
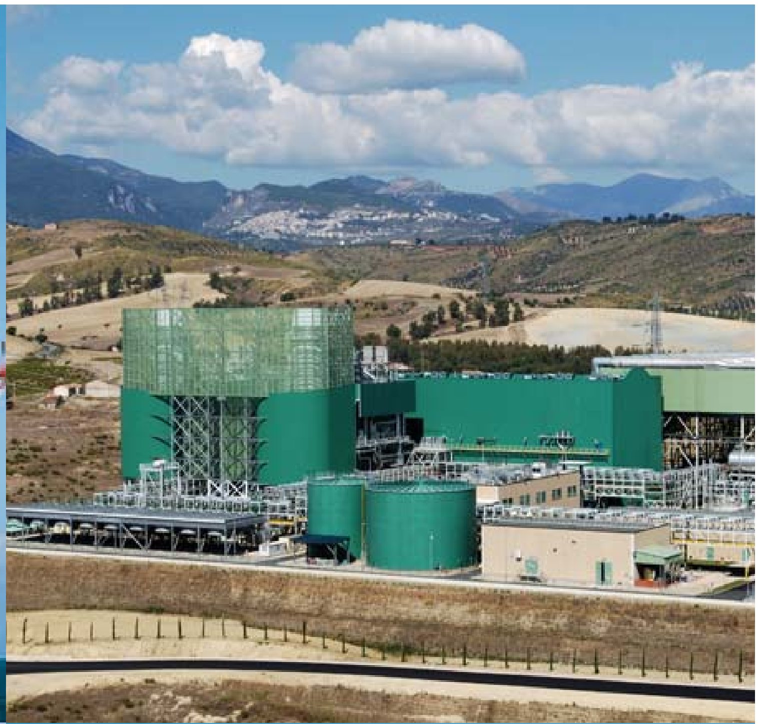

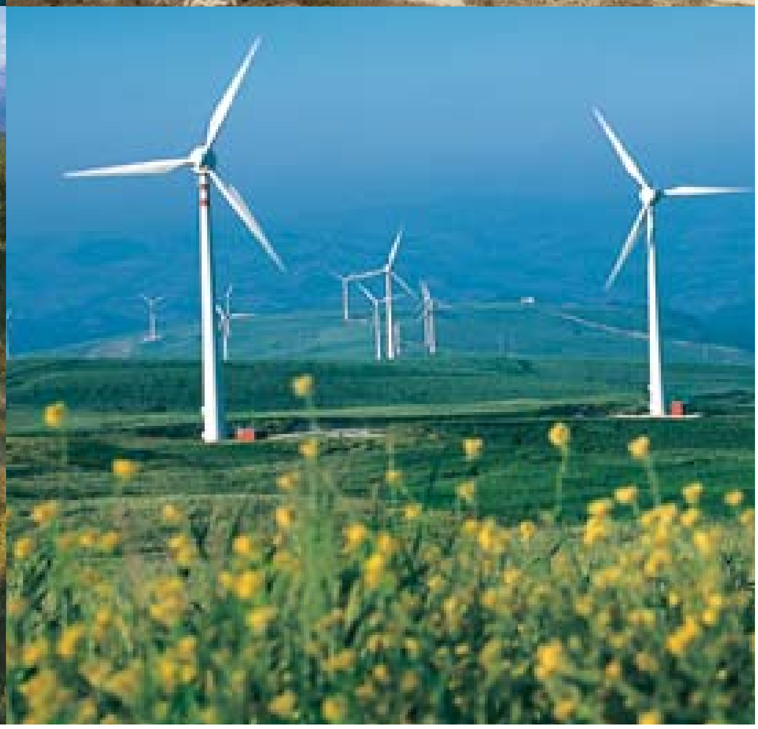

SEPARATE FINANCIAL STATEMENTS 2006

EDISON

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SEPARATE FINANCIAL STATEMENTS 2006

EDISON

EDISON SPA
Balance Sheet at December 31, 2006

(amounts in euros)	See Note	12.31.2006	12.31.2005
ASSETS			
Property, plant and equipment	1	4,626,394,997	4,685,797,681
Investment property	2	9,819,143	17,474,562
Goodwill	3	2,632,320,046	2,632,320,046
Hydrocarbon concessions	4	254,408,387	268,060,397
Other intangible assets	5	36.712.328	34,536,199
Investments in associates	6	2.135.269.475	2,403,229,237
Available-for-sale investments	6	117,328,979	58,233,700
Other financial assets	7	74,157,527	78,750,322
Deferred-tax assets	8	-	94,004,000
Other assets	9	61,727,704	248,627,499
Total non-current assets		**9,948,138,586**	**10,521,033,643**
Inventories		258,219,918	183,875,936
Trade receivables		875,696,178	941,820,289
Current-tax assets		5,620,705	22,957,497
Other receivables		213,336,289	369,297,547
Current financial assets		531,507,685	510,786,546
Cash and cash equivalents		187,228,835	15,867,600
Total current assets	10	**2,071,609,610**	**2,044,605,414**
Assets held for sale	11	**104,765,717**	**-**
Total assets		**12,124,513,913**	**12,565,639,058**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		4,273,139,453	4,273,107,754
Statutory reserve		17,552,676	-
Other reserves		588,627,808	428,199,290
Retained earnings (Loss carryforward)		97,329,277	(58,226,559)
Profit (Loss) for the period		632,227,959	515,703,527
Total shareholders' equity	12	**5,608,877,173**	**5,158,784,012**
Provision for employee severance indemnities and provision for pensions	13	39,108,378	38,042,425
Provision for deferred taxes	14	415,375,315	836,185,672
Provision for risks and charges	15	782,184,797	921,188,262
Bonds	16	1,207,127,459	2,642,002,276
Long-term borrowings and other financial liabilities	17	339,383,411	448,840,587
Other liabilities	18	-	-
Total non-current liabilities		**2,783,179,361**	**4,886,259,223**
Bonds		1,456,752,176	-
Short-term borrowings		1,150,579,596	1,365,721,875
Trade payables		868,005,495	882,213,101
Current taxes payable		-	12,074,053
Other liabilities		257,120,111	260,586,794
Total current liabilities	19	**3,732,457,379**	**2,520,595,823**
Liabilities held for sale		**-**	**-**
Total liabilities and shareholders' equity		**12,124,513,913**	**12,565,639,058**

EDISON SPA
Income Statement at December 31, 2006

(amounts in euros)	See Note	12.31.2006	12.31.2005
Sales revenues	20	4,854,765,906	4,057,797,661
Other revenues and income	21	255,058,503	146,880,395
Total revenues		**5,109,824,409**	**4,204,678,056**
Raw materials and services used (-)	22	(4,194,091,605)	(3,440,100,250)
Labor costs (-)	23	(132,610,085)	(127,250,730)
EBITDA	24	**783,122,720**	**637,327,076**
Depreciation, amortization and writedowns (-)	25	(462,373,688)	(331,025,426)
EBIT		**320,749,032**	**306,301,650**
Net financial income (expense)	26	(200,867,888)	(154,815,683)
Income from (Expense on) equity investments	27	164,769,232	149,686,666
Other income (expense), net	28	31,606,657	28,678,460
Profit before taxes		**316,257,032**	**329,851,093**
Income taxes	29	188,016,254	100,076,434
Profit (Loss) from continuing operations		**504,273,286**	**429,927,527**
Profit (Loss) from discontinued operations	30	127,954,673	85,776,000
Profit (Loss)		**632,227,959**	**515,703,527**

EDISON SPA
Cash Flow Statement at December 31, 2006

(amounts in euros)	2006	2005
Profit (Loss)	632,227,959	515,703,527
Amortization and depreciation	408,505,941	307,503,647
(Gains) Losses on the sale of non-current assets	(140,136,281)	(136,492,656)
(Revaluations) Writedowns of intangibles and property, plant and equipment	53,867,747	25,782,002
Change in the provision for employee severance indemnities	1,065,953	(1,484,653)
Change in other operating assets and liabilities	(198,982,445)	(491,497,915)
A. Cash flow from continuing operations	**756,548,874**	**219,513,952**
Additions to intangibles and property, plant and equipment (-)	(301,385,833)	(433,098,081)
Additions to equity investments and other non-current financial assets (-)	(82,206,000)	(250,531,622)
Proceeds from the sale of intangibles and property, plant and equipment	5,915,000	9,136,202
Proceeds from the sale of equity investments and other non-current financial assets	321,107,906	452,225,602
Other current assets	(43,643,395)	102,005,990
B. Cash used in investing activities	**(100,212,322)**	**(120,261,910)**
Receipt of new medium-term and long-term loans	1,203,637,108	233,456,852
Redemptions of medium-term and long-term loans (-)	(1,291,216,925)	(176,977,856)
Capital contributions provided by controlling companies or other shareholders	31,699	17,121,693
Dividends paid to controlling companies or minority shareholders (-)	(182,284,920)	-
Change in short-term debt and reclassification of short-term installments (-)	(215,142,279)	(166,230,054)
C. Cash used in financing activities	**(484,975,317)**	**(92,629,365)**
D. Net increase in cash and cash equivalents (A+B+C)	**171,361,235**	**6,622,677**
E. Cash and cash equivalents at the beginning of the year	**15,867,600**	**9,244,923**
F. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (D+E)	**187,228,835**	**15,867,600**

