
Balance at 6/30/06		EUR	30,000,000	1.00	100.000	30,000,000	30,000,000
Edison Treasury Service Srl	Conegliano						
Balance at 6/30/06		EUR	10,000	1.00	100.000	10,000	10,000
Euroil Exploration Ltd	London (GB)						
Balance at 6/30/06		GBP	9,250,000	1.00	0.000	1	950
Ferruzzi Trading France Sa in liquidation	Paris (FR)						
Balance at 6/30/06		EUR	7,622,451	15.24	99.999	499,997	5,860,389

Company	Head office	Share capital			% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
		Currency	Amount	Par value per share			
Finanziaria di Partecipazioni Elettriche - Finel Spa (*)	Milan						
Balance at 6/30/06		EUR	194,000,000	1.00	60.000	116,400,000	520,917,888
Finimeg Spa in liquidation (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	2,425,200	1.00	100.000	2,425,200	2,023,652
Frigotecnica Srl in liquidation (single shareholder) (in receivership)	Palermo						
Balance at 6/30/06		EUR	76,500	-	100.000	76,500	1
Gever Spa (pledged shares)	Milan						
Balance at 6/30/06		EUR	10,500,000	1,000.00	51.000	5,355	9,255,699
Hydro Power Energy HPE Srl (single shareholder)	Bolzano						
Balance at 6/30/06		EUR	50,000	-	100.000	-	50,000
Jesi Energia Spa (*)	Milan						
Balance at 6/30/06		EUR	5,350,000	1.00	70.000	3,745,000	15,537,145
Monsei Esco Srl (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	60,000	-	100.000	100,000	105,527
Montedison Srl (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	2,583,000	-	100.000	2,583,000	5,423,162
Montedison Finance Europe Nv	Amsterdam (NL)						
Balance at 6/30/06		EUR	4,537,803	1.00	100.000	4,537,803	2,591,066
Nuova Alba Srl (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	2,016,457	-	100.000	2,016,457	1,889,854
Nuova C.I.S.A. Spa in liquidation (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	1,549,350	1.00	100.000	1,549,350	389,861
Sarmato Energia Spa	Milan						
Balance at 6/30/06		EUR	14,420,000	1.00	61.000	8,796,200	35,575,744
Selm Holding International Sa	Luxembourg						
Balance at 6/30/06		EUR	24,000,000	120.00	99.950	199,900	49,696,348
Società Generale per Progettazioni Consulenze e Partecipazioni Spa (under extraordinary administration)	Rome						
Balance at 6/30/06		LIT	300,000,000	10,000.00	59.333	17,800	1
Stel Spa	Milan						
Balance at 6/30/06		EUR	1,000,000	1.00	75.000	750,000	1
Termica Boffalora Srl (*)	Milan						
Balance at 6/30/06		EUR	14,220,000	-	70.000	9,954,000	21,871,331

Company	Head office	Share capital			% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
		Currency	Amount	Par value per share			
Termica Celano Srl (*)	Milan						
Balance at 6/30/06		EUR	259,000	-	70.000	181,300	40,345,690
Termica Cologno Srl (*)	Milan						
Balance at 6/30/06		EUR	9,296,220	-	65.000	6,042,543	6,069,782
Termica Milazzo Srl (*)	Milan						
Balance at 6/30/06		EUR	23,241,000	-	60.000	13,944,600	69,957,191
Volta Spa	Milan						
Balance at 6/30/06		EUR	130,000	1.00	51.000	66,300	66,300
Total A.1) Equity investments in subsidiaries							**1,247,822,140**

Company	Head office	Share capital			% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
		Currency	Amount	Par value per share			

A.2) Equity Investments in Affiliated Companies

Company	Head office	Currency	Amount	Par value per share	% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
Bluefare Ltd	London (GB)						
Balance at 6/30/06		GBP	1,000	0.01	50.000	50,000	30,061
Blumet Spa	Reggio Emilia						
Balance at 6/30/06		EUR	7,600,000	1.00	25.791	2,151,982	2,151,982
Coniel Spa in liquidation	Rome						
Balance at 6/30/06		EUR	1,020	0.51	35.250	705	308
Consorzio Montoro	Narni (TR)						
Balance at 6/30/06		EUR	4,000	-	25.000	1,000	1,000
Edipower Spa	Milan						
Balance at 6/30/06		EUR	1,441,300,000	1.00	40.000	576,520,000	800,534,250
ESTGAS Spa	Udine						
Balance at 6/30/06		EUR	750,000	1.00	22.000	165,000	165,000
Eta 3 Spa	Arezzo						
Balance at 6/30/06		EUR	2,000,000	1.00	33.013	660,262	660,262
Finsavi Srl in receivership (shares under attachment)	Palermo						
Balance at 6/30/06		EUR	18,698	-	50.000	9,349	1
GASCO Spa	Bressanone (BZ)						
Balance at 6/30/06		EUR	500,000	1.00	28.000	140,000	140,000
Ibiritermo Sa (pledged shares)	Ibiritè (BR)						
Balance at 6/30/06		BRL	7,651,814	1.00	50.000	3,825,907	1,161,904
Inica Sarl in liquidation	Lisbon (PT)						
Balance at 6/30/06		PTE	1,000,000	-	20.000	200,000	1
International Water Holdings Bv	Amsterdam (NL)						
Balance at 6/30/06		EUR	40,000	10.00	50.000	2,000	20,658,497
Kraftwerke Hinterrhein (KHR) Ag	Thusis (CH)						
Balance at 6/30/06		CHF	100,000,000	1,000.00	20.000	20,000	11,362,052
Prometeo Spa	Osimo (AN)						
Balance at 6/30/06		EUR	1,938,743	1.00	21.000	407,136	451,289
Roma Energia Srl	Rome						
Balance at 6/30/06		EUR	50,000	-	35.000	17,500	455,000
Rosfid Srl in liquidation	Milan						
Balance at 6/30/06		LIT	46,000,000	-	42.285	19,451,000	1
SAT Servizi Ambiente Territorio Spa	Sassuolo (MO)						
Balance at 6/30/06		EUR	27,752,560	5.17	40.000	2,147,199	21,198,044
Sel Edison Spa	Castelbello (BZ)						
Balance at 6/30/06		EUR	84,798,000	1.0	42.000	35,615,160	35,615,160
Serene Spa	Milan						
Balance at 6/30/06		EUR	25,800,000	5.16	66.316	3,315,789	81,875,160

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
Sistemi di Energia Spa	Milan						
Balance at 6/30/06		EUR	10,500,000	1.00	37.886	3,978,004	3,855,939
Syremont Spa	Messina						
Balance at 6/30/06		EUR	750,000	1.00	40.000	300,000	400
Società Gasdotti Algeria Italia - Galsi Spa	Milan						
Balance at 6/30/06		EUR	3,100,000	0.35	18.000	900,000	1,278,000
Utilità Spa	Milan						
Balance at 6/30/06		EUR	2,307,692	1.00	35.000	807,692	807,692
Total A.2) Equity investments in affiliated companies							**982,402,003**
Total A - Equity investments							**2,230,224,143**

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
Equity Investments in Subsidiaries							
DISCONTINUED OPERATIONS							
Edison Rete Spa (single shareholder) (*)	Milan						
Balance at 6/30/06		EUR	106,778,200	1.00	100.000	106,778,200	160,524,093
Total discontinued operations							**160,524,093**

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
B.1) Equity Investments Held for Sale (Unlisted)							
Cerset Srl	Bari						
Balance at 6/30/06		EUR	116,241	-	0.060	70	222
Cesi Spa	Milan						
Balance at 6/30/06		EUR	8,550,000	2.50	1.055	36,065	142,910
C.I.S.A. Spa (pledged shares)	Massafra (TA)						
Balance at 6/30/06		EUR	1,560,000	5.20	6.667	20,000	-
Compagnia Paramatti Finanziaria Spa	Milan						
Balance at 6/30/06		LIT	268,611,102	-	0.005	3,992	1
Costruttori Romani Riuniti Grandi Opere Spa	Rome						
Balance at 6/30/06		EUR	5,164,568	8,186.07	0.317	2	25,823
Emittenti Titoli Spa	Milan						
Balance at 6/30/06		EUR	4,264,000	0.52	3.890	319,000	164,263
European Energy Exchange Ag - EEX	Leipzig (DE)						
Balance at 6/30/06		EUR	40,050,000	1.00	0.749	300,000	660,000
Finligure Spa (in bankruptcy)	Genoa						
Balance at 6/30/06		LIT	6,261,874,080	3,135	0.035	700	1
Finutenti Spezia Srl in liquidation	La Spezia						
Balance at 6/30/06		EUR	575,841	-	0.448	2,582	1,937
Fornara Spa (under extraordinary administration)	Turin						
Balance at 6/30/06		EUR	52,375,700	0.26	0.000	63	77
Gerolimich Spa in liquidation	Milan						
Balance at 6/30/06		EUR	79,455,600	0.30	0.000	20	4
Idroenergia Scrl	Chatillon (AO)						
Balance at 6/30/06		EUR	774,000	-	0.133	1,032	1,032
Idrovia Ticino Milano Nord Venezia Spa in liquidation	Brescia						
Balance at 6/30/06		LIT	509,370,000	10,000	2.146	1,093	1
Immobiliare Caprazucca Spa	Parma						
Balance at 6/30/06		EUR	7,517,948	0.43	0.003	546	1
Ipse 2000 Spa	Rome						
Balance at 6/30/06		EUR	150,500,000	0.07	7.910	170,065,000	-
Istituto Europeo di Oncologia Srl	Milan						
Balance at 6/30/06		EUR	57,305,382	-	5.361	3,451,632	3,523,842
Istituto Immobiliare di Catania Istica Spa	Catania						
Balance at 6/30/06		EUR	6,200,000	3.10	0.058	1,150	1