EDISON SPA
Statement of Changes in Shareholders' Equity at December 31, 2006

Shareholders' Equity

(amounts in euros)	Share capital (a)	Statutory reserve (b)	Other reserves and ret. earnings (loss carry-forward) (c)	Profit for the period (d)	**Total (a+b+c+d)=(e)**
Balance at December 31, 2004	**4,258,887,966**	**-**	**55,966,705**	**284,713,913**	**4,599,568,584**
Restatements for adoption of IAS 32 and IAS 39	-	-	33,077,913	-	33,077,913
Salance at January 1, 2005	**4,258,887,966**	**-**	**89,044,619**	**284,713,913**	**4,632,646,498**
Share capital increase due to the conversion of warrants	6,959,427	-	-	-	6.959.427
Appropriation of the 2004 profit	-	-	284,713,913	(284,713,913)	-
Impact of the adoption of IAS 32 and IAS 39	-	-	-	-	-
Share capital increase due to the exercise of stock options	7,260,361	-	3,401,905	-	10,662,266
Restatements for the year due to the adoption of IAS 39	-	-	(7,187,706)	-	(7,187,706)
Profit for the year	-	-	-	515,703,527	515,703,527
Balance at December 31, 2005	**4,273,107,754**	**-**	**369,972,731**	**515,703,527**	**5,158,784,012**
Appropriation of the 2005 profit and dividend distribution	-	17,552,677	315,865,930	(515,703,527)	(182,284,920)
Share capital increase due to the conversion of warrants	31,699	-	-	-	31,699
Restatements for the year due to the adoption of IAS 39	-	-	118,423	-	118,423
Profit for the year	-	-	-	632,227,959	632,227,959
Balance at December 31, 2006	**4,273,139,453**	**17,552,677**	**685,957,084**	**632,227,959**	**5,608,877,173**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

at December 31, 2006

ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

Content and Format of the Financial Statements

Dear Shareholders,

We submit for your approval the separate financial statements of Edison Spa at December 31, 2006, which include the Balance Sheet, the Income Statement, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity and the respective Notes. These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS international accounting principles") issued by the Accounting Standards Board, as published in the Official Journal of the European Union (OJEU).

On August 2, 2006, Edison published a special annex to the Semiannual Report entitled "Transition to the International Financial Reporting Standards (IAS/IFRS) in the Separate Financial Statements of Edison Spa," which contained the schedules required by IFRS 1. This document also includes a special audit report issued by PricewaterhouseCoopers Spa. The reconciliation schedules required by IFRS 1 are provided in a special section later in this Report, but the abovementioned annex should be consulted for more detailed information.

The accounting principles applied in the transition to the IFRS principles are the same as those used in these financial statements. 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 the previous year;
- IAS 32 and IAS 39 are being applied as of January 1, 2005;
- 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.

With regard to additional international accounting principles and interpretations published in the OJEU, the following principles will be applicable starting in 2007:

- IFRS 7 "Financial Instruments: Disclosures," which requires additional disclosures concerning the nature and extent of risks arising from financial instruments.
- IFRIC 8 "Scope of IFRS 2" and IFRIC 9 "Reassessment of Embedded Derivatives."

The special schedules required pursuant to Resolution No. 61/99, as amended, and Resolution No. 310/01, with which the Electric Power and Gas Authority ordered the accounting and administrative separation of the electric power operations (the so-called unbundling), are annexed to the Report on Operations.

The separate financial statements have been audited by PricewaterhouseCoopers Spa in accordance with the three-year assignment (from 2005 to 2007) it had received by a resolution of the Shareholders' Meeting of April 19, 2005.

Presentation Format of the Financial Statements

The presentation formats that the Company has chosen for its financial statements have 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 from the balance sheet date, respectively, are shown separately.
- **Income Statements**: 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.

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

As of January 1, 2006, a new depreciation method was applied to thermoelectric power plants that sell energy under the financial terms set forth in the CIP 6/92 Resolution. Assuming the same residual useful life, the old straight-line depreciation method, which was based on the useful lives of the individual asset components, was replaced with a method that allocates cost in regular declining installments. This method reflects the differences between the amounts charged under the CIP 6/92 rate schedule (for the 8-year incentivized period and the following 7-year contract period) and market terms (applicable from the expiration of the CIP 6/92 contracts and the end of each asset's useful life).
In view of the abovementioned differences between prices under the CIP 6/92 contracts and standard market terms, a different level of depreciation was chosen for each of the three periods (CIP 6/92 incentivized, CIP 6/92 contractual and market). The resulting depreciation process follows a step-down process, with straight line depreciation for each of the periods.
The use of this method (and the resulting change in estimates)became possible only in 2006 as a result 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 6/92 power plants became fully operational, providing a further meaningful element of financial comparison, particularly in terms of the ability to recognize technological obsolescence.

The different levels of depreciations for each of the periods in question were determined separately for each power plant in accordance with a method that would be applied consistently over the entire residual life of the facilities.
The abovementioned change in estimate caused depreciation expense to increase by 56,485,000 euros in 2006. Since this process involved a revision of a valuation estimate, as defined in IAS 8, the data for the previous year were not restated.

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. 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 range of depreciation rates applied is shown below:

	Electric Power		Hydrocarbons		Corporate	
Buildings	2.8	11.1	-	17.3	-	2.0
Plant and machinery	3.3	21.9	2.7	45.8	5.0	21.0
Manufacturing and distribution equipm	5.0	10.0	17.5	35.0	5.0	30.0
Other assets	6.0	25.0	6.0	25.0	6.0	20.0
Investment property	-	-	-	-	2.0	2.6

Starting in 2006, the depreciation method applied to power plants that sell energy under the CIP 6/92 rate schedule, which is based on the economic benefits produced, follows a step-down process, with straight line depreciation for each of the periods. This method reflects the differences between the amounts charged under the CIP 6/92 rate schedule for the 8-year incentivized period and those for the following 7-year contract period.
Items of property, plant and equipment appurtenant to hydrocarbon production concessions are recognized as assets and depreciated in accordance with the UOP method, which is also 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 concessions 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 Company 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 acquired for consideration, which for transition purposes had been recognized 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. 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-product (UOP) method.
The 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.
Emissions rights are recognized as intangible assets at the cost incurred to acquire them if the rights carried by the Company on the balance sheet date exceed the emissions released during the year. Rights assigned free of charge are recognized at a zero carrying value Since this asset is designed for instantaneous use, it cannot be amortized or tested for impairment. Its recoverable value is its value in use or its market value, whichever is greater. On the other hand, if, on the balance sheet date, the value of actual emissions is greater than the value of allocated emissions, including any purchased emissions, a provision for risks is set aside to cover the difference. Any emissions quotas that are turned back each year, based on the volume of polluting emissions released into the atmosphere each year, will be deleted using any reserves for risks set aside the previous year.

Equity Investments in Subsidiaries and Affiliated Companies

Subsidiaries are companies with respect to which Edison has the power independently 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 an 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.

As a rule, 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 Edison'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 or held for trading purposes, 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**, which consist of trading securities and equity investments, are valued at fair value, and any resulting gains or losses are recognized in the income statement.
- **Available-for-sale assets**, which consist of equity investments representing an interest of less than 20%, 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 maturities that the Company intends to hold to maturity (other than equity investments), including trade receivables, are valued at their amortized cost. Purchasing costs are deducted directly from the face value of the corresponding asset. Financial income is computed in accordance with the effective interest rate method.
- **Other financial liabilities,** including trade payables, 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 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 if their future cash flow has been hedged (cash flow hedge).

- **Derivatives** must be recognized at their fair value in the Balance Sheet. 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 an offsetting entry posted to an equity reserve.

Provision for Risks and Charges

Provision 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. The cost of materials used includes the amounts paid for green certificates attributable to the period. 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 reserves.

Income Taxes

Income taxes for the fiscal year are determined on the basis of its taxable income, computed in accordance with the tax rates and laws that have been enacted or substantively enacted by the Financial Statements 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 future tax liabilities, as projected in approved Company 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 perform impairment tests and 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 and income taxes. Estimates and assumptions are revised on a regular basis, and the impact of any such revision is immediately recognized in the income statement.

RECONCILIATION SCHEDULES REQUIRED BY IFRS 1

A schedule showing the reconciliation of shareholders' equity required by IFRS 1 in connection with the Company's transition to the IAS/IFRS international accounting principles are provided below. More detailed information can be found in an annex to the Semiannual Report entitled "Transition to the International Financial Reporting Standards (IAS/IFRS) in the Separate Financial Statements of Edison Spa," which the Company published on August 4, 2006. An additional schedule showing the 2005 income statement is also provided, together with notes explaining the reasons for the main changes required by the adoption of the international accounting principles.

Reconciliation of the Shareholders' Equity of Edison Spa at December 31, 2005 Showing the Impact of the Transition to the IAS/IFRSs

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.

(amounts in thousands of euros)	Shareholders' equity
Shareholders' equity of Edison Spa at December 31, 2005	**4,589,100**
1. Use of fair value as deemed cost to measure non-current assets for transition purposes (net of deferred taxes)	451,015
2. Derecognition of intangible assets	(22,568)
3. 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 unde IAS/IFRS principles	14,536
4. Adoption of IAS 17	55,921
5. Impact of derecognition of tax-related items affecting non-current assets in the statutory financial statements at December 31, 2004	(68,896)
6. Adjustments made to goodwill, as required by IFRS 3, IAS 38 and IAS 36	336,872
7. Writedowns of non-current assets (IAS 36)	(40,000)
8. 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	61,765
9 Adoption of IAS 18 to recognize dividends	(53.820)
10, Recomputation of the cost of investments in associates	(207,000)
11. Adoption of IAS 32 and 39	31,179
12. Sundry adjustments	10,680
Shareholders' equity of Edison Spa at December 31, 2005 restated in accordance with IAS/IFRS principles	**5,158,784**

Impact of the Transition to the IAS/IFRSs on the 2005 Income Statement of Edison Spa

(in millions of euros)	2005 income statement	Adjustments and reclassification required by the IAS/IFRSs	Restated 2005 income statement (IAS/IFRSs)
Sales revenues	4,057,798	-	4,057,798
Other revenues and income, net	147,180	(300)	146,880
Total revenues	**4,204,978**	**(300)**	**4,204,678**
Raw materials and services used (-)	(3,455,200)	15,102	(3,440,098)
Labor costs (-)	(128,251)	998	(127,253)
EBITDA	**621,527**	**15,800**	**637,327**
Depreciation, amortization and writedowns (-)	(408,325)	77,300	(331,025)
EBIT	**213,202**	**93,100**	**306,302**
Net financial income (expense)	(162,916)	8,100	(154,816)
Income from (expense on) equity investments	204,087	(54,400)	149,687
Other income (expense), net	63,304	(34,626)	28,678
Profit before taxes	**317,677**	**12,174**	**329,851**
Income taxes	33,376	66,700	100,076
Profit (Loss) from continuing operations	**351,054**	**78,874**	**429,928**
Profit (Loss) from discontinued operations	-	85,776	85,776
Profit (loss)	**351,054**	**164,650**	**515,704**

The changes that occurred in the main components of the income statement are reviewed below:

Positive differences:

- Less depreciation and amortization attributable mainly to the derecognition of the amortization of goodwill (155,927,000 euros);
- Impact of applying IAS 32 and IAS 39 to bond issues, borrowings and derivatives (10,253,000 euros).

Negative differences:

- More depreciation due to the adoption of fair value as deemed cost upon transition (75,208,000 euros), plus the positive 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 (66,434,000 euros);
- Derecognition of dividends (70,400,000 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 and not on an accrual basis. This revenue item was recognized in the 2006 income statement.

TYPES OF RISKS AND HEDGING STRATEGIES

In 2006, as required by the provisions of the Code of Conduct for Listed Companies, Edison began to implement an integrated risk control model based on international enterprise risk management standards and on the definition of a global corporate risk management model and risk mapping and risk scoring methods.
The risk model adopted classifies risks in accordance with two fundamental criteria:
- The origin of the risk, which, consistent with the guideline of the COSO Framework, is used to classify risks as external risks, process risks and strategic and business objective risks;
- The method most frequently used to quantify risk, which divides risks into market risk, credit risk, operational risks and other risks, which consist primarily of strategic and reputational risks, in accordance with the guidelines of Basel II.

Please note that the integrated risk control model was developed at the Group level. As result, the paragraphs that follow refer to the entire Group and not just to Edison Spa.

Market Risk

This category includes all of the risks that are linked directly or indirectly with price fluctuations in the markets for physical goods or in the financial markets in which the Company operates. These risks are:
- commodity risk, which is caused by volatility in the prices of energy commodities and environmental securities;
- foreign exchange risk;
- interest rate risk;
- liquidity risk, which arises from a potential lack of financial resources to meet short-term obligations.

Edison manages the risk linked with the price of energy commodities and the related foreign exchange risk through a process based on the principle of segregating and separating the risk control and management function, which is handled centrally by Edison Spa under the direct supervision of the Chief Financial Officer, from the transaction activity in the financial markets, which is handled by Edison Trading Spa for the commodity markets and by the Finance Department for exchange rates.
Specifically, the Energy Risk Policies adopted to manage the commodity price risk and the related foreign exchange risk allow the ongoing monitoring of the Group's net exposure, which is computed, for the Group's entire portfolio of assets and contracts, as the sum of the transactions executed by all Group entities, and compares the total level of financial risk assumed (Profit at Risk) against a predetermined ceiling approved by the Board of Directors concurrently with the annual Budget.
The Risk Management Committee, which is headed by a senior executive, reviews monthly the Group's net 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.

Commodity Risk and Exchange Rates Risk Related to Commodity Transactions

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 fluctuations in the prices of energy commodities (mainly affecting fuels priced in U.S. dollars). The effect of these fluctuations can be felt both directly and indirectly, through pricing formulas and indexing mechanisms included in pricing structures.
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. Edison does execute speculative derivative contracts unless they include close and specific stop-loss limits.

Foreign Exchange Risk not Related to Commodity Risk

With the exception of issues reviewed above in the paragraph that discusses the commodity risk, the Group does not have a significant exposure to currency risks. Whatever exposure there is, it is concentrated in 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.

Interest Rate Risk

Edison is exposed to fluctuations in interest rates because they affect the fair value of financial assets and liabilities and the amount of its net financial expense. 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 December 31, 2006, the Group's exposure to the risk of changes in interest rates was roughly equivalent to about 33% of its total exposure (a reduction largely made possible by a decrease in average indebtedness), despite the fact that some of the existing hedges entail the use of variable interest rates.

Liquidity Risk

The liquidity risk represents the risk that the Company may not have access to sufficient financial resources to meet its financial obligations in accordance with agreed terms and maturities.
Edison follows a conservative policy in its management of liquidity risk, which requires the Company to adopt a strategy specifically designed to ensure that unexpected cash disbursements will not create a problem for the Group. 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.
In addition, the Group's funding needs are provided by long-term financing, consisting mainly of bond issues.

Credit Risk

The credit risk represents Edison's exposure to potential losses that could be incurred if a counterpart fails to meet its obligations.
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 or execute financial hedging contracts (derivatives), the Group deals only with top-flight, reliable entities that enjoy a high standing in the international markets.

Operational Risks

Operational risks are the risks that the Company or third parties could incur due to the inadequacy or dysfunction of procedures, human resource and systems. They include legal risks and risks posed by external events.
In this area, Edison's operations include building and operating power plants and hydrocarbon facilities that are technologically complex and interconnected along the entire value chain. The risk of losses or damages can arise as a result of the sudden unavailability of one or more pieces of equipment that are critical for the production processes due to material damages to the equipment or components thereof, which cannot be fully covered or transferred through insurance policies. Prevention and control programs designed to contain the frequency of these events or reduce their impact entail the adoption of stringent safety standards and frequent overhaul plans, contingency planning and scheduled maintenance. When appropriate, effective risk management policies and customized industrial insurance programs can be used to minimize the consequences of these damages.

A major source of risk is the ongoing evolution of the reference statutory and regulatory framework, which has an impact mainly on the rates charged, the quality of the service provided and the level of technical and operational compliance. Edison constantly monitors changes in this area to comply promptly with any changes, while working to minimize any resulting financial impact.

In the area of operational risk, the information systems that help manage the technical, commercial and administrative aspects of the Group's operations are especially significant. In order to limit the risk of an interruption of activity due to a system fault, Edison has adopted hardware and software architectures with a high reliability configuration for those applications that support critical activities. In addition, the services provided by IBM, the Group's outsourcer, include a disaster recovery service (tested in 2006) that guarantees short recovery times.

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 Company 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 not 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 industry best practices.

Instruments Outstanding at December 31, 2006

The data shown in the tables below provide the following information:
- Derivatives that were outstanding at December 31, classified by maturity;
- The value at which these contracts are reflected on the balance sheet, which is their fair value on the date of the financial statements.
- The pro rata share of the fair value referred to above that was recognized on the income statement from the date of execution to the reporting date.