Company	Head office	Share capital			% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
		Currency	Amount	Par value per share			
Istituto per l'Enciclopedia della Banca e della Borsa Spa ora Associazione Nazionale per l'Enciclopedia della Banca e della Borsa	Rome						
Balance at 6/30/06		EUR	502,116	1.55	0.370	1,200	8,615
I.SV.E.UR. Spa	Rome						
Balance at 6/30/06		EUR	2,500,000	1,000.00	1.000	25	5,620
Mandelli Spa (under extraordinary administration)	Piacenza						
Balance at 6/30/06		EUR	10,200,000	0.51	0.000	11	13
Nomisma - Società di studi economici Spa	Bologna						
Balance at 6/30/06		EUR	5,345,328	0.37	2.215	320,000	107,473
Pro.Cal Scrl (in bankruptcy)	Naples						
Balance at 6/30/06		LIT	500,000,000	-	4.348	21,739,000	11,228
R.E.A. (Regional Energy Agency) Spa	Florence						
Balance at 6/30/06		EUR	518,000	518.00	1.000	10	1,295
Reggente Spa	Lucera (FG)						
Balance at 6/30/06		EUR	260,000	0.52	5.209	26,043	13,450
Sago Spa	Firenze						
Balance at 6/30/06		EUR	976,005	2.07	1.188	5,600	15,260
Servizi Territoriali Est Trentino Spa - STET Spa	Pergine V. (TN)						
Balance at 6/30/06		EUR	22,439,400	1.00	0.116	26,063	25,823
Consorzio Sirio per la sicurezza industriale ora Sirio - Sicurezza Industriale Scpa - Sirio Scpa	Turin						
Balance at 6/30/06		EUR	120,000	1.00	0.259	311.00	27
Sistemi Formativi Confindustria Scpa	Rome						
Balance at 6/30/06		EUR	236,022	516.46	6.565	30	15,494
Sistema Permanente di Servizi Spa (in bankruptcy)	Rome						
Balance at 6/30/06		EUR	154,950	51.65	12.600	378	1
Trentino Servizi Spa - T.S. Spa	Rovereto (TN)						
Balance at 6/30/06		EUR	224,790,159	1.00	0.010	22,250	25,823
Unione Manifatture Spa in liquidation	Milan						
Balance at 6/30/06		EUR	117,248,793	1.57	0.000	12	7
Terminale GNL Adriatico Srl	Rome						
Balance at 6/30/06		EUR	10,000,000	1.00	10.000	1,000,000	39,834,380
3R Associati Srl in liquidation	Bergamo						
Balance at 6/30/06		EUR	10,000	1.00	0.180	17.98	387,343
Total B.1) Equity investments held for sale (unlisted)							**44,971,967**

Company	Head office	Share capital			% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
		Currency	Amount	Par value per share			
B.2) Equity Investments Held for Sale (Listed)							
RCS Mediagroup Spa	Milan						
Balance at 6/30/06		EUR	762,019,050	1.00	1.011	7,406,487	29,640,761
Total B.2) Equity investments held for sale (listed)							**29,640,761**
Total B - Equity investments held for sale							**74,612,728**

Company	Head office	Share capital			% interest held in share capital	No. of shares or face value of capital interests held	Net carrying value
		Currency	Amount	Par value per share			
C) Equity Investments Held for Trading							
Acegas - APS Spa	Trieste						
Balance at 6/30/06		EUR	282,983,213	5.16	1.298	712,000	4,951,248
ACSM Spa	Como						
Balance at 6/30/06		EUR	37,496,500	1.00	3.968	1,488,000	3,321,216
American Superconductor Corp.	Westborough (USA)						
Balance at 6/30/06		USD	19,128,000	1.00	0.836	160,000	1,111,303
Total C - Equity investments held for trading							**9,383,767**

(*) Company over which Edison Spa exercises management and coordination authority.

The currency codes used in this report are those of the ISO 4217 International Standard.

AUD Australian dollar	HRK Croatian kuna
BRL Brazilian real	LIT Italian lira
CAD Canadian dollar	PTE Portuguese escudo
CHF Swiss franc	SGD Singapore dollar
EGP Egyptian pound	NLG Dutch guilder
EUR euro	USD U.S. dollar
GBP British pound	XAF Central African franc

ANNEX

Transition to the International Financial Reporting Standards (IAS/IFRS) in the Separate Financial Statements of Edison Spa

CONTEST

TRANSITION TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IAS/IFRS) IN THE SEPARATE FINANCIAL STATEMENTS OF EDISON SPA

Starting with the current fiscal year, Legislative Decree No. 38 of February 28, 2005, "Exercise of the Options Provided Under EC Regulation No. 1606/2002 on the International Financial Reporting Standards," requires all issuers of securities, including Edison Spa, to prepare their statutory financial statements (so-called separate financial statements) in accordance with the international financial reporting standards (IAS/IFRS) published by the International Accounting Standards Board (IASB) and published in the Official Journal of the European Union (OJEU).

Specifically, this document, which was prepared in accordance with IFRS 1, "First-time Adoption of the International Financial Reporting Standards," explains the following:

- Reconciliation of shareholders' equity and consolidated profit or loss for the period in accordance with the old accounting principles used by Edison Spa (Italian accounting principles), along with the accompanying notes, to the IAS/IFRS principles:
  - at the date of transition (i.e., January 1, 2004);
  - at December 31, 2004;
  - at June 30, 2005;
  - at December 31, 2005;
- The reference international financial reporting standards and the valuation criteria adopted by the Edison Group as of January 1, 2004 are explained in the chapter of the Semiannual Report entitled "Accounting Principles and Valuation Criteria," which should be consulted for additional information. Please note that IAS 32 and IAS 39 have been applied as of January 1, 2005. This process is explained in the reconciliation of 2005 shareholders' equity, which contains a separate column showing the impact of first-time adoption of these standards.

The information provided with regard to the IAS/IFRS transition process also includes a balance sheet at January 1, 2004 and a balance sheet and income statement at December 31, 2004, June 30, 2005 and December 31, 2005. All of these schedules provide a reconciliation to the statements prepared in accordance with the old accounting principles.

The accompanying notes included in this document have been prepared exclusively for IFRS transition purposes. They do not constitute the complete set of notes that must accompany the financial statements in accordance with IFRS requirements.

This document has been audited.
For the sake of a more comprehensive presentation, this document also includes schedules showing a reconciliation of shareholders' equity and consolidated profit or loss at June 30, 2005. It is important to note that the data contained in these schedules are not covered by the Independent Auditors' Report annexed to this document. Because the data involved are comparative data, reference should be made to the Independent Auditors' Report annexed to the Consolidated Semiannual Report at June 30, 2006.

DESCRIPTION OF THE MAIN ADJUSTMENTS MADE UPON TRANSITION TO THE IAS/IFRS PRINCIPLES (RECONCILIATION SCHEDULES REQUIRED BY IFRS 1)

IFRS 1 requires that on the date of transition to the IAS/IFRS principles (i.e., January 1, 2004) an entity prepare a consolidated opening balance sheet (also called first-time adoption balance sheet) in which it:

- Recognized all and only the assets and liabilities whose recognition is required by the IAS/IFRS principles;
- Measured the assets and liabilities at the values that would have resulted had the IAS/IFRS principles been applied retrospectively;
- Reclassified those balance sheet items that it had recognized in the past in accordance with methods other than those provided under IAS/IFRS principles.

The effect of the adjustments made to the opening balances of the various asset and liability accounts to make them consistent with the new IAS/IFRS principles, net of the applicable tax effect, has been recognized in an equity reserve.

The restatement of the first-time adoption balance sheet as of the date of transition to the IAS/IFRS principles first required the selection of optional exemptions allowed under IFRS 1. The main exemption options allowed under IFRS 1 and adopted in the separate financial statements of Edison Spa (which are the same as those used in the consolidated financial statements for IAS/IFRS transition purposes) are as follows:

- IFRS 3 was not applied retrospectively to business combinations completed prior to January 1, 2004.
- The fair value as deemed cost was applied selectively to property, plant and equipment and to investment property at January 1, 2004. Following initial recognition, the cost model was used as the valuation criterion for these assets.
- The cumulative impact of the valuation, on an actuarial basis, of benefits payable to employees after termination of employment (mainly the "Provision for employee severance indemnities") upon first-time adoption of IAS 19 was recognized fully in the transition entries.
- IAS 32 and IAS 39, which concern the classification, measurement and valuation of financial instruments, were applied as of January 1, 2005.

For greater clarity, the accounting treatment applied upon transition to certain significant items is explained below. This treatment, which is consistent with the general rules of the Framework, deals specifically with the following issues:

1) Valuation of investments in associates
2) Mergers by absorption
3) Goodwill

1. Determining the Cost of Investments in Associates

Edison values investments in associates at cost. The cost of investments in associates was recomputed by retroactively applying the IAS/IFRS principles and the general principles contained in the Framework. The time horizon considered for recomputing the cost of investments in associates begins on the date when Italenergia (now called Edison Spa) acquired control of the Montedison Group, which occurred in September 2001. The cost of the investments in associates on the date of the abovementioned acquisition was deemed to have been equal to the equity contribution value in the consolidated financial statements prepared in accordance with Italian principles. This approach is based on the assumption that the Edison reporting entity that prepares separate financial statements is the same one that prepares the consolidated financial statements. It is also consistent with the choice made by Edison in the transition consolidated financial statements to avail itself of the IFRS 1 option of not applying IFRS 3 retrospectively (so-called "reopening business combinations that predate the transition date").
In addition, the writedowns recognized in the financial statements that were prepared in accordance with Italian accounting principles were recomputed by applying IAS 36 rules.

2. Mergers by Absorption

These transactions, which in the statutory financial statements are effective retroactively to the beginning of the fiscal year for reporting and tax purposes, were not deemed to be business combinations, because they did not entail the acquisition of control, having been carried out merely for streamlining and simplification purposes and to shorten the Group's organizational chain of control. This approach is also supported by the consideration made above about Edison being the same reporting entity that prepares both the separate company financial statements and the consolidated financial statements. Since IFRS 3 is not applicable, Edison, as required by IAS 8, Paragraph 10, relied on the general rules provided in the Framework and on published IAS/IFRS principles that deal with the issue of continuity of values of assets and liabilities of absorbed companies. Accordingly, these assets and liabilities were incorporated in the financial statements of the absorbing company at the values that they had in the consolidated financial statements on the date merger (which, according to practice, is the same as the nearest quarterly balance sheet). Any gains upon merger generated by the offsetting of the carrying values of investments in associates were posted directly to equity reserves. Any losses upon merger were allocated to goodwill. And finally, the results of the absorbed companies were recognized exclusively by the absorbing company as of the date of merger.

3. Goodwill

With regard to the goodwill recognized in the separate financial statements of Edison Spa on the transition date, it is important to keep in mind that it is the product of mergers by absorption carried out in previous years and that is was accounted for in accordance with Italian accounting principles. Since these transactions involved companies over which the absorbing company already had control (strictly speaking), they cannot be viewed as business combinations, even though, in practice, they have the effect of a statutory consolidation in the financial statements of the Group's Parent Company of entities that originally had been the subject of actual acquisitions for consolidated financial statement purposes.
In light of the uncertainty that exists at this point with regard to the accounting treatment that should be applied to the transactions described above in the separate IAS/IFRS financial statements and considering that clarifications on this issue are expected in the future, the Company took the conservative approach of opting for a continuity of values, with separate financial statements prepared in accordance with Italian accounting principles.

Financial Statement Schedules

The new financial statement schedules have the following characteristics: the balance sheet has been reclassified based on the type of degree of liquidity of the assets and the destination and maturity of the liabilities; the income statement is of the step-by-step type, with the different components analyzed by type.

DESCRIPTION OF THE MAIN ADJUSTMENTS MADE TO THE SEPARATE FINANCIAL STATEMENTS OF EDISON SPA AND IN THE IAS/IFRS TRANSITION SCHEDULES

An analysis by type of the main adjustments made for IAS/IFRS transition purposes is provided below. The comments that follow apply to all reference periods to which reference is made in the transition document. The comments to the adjustments made to the balance sheet and the income statement have been numbered in ascending order. In the reconciliation schedules that follow, each column header lists for easy reference the number of the corresponding note below that applies to each instance.

The following adjustments were made to the balance sheet:

1) **Use of fair value as deemed cost to measure non-current assets for transition purposes (IFRS 1, IAS 16):** Edison selectively applied fair value as deemed cost to items of property, plant and equipment when preparing transitional financial statements. A provision was set aside to cover the resulting deferred-tax liability.
   The value of these assets also reflects decommissioning costs, which were added directly to the carrying amount of the underlying asset, but were offset by a provision for risks of equal amount.
   Insofar as the result for the period is concerned, this adjustment produced an increase in depreciation. The impact of this change compounded the effect of the new depreciation-by-component method introduced by IAS 16.
2) **Derecognition of intangible assets and derecognition of goodwill (IAS 38, IFRS 3):** Certain types of costs that produce benefits over many years (mainly startup and expansion costs) can no longer be capitalized. The corresponding net carrying amounts on the transition date were therefore derecognized, with the offsetting entry posted to a reserve account.
   The adjustments shown for subsequent periods derive from the combined effect of the derecognition upon transition and the failure to capitalize costs incurred during the year.
   Moreover, as of January 1, 2004, in accordance with the provisions of IFRS 3, goodwill is no longer amortizable. Consequently, the goodwill originally recognized was derecognized, with a positive impact on the income statement.
3) **Valuation of Finance Leases (IAS 17):** The lessee must recognize on its balance sheet the assets it holds under a finance lease, showing indebtedness of an equal amount among the liabilities.
   Assets should be depreciated based on their remaining useful lives, with the corresponding liability amortized over the term of the lease. Annual lease installments paid should be broken down between principal, which will reduce indebtedness, and interest, which will be posted to the income statement as a financial expense.
   Lastly, the adoption of IFRIC 4 had no impact on the separate financial statements.
4) **Computation of the cost of investments in associates (IAS 27, 28, 31 and 36):** The computation of the cost of investments in associates is discussed in separate paragraph earlier in this document.
5) **Derecognition of dividends (IAS 18):** Under IAS 18, dividends can be recognized only after a resolution authorizing their distribution is approved. Consequently, dividends that were recognized on an accrual basis were derecognized and the corresponding receivables were cancelled.
6) **Property held in inventory (IAS 40):** These assets were reclassified to a new balance sheet item called "Investment property" and depreciated.
7) **Adoption of IAS 32 and IAS 39:** These principles were adopted as of January 1, 2005. The main types of adjustments made are reviewed below:
   a. **Adoption of amortized cost to value indebtedness and bond issues:** IAS 39 introduces a new criterion for determining the cost of borrowings. Specifically, the costs incurred to secure a loan (transaction costs) and any issue premium or discounts are posted as adjustments directly to the face value of the loan. The net borrowing costs for the period are then recomputed in accordance with the effective interest rate method (amortized costs). For all loans outstanding at January 1, 2005, the interest charges recognized at regular intervals on all borrowings outstanding from the date when the loans were first received (initial recognition) until the transition date (December 31, 2004) were recomputed as if IAS 39 had been applied to these loans since inception. The finan-

cial expense for the period was recomputed in accordance with this new rule.

b. **Recognition of gains (losses) from the valuation of derivatives that do not qualify as hedges under IAS 39:** IAS 39 requires that all derivates be recognized at fair value in the financial statements. Gains and losses from the valuation at fair value of interest rate and foreign exchange derivatives that do not qualify as hedges under IAS 39 were also recognized. The Group executes these derivative contracts solely for the purpose of hedging the risk of fluctuations in interest rates and foreign exchange rates (economic hedges).
c. **Revaluation (Writedown) of cash flow hedge derivatives:** These adjustments reflect the measurement at fair value of derivatives that qualify as cash flow hedges under IAS 39. The Edison Group has applied to these derivatives the alternative cash-flow hedge method provided by IAS 39, after ascertaining the existence of an effective hedging relationship.
d. **Revaluation (Writedown) of available-for-sale investments:** Investments in associates that are not held to gain control or for partnering or trading purposes belong to a residual category of investments that IAS 39 calls "available-for-sale equity investments." These assets are measured at fair value and any resulting gain or loss is posted to the equity reserves.