The difference, if any, between the value on the balance sheet (second item above) and the fair value recognized on the income statement (third item above) is the fair value of contracts that qualify as cash flow hedges, which, in accordance with the reference accounting principles, is posted directly to equity reserves.

A) Interest Rates and Foreign Exchange Rates

(in thousands of euros)	Notional amount		Notional amount (*)	Notional amount (*)	Notional sheet value (**)	Cumulative impact on the income stat. at December 31, 2006 (***)
	due within 1 year		due between 2 and 5 years	due after 5 years		
	receivable	payable				
Interest rate risk management						
- cash flow hedges in accordance with IAS 39	-	255,000	200,000	-	345	(1,333)
- contracts that do not qualify as hedges in accordance with IAS 39	-	816,639	809,496	36,810	(14,585)	(14,585)
Total interest-rate derivatives	**-**	**1,071,639**	**1,009,496**	**36,810**	**(14,240)**	**(15,918)**
Foreign exchange rate risk management						
- contracts that qualify as hedges in accordance with IAS 39						
- On commercial transactions	1,147,995	333,000	-	-	(2,037)	(2)
- On financial transactions	-	12,138	-	-	-	-
- contracts that do not qualify as hedges in accordance with IAS 39						
- On commercial transactions	-	-	-	-	-	-
- On financial transactions	36,447	581	-	-	(202)	(202)
Total foreign exchange rate derivatives	**1,184,442**	**345,719**	**-**	**-**	**(2,239)**	**(204)**

(*) Represents the sum of the notional amounts of the basic contracts that would result from an unbundling of complex contracts.
(**) Represents the net credit (+) or debit (-) recognized on the balance sheet following the measurement of derivatives at fair value.
(***) 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.

B) Commodities

(in thousands of euros)	Unit of measure of notional amount	Notional amount due within one year (*)	Balance sheet value (**)	Cumulative impact on the income stat. at December 31, 2006 (***)
GPrice risk management for energy products				
A. Cash flow hedges pursuant to IAS 39, broken down as follows:		**-**	**(7,558)**	**-**
- Electric power	TWh	-	-	-
- Natural gas	millions of Term	-	-	-
- LNG, oil	barrels	3,341,689	(7,558)	-
- Coal	millions of tons	-	-	-
- CO_2	millions of tons	-	-	-
- Other commodities	-	-	-	-
B. Contracts that qualify as fair value hedges pursuant to IAS 39		**-**	**-**	**-**
C. Contracts that do not qualify as fair value hedges pursuant to IAS 39, broken down as follows:		**-**	**-**	
C.1 Margin hedges				
- Electric power	TWh	-	-	-
- LNG, oil	barrels	-	-	
- Coal	millions of tons	-	-	-
C.2 Trading contracts				
- Electric power	TWh	-	-	-
- LNG, oil	barrels	-	-	-
TOTAL		**-**	**(7,558)**	**-**

(*) + for net purchases, - for net sales.
(**) Represents the net credit (+) or debit (-) recognized on the balance sheet following the measurement of derivatives at fair value.
(***) 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.

Financial Results Generated by Derivative Transactions in 2006

The table below provides an analysis of the financial results generated by derivative transactions in 2006. The income statement line "Materials and services used" includes the impact of the effective portion of commodity related foreign exchange hedges, which amounted to 930,000 euros.

(in thousands of euros)	Realized in 2006 (A)	Fair Value recognized for contracts outstanding at 12.31.05 (B)	Portion of (B) contracts realized in 2006 (B1)	Fair Value recognized for contracts outstanding at 12.31.2006 (C)	Change in Fair Value in 2006 (D=C-B)	Amounts recognized in earnings (A+D)
Other revenues and income						
Price risk hedges for energy products						
- definable as hedges pursuant to IAS 39 (CFH)	-	-	-	-	-	-
- not definable as hedges pursuant to IAS 39	23,827	204	204	-	(204)	23,623
Exchange risk hedges for commodities						
- definable as hedges pursuant to IAS 39 (CFH)	4	-	-	15	15	19
- not definable as hedges pursuant to IAS 39	1,041	-	-	15	15	1,056
Total (A)	**24,872**	**204**	**204**	**30**	**(174)**	**24,698**
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	(21,224)	(834)	(834)	-	834	(20,390)
Exchange risk hedges for commodities						
- definable as hedges pursuant to IAS 39 (CFH)	(1,020)	-	-	(17)	(17)	(1,037)
- not definable as hedges pursuant to IAS 39	(15,644)	-	-	(217)	(217)	(15,861)
Total (B)	**(37,888)**	**(834)**	**(834)**	**(234)**	**600**	**(37,288)**
TOTAL INCLUDED IN EBITDA (A+B)	**(13,016)**	**(630)**	**(630)**	**(204)**	**426**	**(12,590)**
Net financial income (expense) from trading contracts						
Price risk hedges for energy products						
- Gains on trading transactions	-	32	-	-	(32)	(32)
- Losses on trading transactions	-	-	-	-	-	-
Margin on commodity trading transactions (C)	**-**	**32**	**-**	**-**	**(32)**	**(32)**
Interest rates hedges, broken down as follows:						
Financial income						
- definable as hedges pursuant to IAS 39	8,817	-	-	6,731	6,731	15,549
- not definable as hedges pursuant to IAS 39	38,495	14,294	-	14,586	28,881	67,376
Total financial income (D)	**47,312**	**14,294**	**-**	**21,318**	**35,612**	**82,924**
Financial expense						
- definable as hedges pursuant to IAS 39	(13,316)	-	-	(8,064)	(8,064)	(21,380)
- not definable as hedges pursuant to IAS 39	(35,944)	(12,757)		(33,523)	(46,279)	(82,223)
Total financial expense (E)	**(49,260)**	**(12,757)**	**-**	**(41,587)**	**(54,344)**	**(103,603)**
Margin on interest rate hedging transactions (D+E)=(F)	**(1,947)**	**1,538**	**-**	**(20,269)**	**(18,732)**	**(20,679)**
Foreign exchange rates hedges, broken down as follows:						
Foreign exchange gains						
- definable as hedges pursuant to IAS 39	419	-	-	-	-	419
- not definable as hedges pursuant to IAS 39	296	351	351	-	(351)	(55)
Total foreign exchange gains (G)	**715**	**351**	**351**	**-**	**(351)**	**364**
Foreign exchange losses						
- definable as hedges pursuant to IAS 39	104	-	-	-	-	104
- not definable as hedges pursuant to IAS 39	(262)	(305)	(305)	-	305	43
Total foreign exchange losses (H)	**(158)**	**(305)**	**(305)**	**-**	**305**	**147**
Margin on foreign exchange hedging transactions (G+H)= (I)	**557**	**46**	**46**	**-**	**(46)**	**511**
TOTAL INCLUDED IN NET FINANCIAL INCOME (EXPENSE)(C+F+I)	**(1,390)**	**1,616**	**46**	**(20,269)**	**(18,810)**	**(20,200)**

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 4,626,395,000 euros, or 59,402,000 euros less than at December 31, 2005. The table below provides a breakdown of this item and shows the changes that occurred during 2006.

(in thousands 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)	**488,450**	**3,019,169**	**7,354**	**5,365**	**1,165,459**	**4,685,797**
Changes at December 31, 2006:						
- Additions	4,394	131,953	1,155	407	163,450	301,359
- Disposals (-)	(1,170)	(4,764)	(10)	(16)	-	(5,960)
- Depreciation (-)	(23,704)	(336,801)	(1,339)	(1,397)	-	(363,241)
- Writedowns (-)	-	(62,000)	-	-	-	(62,000)
- Reversals of writedowns (+)	-	1,578	-	-	-	1,578
- Other changes	69,270	876,818	419	143	(877,788)	68,862
Total changes (B)	**48,790**	**606,784**	**225**	**(863)**	**(714,338)**	**(59,402)**
Balance at 12.31.06 (A+B)	**537,240**	**3,625,953**	**7,579**	**4,502**	**451,121**	**4,626,395**
Breakdown:						
- Historical cost	598,747	4,551,634	12,264	8,232	451,140	5,622,017
- Writedowns (-)	(3,518)	(106,437)	(1,619)	(1)	(19)	(111,594)
- Accumulated depreciation (-)	(57,989)	(819,244)	(3,066)	(3,729)	-	(884,028)
Net carrying amount	**537,240**	**3,625,953**	**7,579**	**4,502**	**451,121**	**4,626,395**

The total value of these assets includes construction in progress and advances totaling 451,121,000 euros for a thermoelectric power plant that is being built in Simeri Crichi (283,202,000 euros) and the development of the Candela (21,839,000 euros) and Daria (21,529,000 euros) hydrocarbon fields. The commissioning of thermoelectric facilities in Altomonte and Torviscosa accounts for the sizable reduction in "Construction in progress and advances" compared with December 31, 2005.