8) **Sundry adjustments:** These items stem primarily from the revaluation of the provisions for pensions and provision for employee severance indemnities, in accordance with actuarial criteria and the derecognition of treasury stock reflected in the financial statements as a deduction from shareholders' equity.
9) **Reclassifications:** Certain financial statement items were reclassified in accordance with the new classification criteria set forth in IAS 1 and to take into account the general rules contained in the Framework or specific IAS/IFRS principles.

Most of the adjustments made to the income statement were the result of the following:

- The impact of measuring non-current assets at fair value for transition purposes;
- The different treatment applied to mergers by absorption. In particular, in the statutory financial statements, mergers by absorption were treated for reporting purposes as being effective retroactively to the beginning of the year. A review of the general rules contained in the Framework and the principles explained in the IAS/IFRS principles published thus far has shown that, under international financial reporting standards, mergers should be recognized as of the actual date of merger. Consequently, the revenues and expenses of the absorbed companies attributable to the period between the beginning of the year and the effective merger date of each absorbed company that had been included in Edison's income statement were derecognized line by line. This adjustment also had an impact on certain components of shareholders' equity.

More specifically:

1) **Depreciation, amortization and writedowns (IFRS 1, IFRS 3, IAS 16, IAS 36 and IAS 38):** The main reason for the change in depreciation, amortization and writedowns is the derecognition of the amortization of goodwill as required by IFRS 3, which views goodwill as an asset with an indefinite life that should not be amortized. Instead, it should be tested each year for impairment to ascertain the existence of any loss in value.
   The rest of the change reflects differences in the depreciation amount for property, plant and equipment. The difference in depreciation is the combined result of the following factors:
   - the use of fair value as deemed cost, which increased asset values and raised the corresponding depreciation amounts;
   - the requirement to depreciate significant components separately, as required by IAS 16, according to which the depreciation of land and residual values of assets is no longer allowed;
   - the amortization of decommissioning costs, which are capitalized and added to the carrying amount of the underlying asset.

Other factors include:

- The restatement stemming from the reversal of the amortization for the period of capitalized costs that produce benefits over several years was also a factor. These costs were charged to income in the transitional financial statements.
- Certain writedowns were recomputed to take into account the result of impairment tests applied to items of property, plant and equipment and to intangibles, the results of which were compared with the assets' carrying amounts determined using fair value as deemed cost.

2) Labor costs (IAS 19): The provision for employee severance indemnities and the provision for pensions were recomputed by the actuarial method, which produced a change in the charge recognized in earnings. The monetary revaluation of the provisions, which IAS 19 considers a financial expense, was listed separately under "Net financial income (expense)."
3) Financial expense (IAS 16, IAS 19 and IAS 39): The theoretical financial expense that arose from applying actuarial computation methods to discount the provision for employee severance indemnities and the provision for pensions was also charged to income. This adjustment also includes the revaluation of the provision for industrial site decommissioning costs, which are discounted to their present value and added as a separate component to the carrying amount of the underlying asset. In addition, the borrowing costs recognized in the income statement have been recomputed in accordance with the amortized cost method rather than the nominal finance charge. The impact of the adoption of IAS 39 is explained in detail in the notes to the balance sheet.
4) Valuation of Finance Leases (IAS 17): As explained earlier in this report, the lessee must recognize on its balance sheet the assets it holds under a finance lease, showing indebtedness of an equal amount among the liabilities. Assets should be depreciated based on their remaining useful lives. Annual lease installments paid should be broken down between principal, which will reduce indebtedness, and interest, which will be posted to the income statement as a financial expense. As already explained, the adoption of IFRIC 4 had no impact on the separate financial statements.
5) Derecognition of dividends (IAS 18): Under IAS 18, dividends can be recognized only after the right to receive their payment arises. Consequently, dividends that were recognized on an accrual basis were derecognized and dividends that met the abovementioned requirements were recognized.
6) Discontinued operations (IFRS 5): IFRS 5 requires that profit or loss from discontinued operations and the related tax consequences be shown as a separate income statement item called "Profit (Loss) from discontinued operations.
7) Sundry adjustments: These items stem primarily from the revaluation of the provisions for pensions and provision for employee severance indemnities, in accordance with actuarial criteria and the derecognition of treasury stock reflected in the financial statements as a deduction from shareholders' equity.
8) Reclassifications: Certain writedowns of property, plant and equipment and intangible assets have been reclassified from extraordinary expense to depreciation, amortization and writedowns.

IMPACT OF THE ADOPTION OF THE IAS/IFRS PRINCIPLES ON THE BALANCE SHEET OF EDISON SPA AT JANUARY 1, 2004

The statement below presents, in summary form, the balance sheet of Edison Spa at the date of transition to the IAS/IFRS principles. The reclassified balance sheet takes into account the degree of liquidity of the assets and the destination and maturity of the liabilities.
In order to provide a clearer indication of the impact of the transition, the most significant changes affecting items in the financial statements are reviewed individually.

		Note reference No.								
		1	2	1,9	6	3	4	8	9	
January 1, 2004	In accordance with the old accounting principles	IFRS 1	IFRS 3 and IAS 38	IAS 16	IAS 40	IAS 17	IAS 27, 28, 31	Sundry adjustments	Reclassifi-cations	In accordance with IAS/IFRS
ASSETS										
Property, plant and equipment	1,751	1,079	-	46	-	96	-	-	-	2,972
Investment property	-	-	-	-	42	-	-	-	-	42
Goodwill	2,615	-	-	-	-	-	-	-	-	2,615
Hydrocarbon concessions	248	82	-	-	-	-	-	-	-	330
Other intangible assets	44	-	(23)	(6)	-	-	-	-	-	15
Investments in associates	3,409	-	-	-	-	-	(303)	-	(190)	2,916
Available-for-sale investments	-	-	-	-	-	-	-	-	154	154
Other financial assets	122	-	-	-	-	-	-	-	36	158
Deferred-tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	353	-	-	-	-	-	-	-	-	353
Total non-current assets	**8,542**	**1,161**	**(23)**	**40**	**42**	**96**	**(303)**	**-**	**-**	**9,555**
Inventories	151	-	-	(2)	(42)	-	-	-	-	107
Trade receivables	409	-	-	-	-	-	-	-	-	409
Current-tax assets	399	-	-	-	-	-	-	-	-	399
Other receivables	798	-	-	-	-	-	-	-	-	798
Current financial assets	502	-	-	-	-	-	-	-	-	502
Cash and cash equivalents	86	-	-	-	-	-	-	-	-	86
Total current assets	**2,345**	**-**	**-**	**(2)**	**(42)**	**-**	**-**	**-**	**-**	**2,301**
Assets held for sale	**-**									**-**
Total assets	**10,887**	**1,161**	**(23)**	**38**	**-**	**96**	**(303)**	**-**	**-**	**11,856**
LIABILITIES AND SHAREHOLDERS' EQUITY										
Share capital	4,212	-	-	-	-	-	-	-	-	4,212
Equity reserves	80	-	-	-	-	-	-	-	-	80
Other reserves	20	462	(23)	-	-	51	(303)	5	-	212
Retained earnings (Loss carryforward)	(595)	-	-	-	-	-	-	-	-	(595)
Profit (Loss) for the period	144	-	-	-	-	-	-	-	-	144
Total shareholders' equity	**3,861**	**462**	**(23)**	**-**	**-**	**51**	**(303)**	**5**	**-**	**4,053**
Provisions for severance indemnities and pensions	31	-	-	-	-	-	-	(1)	-	30
Provision for deferred taxes	-	699	-	-	-	29	-	-	-	728
Provisions for risks and charges	1,069	-	-	38	-	-	-	-	-	1,107
Bonds	2,030	-	-	-	-	-	-	-	-	2,030
Long-term borrowings and other financial liabilities	291	-	-	-	-	-	-	-	-	291
Other liabilities	111	-	-	-	-	-	-	-	-	111
Total non-current liabilities	**3,532**	**699**	**-**	**38**	**-**	**29**	**-**	**(1)**	**-**	**4,297**
Short-term borrowings	2,840	-	-	-	-	16	-	-	-	2,856
Trade payables	337	-	-	-	-	-	-	-	-	337
Current taxes payable	24	-	-	-	-	-	-	-	-	24
Other liabilities	293	-	-	-	-	-	-	(4)	-	289
Total current liabilities	**3,494**	**-**	**-**	**-**	**-**	**16**	**-**	**(4)**	**-**	**3,506**
Liabilities held for sale	**-**									**-**
Total liabilities and shareholders' equity	**10,887**	**1,161**	**(23)**	**38**	**-**	**96**	**(303)**	**-**	**-**	**11,856**

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

Reconciliation of the Shareholders' Equity of Edison Spa

Opening balance at January 1, 2004, as published	**3,861**
Changes:	
- Use of fair value as deemed cost for transition purposes (net of deferred taxes)	462
- Derecognition of intangible assets	(23)
- Recomputation of the cost of investments in associates	(303)
- Adoption of IAS 17	51
- Sundry adjustments	5
Total changes	**192**
Balance at January 1, 2004, as per IAS principles	**4,053**

FINANCIAL STATEMENTS AT DECEMBER 31, 2004, RESTATED IN ACCORDANCE WITH IAS/IFRS PRINCIPLES

Balance Sheet at December 31, 2004

The statement below presents, in summary form, the balance sheet of Edison Spa at December 31, 2004, prepared in accordance with IAS/IFRS principles. The reclassified balance sheet takes into account the degree of liquidity of the assets and the destination and maturity of the liabilities.

In order to provide a clearer indication of the impact of the transition, the most significant changes affecting items in the financial statements are reviewed individually.

		Note reference No.										
		1	1	2	1, 9	6	4	3	4	8	9	
December 31, 2004	In accordance with the old accounting principles	IFRS 1	IFRS 1 & absorbed companies & IAS 38	IAS 38	IAS 16	IAS 40	IAS 36	IAS 17	IAS 27, 28, 31	Sundry adjust-ments	Reclassi-fications	In accord. with IAS/ IFRS principles
ASSETS												
Property, plant and equipment	2,932	1,013	505	-	47	-	(15)	87	-	-	-	4,569
Investment property	-	-	-	-	4	26	-	-	-	-	-	30
Goodwill	2,725	-	(273)	156	-	-	24	-	-	-	-	2,632
Hydrocarbon concessions	236	75	-	(18)	-	-	(11)	-	-	-	-	282
Other intangible assets	56	-	-	(6)	(31)	-	-	-	-	-	-	19
Investments in associates	2,808	-	-	-	-	-	-	-	(257)	-	(154)	2,397
Available-for-sale investments	-	-	-	-	-	-	-	-	-	-	154	154
Other financial assets	79	-	-	-	-	-	-	-	-	-	-	79
Deferred-tax assets	24	-	-	-	-	-	-	-	-	-	-	24
Other assets	368	-	-	-	-	-	-	-	-	-	-	368
Total non-current assets	**9,228**	**1,088**	**232**	**132**	**20**	**26**	**(2)**	**87**	**(257)**	**-**	**-**	**10,554**
Inventories	212	-	-	-	(7)	(39)	-	-	-	-	-	166
Trade receivables	621	-	-	-	-	-	-	-	-	-	-	621
Current-tax assets	148	-	-	-	-	-	-	-	-	-	-	148
Other receivables	143	-	-	-	-	-	-	-	-	2	-	145
Current financial assets	320	-	-	-	-	-	-	-	-	-	-	320
Cash and cash equivalents	9	-	-	-	-	-	-	-	-	-	-	9
Total current assets	**1,453**	**-**	**-**	**-**	**(7)**	**(39)**	**-**	**-**	**-**	**2**	**-**	**1,409**
Assets held for sale	**-**											**-**
Total assets	**10,681**	**1,088**	**232**	**132**	**13**	**(13)**	**(2)**	**87**	**(257)**	**2**	**-**	**11,963**
LIABILITIES AND SHAREHOLDERS' EQUITY												
Share capital	4,259	-	-	-	-	-	-	-	-	-	-	4,259
Equity reserves	-	-	-	-	-	-	-	-	-	-	-	-
Other reserves	20	463	187	(23)	26	-	-	51	(303)	6	-	427
Retained earnings (Loss carryforward)	(371)	-	-	-	-	-	-	-	-	-	-	(371)
Profit (loss) for the period	312	(27)	(167)	155	(37)	-	(2)	5	46	-	-	285
Total shareholders' equity	**4,220**	**436**	**20**	**132**	**(11)**	**-**	**(2)**	**56**	**(257)**	**6**	**-**	**4,600**
Provision for employee severance indemnities and provisions for pensions	37	-	-	-	-	-	-	-	-	-	-	37
Provision for deferred taxes	15	652	212	-	(15)	-	-	31	-	-	-	895
Provisions for risks and charges	964	-	-	-	39	(13)	-	-	-	-	-	990
Bonds	2,630	-	-	-	-	-	-	-	-	-	-	2,630
Long-term borrowings and other finan. liabil.	392	-	-	-	-	-	-	-	-	-	-	392
Other liabilities	2	-	-	-	-	-	-	-	-	-	-	2
Total non-current liabilities	**4,040**	**652**	**212**	**-**	**24**	**(13)**	**-**	**31**	**-**	**-**	**-**	**4,946**
Short-term borrowings	1,446	-	-	-	-	-	-	-	-	-	-	1,446
Trade payables	595	-	-	-	-	-	-	-	-	-	-	595
Current taxes payable	24	-	-	-	-	-	-	-	-	-	-	24
Other liabilities	356	-	-	-	-	-	-	-	-	(4)	-	352
Total current liabilities	**2,421**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**2,417**
Liabilities held for sale	**-**											**-**
Total liabilities and shareholders' equity	**10,681**	**1,088**	**232**	**132**	**13**	**(13)**	**(2)**	**87**	**(257)**	**2**	**-**	**11,963**

The table below provides a reconciliation of shareholders' equity and shows the main impact of the adoption of the IAS/IFRS principles on the financial statements at December 31, 2004.

Reconciliation of the Shareholders' Equity of Edison Spa

Opening balance at December 31, 2004, as published	**4,220**
Changes:	
- Use of fair value as deemed cost to measure non-current assets for transition purposes (net of deferred taxes)	455
- Derecognition of intangible assets	(23)
- Derecognition of amortization of multi-year costs written off upon transition and sundry differences in depreciation and amortization amounts computed under Italian accounting principles and under IAS/IFRS principles	13
- Adoption of IAS 17	56
- Reversal of the impact of derecognition of tax-related items affecting non-current assets in the statutory financial statements	(69)
- Adjustments made to goodwill, as required by IFRS 3, IAS 38 and IAS 36	181
- Writedowns of non-current assets (IAS 36)	(26)
- Differences in depreciation and amortization amounts computed under Italian accounting principles and under IAS/IFRS principles, computation of decommissioning costs and capitalization of maintenance costs upon transition from Italian to IAS/IFRS principles	42
- Recomputation of the cost of investments in associates	(257)
- Sundry adjustments	8
Total changes	**380**
Balance at December 31, 2004, as per IAS principles	**4,600**

Income Statement for 2004

The schedule below provides a reconciliation of the income statement for 2004, which was prepared in accordance with Italian accounting principles, with the income statement as prepared in accordance with the new international accounting principles.
The income statement prepared in accordance with the IAS/IFRS principles shows a profit of 285 million euros, compared with 312 million euros in the income statement prepared in accordance with Italian accounting principles.

The difference of 27 million euros is the net result of the following items:
Positive differences:
- Less depreciation and amortization attributable mainly to the derecognition of the amortization of goodwill (157 million euros).
- Smaller writedowns of investments in associates due to a recomputation of their historical cost at IAS/IFRS values in the amount of 46 million euros;

Negative differences:
- More depreciation due to the adoption of fair value as deemed cost upon transition (73 million euros), plus the impact of the reversal of deferred-tax liabilities recognized to reflect the increased value attributed under IAS/IFRS principles compared with the historical costs under Italian principles (47 million euros);
- Reversal of the gains generated by the elimination of entries posted to non-current assets recognized exclusively for tax purposes in the financial statements prepared in accordance with Italian principles (net amount of 69 million euros).
- Reversals of the gains or losses booked by absorbed companies (167 million euros) required by the different method used to recognize absorption of subsidiaries, which were recognized retroactively at January 1, 2004 under Italian principles and on the date of merger under the IAS/IFRS principles.