Additions, which totaled 301,359,000 euros, are mainly the result of the following capital expenditures:

- The investments of the thermoelectric operations, which totaled 216,731,000 euros, were primarily used for the construction of new thermoelectric power plants in Simeri Crichi (148,765,000 euros) and Torviscosa (28,948,000 euros) and to bring on stream a facility in Altomonte (6,100,000 euros)
- The natural gas operations invested 64,354,000 euros. The main projects pursued included development of the Candela (12,297,000 euros) and Daria (20,225,000 euros) gas fields and construction of the Rospo Mare, AC8 and Emma facilities (26,040,000 euros).
- The 19,255,000 euros invested by the hydroelectric operations were used mainly to rebuild the main tunnel of the Ponte Gardena power plant and to resurface the slipway at the Vedello power plant.

Disposals of 5,960,000 euros refer mainly to the replacement of components at the Taranto and Piombino thermoelectric power plants.

Depreciation of property, plant and equipment included 82,507,000 euros for the hydroelectric operations (81,628,000 euros at December 31, 2005), 247,270,000 euros for the thermoelectric operations (145,283,000 euros at December 31, 2005), 30,090,000 euros for the hydrocarbons op-

erations (33,036,000 euros at December 31, 2005) and 3,374,000 euros for corporate activities (3,361,000 euros at December 31, 2005).
The increase compared with 2005 reflects primarily the commissioning of new power plants and the new method used to depreciate thermoelectric power plants that sell power to the Manager of the National Transmission Grid (abbreviated as GRTN in Italian) at rates set in the CIP 6/92 Resolution. This change produced a significant charge (56,485,000 euros) in the income statement.

As explained later in these notes, the result of an impairment test required the Company to **write down** by 62,000,000 euros the carrying amount of certain thermoelectric facilities.
Reversals of writedowns totaling 1,578,000 euros refer to hydrocarbon deposits.

Other changes include 72,206,000 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 (56,856,000 euros for the hydrocarbons operations and 15,350,000 euros for the electric power operations). The decrease in construction in progress is mainly due to the commissioning of the Altomonte and Torviscosa power plants.
In this area, during the second half of 2006, the Group completed an in-depth review of projected decommissioning costs for the production assets of the hydrocarbons operations, which were then increased across the board. The reason for this change is the rise in the cost of drilling equipment and the higher rates charged by industry operators as a result of the sizable amount by which oil prices have increased during the past 12 months.

Lastly:
- The net carrying amount of property, plant and equipment included assets transferable at no cost with an aggregate value of 319,762,000 euros (366,438,000 euros at December 31, 2005). Most of the assets transferable at no cost are held by Edison's hydroelectric operations, which hold 35 concessions. The decrease reflects primarily the depreciation taken in 2006.
- Property, plant and equipment includes assets acquired under finance leases totaling 3,073,000 euros (3,366,000 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 1,304,000 euros.
- Law No. 266 of December 23, 2005 (2006 Budget Law) 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 Company's investment property, which consists of land and buildings that are not used for production purposes, totaled 9,819,000 euros. The decrease, compared with December 31, 2005, reflects the depreciation for the period and the sale of some properties.
Property sales generated a net gain of 3,633,000 euros.

A breakdown of the changes that occurred in this account is provided below:

(in thousands of euros)	Investment property
Balance at 12.31.05 (A)	**17,474**
Changes in 2006:	
- Disposals	(7,253)
- Depreciation	(402)
- Other changes	-
Total changes (B)	**(7,655)**
Balance at 12.31.06 (A+B)	**9,819**
Breakdown:	
- Historical cost	23,366
- Accumulated depreciation	(1,248)
- Writedowns	(12,299)
Net carrying amount	**9,819**

3. Goodwill

Goodwill totaled 2,632,320,000 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.

The definition of the goodwill value follows the attribution criteria applied for the segments, as indicated in the Cash Generating Unit definition in the consolidated financial statements. Please see that special disclosure to determine the recoverability of this figure.

4. Hydrocarbon Concessions

Concessions for the production of hydrocarbons, which include 45 hydrocarbon production leases in Italy, were valued at 254,408,000 euros. The year-over-year decrease of 13,652,000 euros is the net result of the amortization for the period (20,205,000 euros) and of reversals of writedowns (6,553,000 euros).
The table below shows the changes that occurred in this account in 2006:

(in thousands of euros)	Hydrocarbon concessions
Balance at 12.31.05 (A)	**268,060**
Changes in 2006:	
- Amortization	(20,205)
- Reversals of writedown	6,553
- Other changes	-
Total changes (B)	**(13,652)**
Balance at 12.31.06	**254,408**
Breakdown:	
- Historical cost	329,656
- Accumulated amortization (-)	(75,158)
- Writedowns (-)	(90)
Net carrying amount	**254,408**

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."

	Number	Remainig life	
		from	to
Hydroelectric concessions	35	2	22
Hydrocarbon concessions	45	unit of production (*)	

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

5. Other Intangible Assets

The balance of 36,712,000 euros refers mainly to licenses and similar rights (27,738,000 euros) and work in progress (8,974,000 euros). Licenses and similar rights include 16,167,000 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 17,162,000 euros.

(in thousands of euros)	Other intangible assets
Balance at 12.31.05 (A)	**34,536**
Changes in 2006:	
- Additions	26,833
- Amortization	(24,657)
- Other changes	-
Total changes (B)	**2,176**
Balance at 12.31.06	**36,712**
Breakdown:	
- Historical cost	82,131
- Accumulated amortization (-)	(44,714)
- Writedowns (-)	(705)
Net carrying amount	**36,712**

Impairment Test Applied to the Value of Goodwill, Property, Plant and Equipment and Other Intangibles

Because goodwill is an intangible asset with an indefinite useful life and, therefore, cannot be amortized in regular installments, IAS 36 requires that its value be tested for impairment at least once a year. Since goodwill does not generate cash flow independently and cannot be sold separately, IAS 36 requires a test of the value that can be recovered on a residual basis. This is accomplished by determining the cash flows generated by the complex of assets that constitute the business or businesses to which goodwill is attributable (the cash generating unit or units).

A description of the method used is provided in the corresponding note to the consolidated financial statements.

The recoverable value determined in accordance with the statistical process referred to above is greater than the corresponding carrying amounts attributed to the various cash generating units (CGUs).

In the case of the Edison Spa CGUs, the recoverable value of certain captive thermoelectric CGUs and CIP 6/92 CGUs, determined with the method used also for the consolidated financial statements (which should be consulted for more detailed information), was lower than their carrying amount, requiring a writedown of 62,000,000 euros.

These writedowns concerned mainly certain thermoelectric power plants and reflected the detection of such impairment indicators as an increase in interest rates, revisions to certain industrial projects or more restrictive interpretations of certain contract terms.

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

Investments in associates totaled 2,135,269,000 euros, including 1,262,245,000 euros in investments in subsidiaries and 873,024,000 euros in investments in affiliated companies. Available-for-sale investments were valued at 117,329,000 euros. They consist of investments in privately held companies (89,162,000 euros) and publicly traded companies (28,167,000 euros).

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

(in thousands of euros)	Investments in associates	Available-for-sale investments
Balance at 12.31.05 (A)	**2,403,229**	**58,234**
Changes in 2006:		
- Disposals (-)	(180,900)	(32)
- Additions	12,282	-
- Changes in share capital	3,653	66,473
- Distribution of reserves	(800)	-
- Writedowns (-)	(14,943)	(2,002)
- Other changes (-)	(5,376)	(5,344)
- Reclassifications and sundry changes	(81,876)	-
Total changes (B)	**(267,960)**	**59,095**
Balance at 12.31.06	**2,135,269**	**117,329**
Breakdown:		
- Historical cost	2,423,896	120,254
- Revaluations	-	-
- Writedowns (-)	(288,627)	(2,925)
Net carrying amount	**2,135,269**	**117,329**

An analysis of the changes is as follows:

- **Disposals** of 180,932,000 euros include 160,550,000 euros from the sale of the Edison Rete Spa subsidiary, which closed in November and generated a net gain of 131,859,000 euros, and 20,350,000 euros from the sale of the investment in the S.A.T. Servizi Ambiente Territorio Spa affiliate, which produced a gain of 8,324,000 euros.
- The main components of **additions** totaling 12,282,000 euros were the purchases of the entire share capital of EDF Energia Italia Srl (8,300,000 euros, which was later merged into and absorbed by the Edison Energia Spa subsidiary, and of a 70% interest in Eneco Spa (3,780,000 euros).
- **Changes in share capital** of 70,126,000 euros consist mainly of capital contributions provided to Terminale GNL Adriatico (66,473,000 euros) and Nuova Alba (3,350,000 euros).
- **Writedowns** totaling 16,945,000 euros refer mainly to the Gever (7,500,000 euros), Nuova Alba Srl (3,104,000 euros) and Montedison Srl (1,937,000 euros) subsidiaries and to the International Water Holding BV (1,320,000 euros) associated company.
- **Other changes** of 10,720,000 euros refer mainly to the reclassification of writedowns applied to the investments in International Water Holding BV (5,000,000 euros) and Ipse 2000 Spa (5,344,000 euros), which previously were reflected in the corresponding provisions for risks.
- **Reclassifications and sundry changes** refer entirely to the carrying amount of the investment in Serene Spa, which was reclassified under "Assets held for sale."