		Note reference No.									
		1	1	1	1, 3	1	4	1	7	8	
December 31, 2004	In accordance with old accounting principles	IFRS 1	IFRS 1 absorbed companies	IAS 38	IAS 16	IAS 36	IAS 17	IAS 27, 28, 31	Sundry adjustments	Reclassifications	In accord. with IAS/IFRS princ.
Sales revenues	3,310	-	(646)	-	-	-	-	-	-	-	2,664
Other revenues and income	81	-	(14)	-	-	-	-	-	-	-	67
Total revenues	**3,391**	**-**	**(660)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,731**
Raw materials and services used (-)	(2,562)	-	426	-	17	-	13	-	-	-	(2,106)
Labor costs (-)	(118)	-	9	-	-	-	-	-	2	-	(107)
EBITDA	**711**	**-**	**(225)**	**-**	**17**	**-**	**13**	**-**	**2**	**-**	**518**
Depreciation, amortization and writedowns (-)	(395)	(73)	57	173	3	(2)	(5)	-	-	-	(242)
EBIT	**316**	**(73)**	**(168)**	**173**	**20**	**(2)**	**8**	**-**	**2**	**-**	**276**
Net financial income (expense)	(211)	-	1	-	(6)	-	-	-	(2)	-	(218)
Income from (Expense on) investm. in associates	210	-	-	-	-	-	-	46	-	-	256
Other income (expense), net	4	(1)	-	(18)	(51)	-	-	-	-	-	(66)
Profit before taxes	**319**	**(74)**	**(167)**	**155**	**(37)**	**(2)**	**8**	**46**	**-**	**-**	**248**
Income taxes	(7)	47	-	-	-	-	(3)	-	-	-	37
Profit (Loss) from continuing operations	**312**	**(27)**	**(167)**	**155**	**(37)**	**(2)**	**5**	**46**	**-**	**-**	**285**
Profit (Loss) from discontinued operations	-										-
Profit (loss) for the period	**312**	**(27)**	**(167)**	**155**	**(37)**	**(2)**	**5**	**46**	**-**	**-**	**285**

SEMIANNUAL FINANCIAL STATEMENTS AT JUNE 30, 2005, RESTATED IN ACCORDANCE WITH IAS/IFRS PRINCIPLES

Balance Sheet at June 30, 2005

The statement below presents, in summary form, the balance sheet of Edison Spa at June 30, 2005, prepared in accordance with IAS/IFRS principles. The reclassified balance sheet takes into account the degree of liquidity of the assets and the destination and maturity of the liabilities.

In order to provide a clearer indication of the impact of the transition, the most significant changes affecting items in the financial statements are reviewed individually.

		Note reference No.											
		1	1	2	1, 9	6	4	3	4	7	8	9	
June 30, 2005	In accordance with the old accounting principles	Adop. IAS 32 and 39	IFRS 1 and absorbed companies	IAS 38	IAS 16	IAS 40	IAS 36	IAS 17	IAS 27, 28, 31	IAS 32 and 39	Sundry adjust- ments	Reclassi- fications	In accord. with IAS/ IFRS principles
ASSETS													
Property, plant and equipment	3.008	-	1.488	-	52	-	(15)	85	-	-	-	-	4.618
Investment property	-	-	-	-	3	23	-	-	-	-	-	-	26
Goodwill	2.647	-	(273)	234	-	-	24	-	-	-	-	-	2.632
Hydrocarbon concessions	225	-	73	(18)	-	-	(11)	-	-	-	-	-	269
Other intangible assets	69	-	-	(1)	(30)	-	-	-	-	-	-	-	38
Investments in associates	2.767	36	-	-	-	-	-	-	(257)	12	-	(203)	2.355
Available-for-sale investments	-	-	-	-	-	-	-	-	-	-	-	203	203
Other financial assets	80	-	-	-	-	-	-	-	-	-	-	-	80
Deferred-tax assets	44	6	-	-	-	-	-	-	-	1	-	-	51
Other assets	371	-	-	-	-	-	-	-	-	-	-	-	371
Total non-current assets	**9.211**	**42**	**1.288**	**215**	**25**	**23**	**(2)**	**85**	**(257)**	**13**	**-**	**-**	**10.643**
Inventories	234	-	-	-	(9)	(33)	-	-	-	-	-	-	192
Trade receivables	494	-	-	-	-	-	-	-	-	-	-	-	494
Current-tax assets	81	-	-	-	-	-	-	-	-	-	-	-	81
Other receivables	215	15	-	-	-	-	-	-	-	(9)	1	-	222
Current financial assets	398	(20)	-	-	-	-	-	-	-	33	-	-	411
Cash and cash equivalents	4	-	-	-	-	-	-	-	-	-	-	-	4
Total current assets	**1.426**	**(5)**	**-**	**-**	**(9)**	**(33)**	**-**	**-**	**-**	**24**	**1**	**-**	**1.404**
Assets held for sale	**-**												
Total assets	**10.637**	**37**	**1.288**	**215**	**16**	**(10)**	**(2)**	**85**	**(257)**	**37**	**1**	**-**	**12.047**
LIABILITIES AND SHAREHOLDERS' EQUITY													
Share capital	4.266	-	-	-	-	-	-	-	-	-	-	-	4.266
Equity reserves	-	-	-	-	-	-	-	-	-	-	-	-	-
Other reserves	20	33	455	131	(13)	-	(2)	56	(257)	10	4	-	437
Retained earnings (Loss carryforward)	(58)	-	-	-	-	-	-	-	-	-	-	-	(58)
Profit (Loss) for the period	172	-	(9)	84	9	-	-	(2)	-	18	(4)	-	268
Total shareholders' equity	**4.400**	**33**	**446**	**215**	**(4)**	**-**	**(2)**	**54**	**(257)**	**28**	**-**	**-**	**4.913**
Provision for employee severance indemnities and provisions for pensions	37	-	-	-	-	-	-	-	-	-	-	-	37
Provision for deferred taxes	16	6	842	-	(15)	-	-	31	-	9	6	-	895
Provisions for risks and charges	847	-	-	-	35	(10)	-	-	-	-	-	-	872
Bonds	2.630	4	-	-	-	-	-	-	-	5	-	-	2.639
Long-term borrowings and other finan. liabil.	371	13	-	-	-	-	-	-	-	4	-	-	388
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-current liabilities	**3.901**	**23**	**842**	**-**	**20**	**(10)**	**-**	**31**	**-**	**18**	**6**	**-**	**4.831**
Short-term borrowings	1.585	(19)	-	-	-	-	-	-	-	(9)	(2)	-	1.555
Trade payables	554	-	-	-	-	-	-	-	-	-	-	-	554
Current taxes payable	24	-	-	-	-	-	-	-	-	-	-	-	24
Other liabilities	173	-	-	-	-	-	-	-	-	-	(3)	-	170
Total current liabilities	**2.336**	**(19)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9)**	**(5)**	**-**	**2.303**
Liabilities held for sale	**-**												**-**
Total liabilities and shareholders' equity	**10.637**	**37**	**1.288**	**215**	**16**	**(10)**	**(2)**	**85**	**(257)**	**37**	**1**	**-**	**12.047**

The table below provides a reconciliation of shareholders' equity and summarizes the main effects of the first-time adoption of IAS 32 and 39 on the financial statements at January 1, 2005. It also shows the main transition adjustments made compared with the published semiannual financial statements at June 30, 2005.

Reconciliation of the Shareholders' Equity of Edison Spa

Opening balance at June 30, 2005, as published	**4,400**
Changes:	
- Use of amortized cost to value financial liabilities	10
- Recognition of gains (losses) from the valuation of derivatives that do not qualify as hedges under IAS 39	1
- Revaluation (Writedown) of cash flow hedge derivatives	(13)
- Revaluation (Writedown) of available-for-sale investments	35
Total impact of first-time adoption of IAS 32 and IAS 39	**33**
- Use of fair value as deemed cost to measure non-current assets for transition purposes (net of deferred taxes)	442
- Derecognition of intangible assets	(23)
- Derecognition of amortization of multi-year costs written off upon transition and sundry differences in depreciation and amortization amounts computed under Italian accounting principles and under IAS/IFRS principles	18
- Adoption of IAS 17	57
- Reversal of the impact of derecognition of tax-related items affecting non-current assets in the statutory financial statements at December 31, 2004	(69)
- Adjustments made to goodwill, as required by IFRS 3, IAS 38 and IAS 36	259
- Writedowns of non-current assets (IAS 36)	(26)
- Differences in depreciation and amortization amounts computed under Italian accounting principles and under IAS/IFRS principles, computation of decommissioning costs and capitalization of maintenance costs upon transition from Italian to IAS/IFRS principles	49
- Recomputation of the cost of investments in associates	(257)
- Adoption of IAS 32 and IAS 39	28
- Sundry adjustments	3
Total changes	**481**
Balance at June 30, 2005, as per IAS principles	**4,913**

Income Statement for the First Half of 2005

The schedule below provides a reconciliation of the income statement for the first half of 2005, which was prepared in accordance with Italian accounting principles, with the income statement as prepared in accordance with the new international accounting principles.

The income statement prepared in accordance with the IAS/IFRS principles shows a profit of 268 million euros, compared with 172 million euros in the income statement prepared in accordance with Italian accounting principles.

The difference of 96 million euros is the net result of the following items:

Positive differences:

- Less depreciation and amortization attributable mainly to the derecognition of the amortization of goodwill (78 million euros);
- Impact of applying IAS 32 and IAS 39 to bond issues, borrowings and derivatives (18 million euros).

Negative differences:

- More depreciation due to the adoption of fair value as deemed cost upon transition (33 million euros), plus the impact of the reversal of deferred-tax liabilities recognized to reflect the increased value attributed under IAS/IFRS principles compared with the historical costs under Italian principles (24 million euros).