7. Other Financial Assets

Other financial assets of 74,157,000 euros include loans receivable due in more than one year and long-term equity investments.

The main components of loans receivable are a receivable for a restricted deposit provided to IPSE 2000 (37,358,000 euros), which is offset by a separate provision for risks, and 34,873,000 euros in loans receivable from subsidiaries.

8. Deferred-tax Assets

Since this item met the requirements of IAS 12, it was offset against the "Provision for deferred taxes." Additional information is provided in the corresponding note.

9. Other Assets

This item, which totaled 61,728,000 euros, or 186,899,000 euros less than at December 31, 2005, consists mainly of tax refunds receivable and accrued interest at December 31, 2006. The year-over-year decrease reflects collections of tax refunds and accrued interest (64,458,000 euros) and the assignment, in December, of certain receivables owed to the Company by the tax administration for income tax and VAT overpayments and accrued interest totaling about 128,806,000 euros. This account's balance at December 31, 2006 also includes 6,110,000 euros consisting mainly of security deposits.

10. Current Assets

(in thousands of euros)	12.31.2006	12.31.2005	Change
Inventories	258,220	183,876	74,344
Trade receivables	875,696	941,820	(66,124)
Current tax-assets	5,621	22,957	(17,336)
Other receivables	213,336	369,298	(155,962)
Current financial assets	531,508	510,787	20,721
Cash and cash equivalents	187,229	15,868	171,361
Total current assets	**2,071,610**	**2,044,605**	**27,004**

A review of the individual components is provided below:

Inventories

Inventories, which increased to 258,220,000 euros (74,344,000 euros more than at December 31, 2005) due mainly to a larger inventory of stored natural gas and fuel oil, include hydrocarbon products (221,325,000 euros) and supplies and equipment used to maintain and operate the Company's facilities (36,162,000 euros). The ending inventories include strategic reserves, the use of which is restricted.

Trade Receivables

Trade receivables totaled 875,696,000 euros, or 66,124,000 euros less than at December 31, 2005. A breakdown by type of business is as follows:

(in thousands of euros)	12.31.2006	12.31.2005	Change
Electric power operations	586,368	513,002	73,366
Hydrocarbons operations	289,328	428,818	(139,490)
Total	**875,696**	**941,820**	**(66,124)**

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 27,718,000 euros.

Current-tax Assets

The balance of 5,621,000 euros is 17,336,000 euros less than at December 31, 2005. This decrease is the net result of the transfer of the amount receivable from the tax authorities from the national consolidated tax return filed in 2005 to the national consolidated tax return filed by the controlling company Transalpina di Energia Srl (18,836,000 euros) and of receivables owed by the tax authorities for the difference between the estimated local-tax payments made in 2006 and the corresponding actual tax liability for 2006 (5,597,000 euros).

Other Receivables

Other receivables amounted to 213,336,000 euros, net of an allowance for doubtful accounts totaling 18,639,000 euros. The main components of this account are amounts owed by partners and associates in hydrocarbon exploration projects and royalty advances (24,963,000 euros), receivables from public institutions and local entities for hydroelectric fees (7,444,000 euros), dividends receivable (41,666,000 euros owed by Termica Milazzo Srl, Serene and Termica Celano Srl), prepaid insurance premiums (11,812,000 euros), credits arising from the valuation of commodity derivatives (31,298,000 euros) and payments receivable from the Incentivized Energy Equalization Fund (13,340,000 euros).

The table below shows a breakdown of the receivables owed by subsidiaries and affiliated companies:

(in thousands of euros)	12.31.2006	12.31.2005	Change
Termica Milazzo	26,298	19,559	6,739
Serene	13,630	16,455	(2,825)
Termica Celano	4,564	3,094	1,470
Gever	1,503	1,097	406
Sel Edison	1,320	627	693
Consorzio di Sarmato	1,191	2,744	(1,553)
Edison International	1,107	1,802	(695)
Edipower	987	1,602	(615)
Edison Energie Speciali	975	640	335
Edison Energia	858	9,509	(8,651)
Edison DG	693	6,010	(5,317)
Edison Stoccaggio	573	3,641	(3,068)
Termica Boffalora	473	369	104
Montedison	421	1,561	(1,140)
Jesi Energia	104	372	(268)
Edison Trading	40	309	(269)
Finel	13	70,412	(70,399)
Other	1,719	4,560	(2,841)
Total	**56,469**	**144,363**	**(87,894)**

Current Financial Assets

A breakdown of current financial assets, which totaled 531,508,000 euros, is as follows:

(in thousands of euros)	12.31.2006	12.31.2005	Change
Equity investments held for trading	10,943	29,008	(18,065)
Loans receivable	516,127	450,358	65,769
Derivatives	4,438	31,420	(26,982)
Total current financial asssets	**531,508**	**510,786**	**20,722**

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 (6,061,000 euros), ACSM Spa (3,690,000 euros) and AMCS American Superconductor Spa (1,192,000 euros). Investments in ACEA and AMGA were sold in 2006, generating a gain of 1,926,000 euros.

Loans Receivable

Loans receivable of 516,127,000 euros reflect financial transactions with subsidiaries and affiliated companies. They represent the balances in the corresponding intra-Group current accounts, a list of which is provided below (amounts in thousands of euros):

Company	12.31.2006	12.31.2005	Change
Subsidiaries:			
Edison Energia	219,212	82,342	136,870
Edison Energie Speciali	132,650	49,376	83,274
Edison International	42,269	30,603	11,666
Edison Stoccaggio	41,203	11,950	29,253
Edison DG	37,205	32,845	4,360
Termica Milazzo	7,847	-	7,847
Termica Celano	4,994	2,854	2,140
Consorzio di Sarmato	4,556	13,576	(9,020)
Sarmato Energia	4,357	4,518	(161)
Jesi Energia	4,219	3,441	778
Serene	-	22,890	-
Termica Cologno	-	5,756	(5,756)
Edison Trading	-	102,471	(102,471)
Other companies	167	69,107	(68,940)
Subtotal (A)	**498,679**	**431,729**	**66,950**
Affiliated companies:			
Ibiritermo	15,081	16,262	(1,181)
Parco Eolico Castelnuovo	2,367	2,367	-
Subtotal (B)	**17,448**	**18,629**	**(1,181)**
Total (A+B)	**516,127**	**450,358**	**65,769**

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 thousands of euros)	12.31.2006	12.31.2005	Change
Foreign exchange transaction	15	-	15
Interest rate transactions	4,438	31,420	(26,982)
Commodities transactions	31,298	-	31,298
Fair value recognized in current assets	**35,751**	**31,420**	**4,331**
allocated as follows:			
- to Other receivables	31,313	-	31,313
- to Current financial assets	4,438	31,420	(26,982)

The portion of these receivables that represents cash flow hedges (33,272,000 euros) is offset by a reserve included in shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents of 187,229,000 euros consist of short-term bank and postal account deposits. The sharp increase of this item compared with December 31, 2006 reflects the liquidity generated by the assignment of tax refunds receivable mentioned earlier in these notes.

11. Assets Held for Sale

This item, which totaled 104,766,000 euros, includes the value of the Company's investment in Serene Spa (81,875,000 euros) and loans receivable of 22,891,000 euros owed by the same subsidiary.

Liabilities and Shareholders' Equity

12. Shareholders' Equity

Edison's shareholders' equity amounted to 5,608,877,000 euros, or 450,093,000 euros more than at December 31, 2005. This increase is the net result of profit earned in 2006 (632,228,000 euros) and the distribution of dividends for 182,285,000 euros (corresponding to a 0.038 euro dividend per ordinary share and a 0.218 euro dividend per saving share, including the formerly due amounts).
Other reserves include a reserve established to recognize fair value adjustments to the carrying amounts of property, plant and equipment for 467,109,000 euros and the differences due to che application of Italian GAAP and IAS/IFRS.