		Note reference No.										
		1	1	1, 3	1	4	1	3	5	7	8	
June 30, 2005	In accordance with the old accounting principles	IFRS 1 and absorbed companies	IAS 38	IAS 16	IAS 36	IAS 17	IAS 27, 28, 31	IAS 32 and 39	IAS 18	Sundry adjust-ments	Reclas-sifica-tions	In accord. with IAS/ IFRS principles
Sales revenues	1,882	-	-	-	-	-	-	-	-	-	-	1,882
Other revenues and income	35	-	-	-	-	-	-	-	-	-	-	35
Total revenues	**1,917**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,917**
Raw materials and services used (-)	(1,582)	-	-	10	-	-	-	-	-	-	-	(1,572)
Labor costs (-)	(57)	-	-	-	-	-	-	-	-	-	-	(57)
EBITDA	**278**	**-**	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**288**
Depreciation, amortization and writedowns (-)	(192)	(33)	84	1	-	(2)	-	-	-	-	-	(142)
EBIT	**86**	**(33)**	**84**	**11**	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**146**
Net financial income (expense)	(96)	-	-	(3)	-	-	-	27	-	-	-	(72)
Income from (Expense on) equity investments	136	-	-	-	-	-	-	-	-	-	-	136
Other income (expense), net	38	-	-	-	-	-	-	-	-	-	-	38
Profit before taxes	**164**	**(33)**	**84**	**8**	**-**	**(2)**	**-**	**27**	**-**	**-**	**-**	**248**
Income taxes	8	24	-	1	-	-	-	(9)	-	(4)	-	20
Profit (Loss) from continuing operations	**172**	**(9)**	**84**	**9**	**-**	**(2)**	**-**	**18**	**-**	**(4)**	**-**	**268**
Profit (Loss) from discontinued operations	-											-
Profit (loss) for the period	**172**	**(9)**	**84**	**9**	**-**	**(2)**	**-**	**18**	**-**	**(4)**	**-**	**268**

FINANCIAL STATEMENTS AT DECEMBER 31, 2005, RESTATED IN ACCORDANCE WITH IAS/IFRS PRINCIPLES

Balance Sheet at December 31, 2005

The statement below presents, in summary form, the balance sheet of Edison Spa at December 31, 2005, prepared in accordance with IAS/IFRS principles. The reclassified balance sheet takes into account the degree of liquidity of the assets and the destination and maturity of the liabilities.

In order to provide a clearer indication of the impact of the transition, the most significant changes affecting items in the financial statements are reviewed individually.

		Note reference No.											
		1	1	2	1, 9	4	3	4	7	5	9	10	
December 31, 2005	In accordance with the old accounting principles	IFRS 1 and absorbed cos.	IAS 38	IAS 16	IAS 40	IAS 36	IAS 17	IAS 27, 28, 31	IAS 32 and 39	IAS 18	Sundry adjust-ments	Reclassi-fications	In accord. with IAS/ IFRS principles
ASSETS													
Property, plant and equipment	3,130	1,448	-	64	-	(40)	84	-	-	-	-	-	4,686
Investment property	-	-	-	(3)	20	-	-	-	-	-	-	-	17
Goodwill	2,569	(273)	312	-	-	24	-	-	-	-	-	-	2,632
Hydrocarbon concessions	214	70	(17)	-	-	1	-	-	-	-	-	-	268
Other intangible assets	53	-	12	(30)	-	-	-	-	-	-	-	-	35
Investments in associates	2,649	-	-	-	-	-	-	(207)	-	-	-	(39)	2,403
Available-for-sale investments	-	-	-	-	-	-	-	-	19	-	-	39	58
Other financial assets	79	-	-	-	-	-	-	-	-	-	-	-	79
Deferred-tax assets	90	-	-	-	-	-	-	-	4	-	-	-	94
Other assets	248	-	-	-	-	-	-	-	-	-	1	-	249
Total non-current assets	**9,032**	**1,245**	**307**	**31**	**20**	**(15)**	**84**	**(207)**	**23**	**-**	**1**	**-**	**10,521**
Inventories	211	-	-	(7)	(20)	-	-	-	-	-	-	-	184
Trade receivables	942	-	-	-	-	-	-	-	-	-	-	-	942
Current-tax assets	23	-	-	-	-	-	-	-	-	-	-	-	23
Other receivables	352	-	-	-	-	-	-	-	1	16	-	-	369
Current financial assets	556	-	-	-	-	-	-	-	5	-	-	(50)	511
Cash and cash equivalents	16	-	-	-	-	-	-	-	-	-	-	-	16
Total current assets	**2,100**	**-**	**-**	**(7)**	**(20)**	**-**	**-**	**-**	**6**	**16**	**-**	**(50)**	**2,045**
Assets held for sale	**-**												
Total assets	**11,132**	**1,245**	**307**	**24**	**-**	**(15)**	**84**	**(207)**	**29**	**16**	**1**	**(50)**	**12,566**
LIABILITIES AND SHAREHOLDERS' EQUITY													
Share capital	4,273	-	-	-	-	-	-	-	-	-	-	-	4,273
Equity reserves	3	-	-	-	-	-	-	-	-	-	-	-	3
Other reserves	20	455	131	(11)	-	(2)	59	(257)	21	-	9	-	425
Retained earnings (Loss carryforward)	(58)	-	-	-	-	-	-	-	-	-	-	-	(58)
Profit (loss) for the period	351	(9)	176	6	-	(9)	(7)	50	10	(53)	1	-	516
Total shareholders' equity	**4,589**	**446**	**307**	**(5)**	**-**	**(11)**	**52**	**(207)**	**31**	**(53)**	**10**	**-**	**5,159**
Provision for employee severance indemnities and provisions for pensions	40	-	-	-	-	-	-	-	-	-	(2)	-	38
Provision for deferred taxes	17	799	-	(16)	-	(4)	32	-	9	(1)	-	-	836
Provisions for risks and charges	880	-	-	45	-	-	-	-	-	-	(4)	-	921
Bonds	2,630	-	-	-	-	-	-	-	12	-	-	-	2,642
Long-term borrowings and other finan. liabil.	445	-	-	-	-	-	-	-	4	-	-	-	449
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-current liabilities	**4,012**	**799**	**-**	**29**	**-**	**(4)**	**32**	**-**	**25**	**(1)**	**(6)**	**-**	**4,886**
Short-term borrowings	1,357	-	-	-	-	-	-	-	9	-	-	-	1,366
Trade payables	882	-	-	-	-	-	-	-	-	-	-	-	882
Current taxes payable	12	-	-	-	-	-	-	-	-	-	-	-	12
Other liabilities	280	-	-	-	-	-	-	-	(36)	70	(3)	(50)	261
Total current liabilities	**2,531**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27)**	**70**	**(3)**	**(50)**	**2,521**
Liabilities held for sale	**-**												**-**
Total liabilities and shareholders' equity	**11,132**	**1,245**	**307**	**24**	**-**	**(15)**	**84**	**(207)**	**29**	**16**	**1**	**(50)**	**12,566**

The table below provides a reconciliation of shareholders' equity and shows the main impact of the adoption of the IAS/IFRS principles on the financial statements at December 31, 2005.

Reconciliation of the Shareholders' Equity of Edison Spa

Opening balance at December 31, 2005, as published	**4,589**
Changes:	
- Use of fair value as deemed cost to measure non-current assets for transition purposes (net of deferred taxes)	451
- Derecognition of intangible assets	(23)
- Derecognition of amortization of multi-year costs written off upon transition and sundry differences in depreciation and amortization amounts computed under Italian accounting principles and under IAS/IFRS principles	15
- Adoption of IAS 17	56
- Reversal of the impact of derecognition of tax-related items affecting non-current assets in the statutory financial statements	(69)
- Adjustments made to goodwill, as required by IFRS 3, IAS 38 and IAS 36	337
- Writedowns of non-current assets (IAS 36)	(40)
- Differences in depreciation and amortization amounts computed under Italian accounting principles and under IAS/IFRS principles, computation of decommissioning costs and capitalization of maintenance costs upon transition from Italian to IAS/IFRS principles	62
- Adoption of IAS 18 to account for dividends	(54)
- Recomputation of the cost of investments in associates	(207)
- Adoption of IAS 32 and IAS 39	31
- Sundry adjustments	11
Total changes	**570**
Balance at December 31, 2005, as per IAS principles	**5,159**

Income Statement for 2005

The schedule below provides a reconciliation of the income statement for 2005, which was prepared in accordance with Italian accounting principles, with the income statement as prepared in accordance with the new international accounting principles.

The income statement prepared in accordance with the IAS/IFRS principles shows a profit of 516 million euros, compared with 351 million euros in the income statement prepared in accordance with Italian accounting principles.

The difference of 165 million euros is the net result of the following items:

Positive differences:

- Less depreciation and amortization attributable mainly to the derecognition of the amortization of goodwill (156 million euros).
- Restatement of the gain to reflect the values in the consolidated financial statements in the amount of 50 million euros.
- Impact of applying IAS 32 and IAS 39 to bond issues, borrowings and derivatives (10 million euros).

Negative differences:

- More depreciation due to the adoption of fair value as deemed cost upon transition (75 million euros), plus the impact of the reversal of deferred-tax liabilities recognized to reflect the increased value attributed under IAS/IFRS principles compared with the historical costs under Italian principles 66 million euros);
- Derecognition of dividends recognized on an accrual basis (70 million euros) due to the adoption of the accounting method required by the IAS/IFRS principles, according to which dividends are recognized in the year in which their distribution is authorized.

		Note reference No.											
		1	1	1, 3	1	4	1	3	5	6	8	9	
December 31, 2005	In accordance with the old accounting principles	IFRS 1 and absorbed companies	IAS 38	IAS 16	IAS 36	IAS 17	IAS 27, 28, 31	IAS 32 and 39	IAS 18	IFRS 5	Sundry adjust-ments	Reclas-sifica-tions	In accord. with IAS/ IFRS principles
Sales revenues	4,058	-	-	-	-	-	-	-	-	-	-	-	4,058
Other revenues and income, net	147	-	-	-	-	-	-	-	-	-	-	-	147
Total revenues	**4,205**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,205**
Raw materials and services used (-)	(3,456)	-	-	15	-	-	-	-	-	-	-	-	(3,441)
Labor costs (-)	(128)	-	-	-	-	-	-	-	-	-	1	-	(127)
EBITDA	**621**	**-**	**-**	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**637**
Depreciation, amortization and writedowns (-)	(408)	(75)	176	(3)	(14)	(7)	-	-	-	-	-	-	(331)
EBIT	**213**	**(75)**	**176**	**12**	**(14)**	**(7)**	**-**	**-**	**-**	**-**	**1**	**-**	**306**
Net financial income (expense)	(163)	-	-	(6)	-	-	-	14	-	-	-	-	(155)
Income from (Expense on) equity investments	204	-	-	-	-	-	-	-	(54)	-	-	-	150
Other income (expense), net	64	-	-	1	-	-	-	-	-	(36)	-	-	29
Profit before taxes	**318**	**(75)**	**176**	**7**	**(14)**	**(7)**	**-**	**14**	**(54)**	**(36)**	**1**	**-**	**330**
Income taxes	33	66	-	(1)	5	-	-	(4)	1	-	-	-	100
Profit (Loss) from continuing operations	**351**	**(9)**	**176**	**6**	**(9)**	**(7)**	**-**	**10**	**(53)**	**(36)**	**1**	**-**	**430**
Profit (Loss) from discontinued operations	-	-	-	-	-	-	50	-	-	36	-	-	86
Profit (loss) for the period	**351**	**(9)**	**176**	**6**	**(9)**	**(7)**	**50**	**10**	**(53)**	**-**	**1**	**-**	**516**

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AUDITOR'S REPORT ON THE SEPARATE IFRS RECONCILIATION SCHEDULES ILLUSTRATING THE IMPACT OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

To the Board of directors of
Edison S.p.A.

1 We have audited the accompanying Reconciliation Schedules comprising the separate balance sheets as of 1 January 2004, 31 December 2004 and 31 December 2005, and the separate income statements for the years ended 31 December 2004 and 31 December 2005 (hereinafter the "IFRS Reconciliation Schedules") of Edison SpA and related notes prepared in compliance with criteria and rules recommended by CONSOB with Communication No. 6064313 of 28 July 2006 in the Annex named "The Transition to the International Accounting Standards IAS/IFRS in Edison SpA's separate financial statements" of the interim financial statement as of 30 June 2006. The aforementioned IFRS Reconciliation Schedules have been derived from the separate financial statements of Edison SpA as of 31 December 2005 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued or report on 15 March 2006. The IFRS Reconciliation Schedules present the impact of the transition to the International Financial Reporting Standards endorsed by the European Union applied by Edison SpA, on the basis of article 4 of Legislative Decree n. 38/2005, in the preparation of the financial statements at 31 December 2005. The IFRS Reconciliation Schedules are the responsibility of Edison's directors. Our responsibility is to express an opinion on the IFRS Reconciliation Schedules based on our audit.

2 We conducted our audit in accordance with auditing standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the IFRS Reconciliation Schedules are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the IFRS Reconciliation Schedules identified in paragraph 1

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of this report have been drawn up in compliance with the criteria and standards set out in CONSOB's Communication No. 6064313 of 28 July 2006.

4 As illustrated in the notes, with regard to the goodwill recognized in the separate financial statements of Edison SpA as of the transition date, it is important to keep in mind that that goodwill is the product of mergers carried out in previous years and that is was accounted for in accordance with Italian accounting principles. Since these transactions involved companies over which the merging company already had control, they cannot be viewed as business combinations, even though, in practice they have the effect of a legal consolidation in the financial statements of the Group's parent company of entities that originally had been the subject of actual acquisition for consolidated financial statements purpose. In light of the uncertainty that exists at this point with regard to the accounting treatment that should be applied to the transition described above in the separate IAS/IFRS financial statements and considering that clarifications on this issue are expected in the future, the Company took the conservative approach of opting for a consistency of values with the separate financial statements prepared in accordance with Italian accounting standards.

Milan, 4 August 2006

PricewaterhouseCoopers SpA

Marco Sala
(Partner)

This report has been translated from the Italian original which was issued in accordance with Italian legislation.

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AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL REPORTING FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 200X PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION No. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND SUPPLEMENTS

To the Shareholders of
Edison S.p.A.

1. We have performed a limited review of the separate interim financial statements and consolidated interim financial statements consisting of balance sheets, income statements, statements of changes in shareholders' equity and cash flows (hereinafter "accounting statements") and related explanatory and supplementary notes of Edison SpA (holding company) and Edison Group included in the interim financial reporting of Edison SpA for the period ended 30 June 2006. The interim financial reporting is the responsibility of Edison SpA's Directors. Our responsibility is to issue this report based on our limited review. We have also checked the part of the notes related to the information on operations for the sole purpose of verifying their consistency with the remaining part of the interim financial reporting.

2. Our work was conducted in accordance with the criteria for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with resolution No. 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial statements and about the consistency of the accounting principles utilised therein as well as the application of analytical review procedures on the data contained in the interim financial statements. The limited review excluded certain auditing procedures such as compliance testing and verification and validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the audit on the annual separate and consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.

3. For the comparative amounts of the separate and consolidated financial statements of the prior year and of the prior year interim financial reporting presented in the accounting statements, reference should be made to our reports dated 4 August 2006, 15 March 2006 and 13 September 2005, respectively.
The interim comparatives of the holding company of the prior year interim

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financial reporting restated in accordance with IFRS and the related IFRS reconciliation schedules have been derived from the interim figures prepared in accordance with Italian law and accounting standards previously in force subjected to limited review, for which reference should be made to our report dated 13 September 2005.

4. Based on our review, no significant changes or adjustments came to our attention that should be made to the accounting statements and related explanatory and supplementary notes of Edison SpA (parent company) and consolidated, identified in paragraph 1 of this report, in order to make them consistent with the criteria for the preparation of interim financial reporting established by Article 81 of the CONSOB Regulation approved by Resolution no. 11971 of 14 May 1999 and subsequent amendments and integrations.

5. For the purposes of a better understanding of the interim financial reporting we wish to emphasise the following:

   a. As illustrated in the explanatory notes to the separate interim financial reporting, given the present uncertainties as to the accounting treatment applicable in the context of separate IAS/IFRS-compliant financial statements to the item goodwill, this was prudently stated on a basis consistent with the previous annual financial statements at the transition date prepared in accordance with Italian accounting standards.

   b. As illustrated in the explanatory notes to the accounting statements, starting from 1 January 2006 the parent company and certain group entities have applied a different method to depreciate power stations with contracts to sell energy under the terms of CIP resolution No. 6/1992, their remaining useful life being equal, instead of the previous straight-line depreciation referred to the useful life of the individual components. Those power stations have been depreciated using a systematic declining-balance depreciation method, to reflect the differentials between the economic terms of CIP resolution No. 6/1992 and market terms; the reason thereof, and the impact of the revised estimate on the income statement of the separate and consolidated interim financial reporting are amply illustrated in the aforementioned notes.

Milan, 4 August 2006

PricewaterhouseCoopers SpA

Signed by Marco Sala
(Partner)

This report has been translated into the English language solely for the convenience of international readers

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