A breakdown of changes in the shareholders' equity accounts is provided below:

(in thousands of euros)	Share capital	Statutory reserve	Additional paid-in capital	Reserve for Gov. grants and invest. planned pursuant to law	Other reserves	Retained earnings (Loss carryforward)	Profit (Loss) for the year	Shareholders' equity
Balance at December 31, 2004	**4,258,888**	**-**	**-**	**19,763**	**406,878**	**(370,674)**	**284,714**	**4,599,569**
Adoption of IAS 39:								
- impact at 1.1.05	-	-	-	-	-	33,078	-	33,078
- impact for the 12 months ended 12.31.05	-	-	-	-	-	(7,189)	-	(7,189)
Appropriation of 2004 profit	-	-	-	-	(1,844)	286,558	(284,714)	-
Share capital increase through the exercise of warrants	6,959	-	-	-	-	-	-	6,959
Capital stock increase through the allocation of stock options	7,261	-	3,402	-	-	-	-	10,663
Profit for 2005	-	-	-	-	-	-	515,704	515,704
Balance at December 31, 2005	**4,273,108**	**-**	**3,402**	**19,763**	**405,034**	**(58,227)**	**515,704**	**5,158,784**
Appropriation of 2005 profit	-	17,553	(3,402)	(938)	164,650	155,556	(515,704)	(182,285)
Share capital increase through the exercise of warrants	31	-	-	-	-	-	-	31
Adjustments recognized in 2006 due to the adoption of IAS 39	-	-	-	-	119	-	-	119
Profit for 2006	-	-	-	-	-	-	632,228	632,228
Balance at December 31, 2006	**4,273,139**	**17,553**	**-**	**18,825**	**569,803**	**97,329**	**632,228**	**5,608,877**

At December 31, 2006, the subscribed and paid-in capital stock of Edison Spa totaled 4,273,139,000 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	Thousands of euros
Common shares	4,162,547,033	4,162,547
Nonconvertible savings shares	110,592,420	110,592
Total shares	**-**	**4,273,139**

The aggregate value of share capital and additional paid-in capital was little changed compared with December 31, 2005, except for the exercise of 31,699 warrants. A total of 1,018,616,924 warrants was outstanding at December 31, 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 of providing 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, together with a reserve for valuations of available for sale investments (see Note 6).

Reserve for cash flow hedge transactions

(in thousands of euros)	Gross reserve	Deferred taxes	Net reserve
- Reserve at December 31, 2005	(10,816)	3,569	(7,247)
- Change in 2006	2,898	(548)	2,350
- Reserve at December 31, 2006	**(7,918)**	**3,021**	**(4,897)**

Non-current Liabilities

13. Provision for Employee Severance Indemnities and Provisions for Pensions

These provision, which amounted to 39,108,000 euros, reflect the accrued severance indemnities and other benefits owed to employees at December 31, 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	4.50%
- Annual inflation rate	2.00%
- Estimated annual increase of the provision for severance indemnities	3.00%
- Estimated annual increase of the wages used to compute the provision	3.00%

The computation process also resulted in the recognition of financial expense totaling 1,651,000 euros.

The table below shows the changes that occurred in 2006:

(in thousands of euros)	Provision for sever. indem.	Provision for pensions	Total
Balance at 12.31.05 (A)	**38,042**	**-**	**38,042**
Change in 2006:			
- Additions	3,252	-	3,252
- Financial expense (+)	1,651	-	1,651
- Discounting gains (losses) (+/-)	(587)	-	(587)
- Utilizations (-)	(3,250)	-	(3,250)
- Revisions for prior-period costs (+)	-	-	-
- Other changes	-	-	-
Total changes (B)	**1,066**	**-**	**1,066**
Balance at 12.31.06 (A+B)	**39,108**	**-**	**39,108**

The changes that occurred in the Provision for severance indemnities reflect utilizations for employee terminations, additions for service costs computed on an actuarial basis and utilizations upon discounting and to reflect financial expense computed on the liability toward the employees on the Company's payroll.

At December 31, 2006, the Company had 1,801 employees.

(numbers of employees)	01.01.06	Added to payroll	Removed from payroll	Other/ Reclassific.	12.31.06	Average payroll
Executives	134	2	(17)	3	122	127
Office staff and middle managers	1,266	54	(55)	21	1,286	1,274
Production staff	382	41	(10)	(20)	393	382
Total for the Group	**1,782**	**97**	**(82)**	**4**	**1,801**	**1,783**

14. Provision for Deferred Taxes

The balance of 415,375,000 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.
Since this item met the requirements of IAS 12, it was offset against the Deferred-tax assets account.
The following table shows a breakdown of this reserve by type of underlying temporary difference:

(in thousands of euros)	12.31.2006	12.31.2005	Change
Deferred-tax liabilities:			
- Differences in the valuation of property, plant and equipment	472,549	794,038	(321,489)
- Adoption of the standard on finance leases (IAS 17)	30,991	31,604	(613)
- Adoption of the standard on financial instruments (IAS 39) with impact on:			
- the income statement	-	4,717	(4,717)
- shareholders' equity	554	-	554
- Other deferred taxes	2,811	5,826	(3,015)
Total deferred-tax liabilities (A)	**506,905**	**836,185**	**(329,280)**
Deferred-tax assets:			
- Tax loss carryforward	-	46,000	(46,000)
- Taxed provisions for risks	82,846	44,000	38,846
- Adoption of the standard on financial instruments (IAS 39) with impact on:			
- the income statement	5,110	-	5,110
- shareholders' equity	3,574	3,569	5
- Other prepaid taxes	-	435	(435)
Total deferred-tax assets (B)	**91,530**	**94,004**	**(2,474)**
Total provision for deferred taxes (A-B)	**415,375**	**742,181**	**(326,806)**

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 297,791,000 euros. More detailed information is provided in the note on Income taxes.

Deferred-tax assets of 91,530,000 euros include 74,431,000 euros from taxed-provisions for risks, 8,415,000 euros from temporary differences related to writedowns of equity investments, 5,110,000 euros from the valuation of the derivative implied in the assignment of tax credits and 3,574,000 euros from the impact of the adoption of IAS 39.
Insofar as the recognition of these items is concerned, they were valued in accordance with realistic assumptions that they would be realized and the tax benefits realized within the limited time horizon covered by the industrial plans approved by the Company. Accordingly, only a portion of the amount of the theoretical prepaid taxes computed on the reserves for risks was used for valuation purposes.

15. Provisions for Risks and Charges

At December 31, 2006, the provisions for risks and charges, which are established to cover contingent liabilities, totaled 782,185,000 euros, a decrease of 139,003,000 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 2006:

(in thousands of euros)	12.31.2005	Additions	Utilizations	Other	12.31.2006
- Disputed tax items	34,711	735	(24,590)	9,200	20,056
- Risks for disputes, litigation and contracts	155,579	11,863	(15,180)	-	152,262
- Charges for contractual guarantees on the sale of equity investments	203,416	347	(57,903)	-	145,860
- Provisions for decommissioning and remediation of industrial sites	147,200	7,986	(4,634)	74,442	224,994
- Environmental risks	180,416	-	(111,427)	-	68,989
- Risks on the sale of equity investments	12,200	-	-	(9,200)	3,000
- Provision for EU Directive No. 2003/83 (Emissions Rights)	21,250	-	(4,419)	-	16,831
- Other risks and charges	166,416	30,814	(28,084)	(18,953)	150,193
Total provisions for risks and charges	**921,188**	**51,745**	**(246,237)**	**55,489**	**782,185**

The main changes that occurred in 2006 are reviewed below:

- The main components of **additions** of 51,745,000 euros include 20,000,000 euros set aside to cover an administrative fine for unauthorized use of storage capacity and 12,497,000 euros added to cover liabilities for pending disputes (6,533,000 euros in statutory interest added to existing provisions and 7,986,000 euros for interest expense incurred with the decommissioning and remediation of industrial sites).
- The main components of **utilizations,** which totaled 246,237,000 euros, were the reduction of 111,427,000 euros from the provision established to cover contractual obligations related to the Porto Marghera facility, 57,903,000 euros related to the cancellation of guarantees provided in previous years in connection with the sale of equity investments, 40,027,000 euros in utilizations of provisions for risks upon the settlement of pending disputes and 24,590,000 euros for the settlement of tax disputes resolved favorably for the Company. An additional decrease of 4,419,000 euros stems from a utilization booked to adjust the provision to a level consistent with the amount needed to cover the shortfall in CO_2 rights, valued at market prices.
- The increase of 74,442,000 euros in **other changes** refers to the provisions for site decomissioning. Of this amount, 56,856,000 euros refers to a revision of the cost of decommissioning production assets of the hydrocarbons operations and 15,350,000 euros refers to decommissioning costs of production facilities that were put into service in 2006 and recognized as a direct addition to the underlying asset. The decrease of 18,953,000 euros includes 14,510,000 euros in reclassifications of certain provisions for risks to the corresponding assets, which was carried out for greater clarity of presentation.

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 Notes to the Consolidated Financial statements entitled "Update of the Main Legal and Tax Disputes at December 31, 2006."

16. Bonds

The balance of 1,207,126,000 euros represents the long-term portion of the bonds issued by the Company. The table below shows the balance outstanding at December 31, 2006 and indicates the fair value of each bond issue:

(in thousands of euros)	Market where traded	Currency	Par value outstanding	Coupon	Rate	Maturity	Long-term amortized cost	Fair value
Euro Medium Term Notes:								
Edison Spa	Luxembourg Securities Exchange	EUR	700.000	Annual in arrears	5.125%	12.10.10	700.159	721.300
Edison Spa	Luxembourg Securities Exchange	EUR	500.000	Quarterly in arrears	4.103%	7.19.11	506.967	511.385
Total							**1.207.126**	**1.232.685**

17. Long-term Borrowings and Other Financial Liabilities

At December 31, 2006, this account totaled 339,383,000 euros. A breakdown is as follows:

(in thousands of euros)	12.31.2006	12.31.2005	Change
Due to banks	336,706	445,564	(108,858)
Due to other lenders	2,677	3,277	(600)
Total	**339,383**	**448,841**	**(109,458)**

18. Other Liabilities

This account had a zero balance at December 31, 2006.

Breakdown of Indebtedness by Maturity

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

(in thousands of euros)	12.31.08	12.31.09	12.31.10	12.31.11	After 5 years	Total
Bonds	2,877	200	700,035	504,015	-	1,207,127
Borrowings and other financial liab.:						
- Bank debt	80,515	134,816	14,816	14,818	91,741	336,706
- Due to other lenders	662	978	202	205	630	2,677
Other liabilities	-	-	-	-	-	-
Total	**84,054**	**135,994**	**715,053**	**519,038**	**92,371**	**1,546,510**

19. Current Liabilities

(in thousands of euros)	12.31.2006	12.31.2005	Change
Bonds	1,456,752	-	1,456,752
Short-term borrowings	1,150,579	1,365,722	(215,143)
Trade payable	868,005	882,213	(14,208)
Current taxes payable	-	12,074	(12,074)
Other liabilities	257,121	260,587	(3,466)
Total current liabilities	**3,732,457**	**2,520,596**	**1,211,861**

The main current liability accounts are reviewed below:

Bonds: The balance of 1,456,752,000 euros represents the current portion of the Company's bond indebtedness. The table below shows the short-term amounts that were outstanding at December 31, 2006 and provides an indication of the fair value of the individual bond issues:

(in thousands of euros)	Market where traded	Currency	Par value outstanding	Coupon	Rate	Maturity	Long-term amortized cost	Fair value
Euro Medium Term Notes:								
Edison Spa	Luxembourg Securities Exchange	EUR	600,000	Annual in arrears	7.375%	7.20.07	619,105	630,436
Italenergia Spa	Retail	EUR	829,639	Semiannual in arrears	4.193%	8.26.07	837,647	844,434
Total							**1,456,752**	**1,474,870**

Short-term borrowings: The main components of this item are 888,873,000 euros owed to subsidiaries and 262,292,000 euros due to banks for principal and accrued interest. The bank debt includes 4,441,000 euros generated by measuring at fair value interest rate and foreign exchange derivatives.
The table below shows the most significant amounts owed to Group companies:

(in thousands of euros)	12.31.2006	12.31.2005	Change
Finel	686,400	729,299	(42,899)
EdisonTrading	134,834	-	134,834
Euroil	12,208	12,509	(301)
Poggio Mondello	11,607	11,302	305
Nuova Alba	10,848	9,170	1,678
Ferruzzi Trading France	9,494	9,395	99
ETS	6,499	-	6,499
Montedison Finance Europe	3,867	3,982	(115)
Volta	2,829	-	2,829
Finimeg	2,637	-	2,637
Nuova Cisa	2,622	-	2,622
Termica Boffalora	1,841	9,852	(8,011)
Parco Eolico San Giorgio	-	22,141	(22,141)
Other subsidiaries	3,187	5,526	(2,339)
Total	**888,873**	**813,176**	**75,697**

Trade payables: A breakdown of this item is provided below:

(in thousands of euros)	12.31.2006	12.31.2005	Change
Electric power operations	424,364	410,598	13,766
Hydrocarbons operations	432,207	439,069	(6,862)
Corporate activities	11,434	32,546	(21,112)
Total	**868,005**	**882,213**	**(14,208)**

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: The liability for corporate income taxes (IRES) of 25,500,000 euros has been reclassified under Miscellaneous payables to the controlling company Transalpina di Energia Srl when it was transferred to this company in connection with the filing of a national consolidated tax return. No liability has been recognized for local taxes (IRAP), since the estimated payments made in 2006 were greater than the tax liability for the year.

Other liabilities: The balance of 257,120,000 euros includes the following: payables owed for miscellaneous consulting and other services (31,985,000 euros), liability toward the controlling company Transalpina di Energia Srl for the corporate income tax payable for 2006 upon the filing of a national consolidated tax return (25,500,000 euros), amounts payable to employees (18,524,000 euros), accounts payable to subsidiaries and affiliated companies under technical services contracts (12,116,000 euros), amounts owed to pension and social security institutions (10,852,000 euros), amounts owed to Group companies in connection with the filing of a Group VAT return (8,960,000 euros) and amounts owed to joint holders of permits and concessions for the production of hydrocarbons (8,923,000 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 thousands of euros)	12.31.2006	12.31.2005	Change
Foreign exchange in transactions	217	-	217
Interest rate transactions	18,677	47,565	(28,888)
Commodity transactions	40,894	1	40,893
Fair value recognized under current liabilities	**59,788**	**47,566**	**12,222**
Posted to:			
- Other liabilities	41,111	1	41,110
- Short-term borrowings	18,677	47,565	(28,888)

The portion of these liabilities that represents cash flow hedges (41,190,000 euros) is offset by a reserve included in shareholders' equity.

Net Borrowings

(Pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006)

At December 31, 2006, net borrowings totaled 3,412,000 euros, down from 3,930,000 euros at December 31, 2005. Most of this improvement is attributable to the cash flow from operations and the sale of Edison Rete Spa (311 million euros) and the proceeds generated by the assignment of tax credits (126 million euros), which more than offset the payment of dividends amounting to 183 million euros and capital expenditures of 301 million euros.

The table below provides a simplified breakdown of net borrowings:

(in thousands of euros)	12.31.2006	12.31.2005	Change
Long-term debt			
Bonds - non-current portion	1,207,126	2,642,002	(1,434,876)
Non-current bank loans	336,705	445,940	(109,235)
Amounts due to other lenders - non-current portion	1,823	1,626	197
Non-current portion of obligations under finance leases	855	1,274	(419)
Total long-term debt	**1,546,509**	**3,090,842**	**(1,544,333)**
Short-term debt			
Bonds - current portion	1,456,752	-	1,456,752
Current loans payable	1,150,132	1,365,289	(215,157)
Current portion of obligations under finance leases	449	433	16
Current financial assets	(531,507)	(510,786)	(20,721)
Cash and cash equivalents	(187,229)	(15,867)	(171,362)
Loans receivable from divested operations	(22,891)	-	(22,891)
Total short-term debt	**1,865,706**	**839,069**	**1,026,637**
Net borrowings	**3,412,215**	**3,929,911**	**(517,696)**

Default Risk and Loan Agreement Covenants

With regard to the Group's 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 or to the portion of the bank debt attributable to Edison.

NOTES TO THE INCOME STATEMENT

The profit earned by Edison Spa in 2006 totaled 632,228,000 euros, up from 515,704,000 euros the previous year. This increase was made possible by a significant improvement in operating performance (EBITDA were up 23%) and by the positive impact of non recurring items, including 201,858,000 euros from the realignment of the reporting value of certain assets to their tax value and a net gain of 131,876,000 euros on the sale of Edison Rete Spa.
On the other hand, the adoption of a new method to depreciate facilities that operate under CIP 6/92 contracts in a manner consistent with the benefits they produce reduced earnings by 56,485,000 euros.

20. Sales Revenues

Sales revenues totaled 4,854,766,000 euros, for an overall gain of 796,968,000 euros (+20%) compared with 2005. The Group's core businesses increased sales revenues by 843,729,000 euros (+21%).

The table below provides a breakdown of sales revenues:

(in thousands of euros)	2006	2005	Change	% change
Revenues from the sales of:				
- Electric power	2,727,791	2,083,960	643,831	30.9%
- Natural gas	1,854,147	1,721,797	132,350	7.7%
- Steam	120,979	101,314	19,665	19.4%
- Oil and fluxing chemicals	77,009	59,775	17,234	28.8%
- Other revenues	1,617	2,041	(424)	(20.8%)
Total sales revenues	**4,781,543**	**3,968,887**	**812,656**	**20.48%**
Revenues from services provided	47,698	46,582	1,116	2.4%
Revenues from power plant maintenance	19,430	32,495	(13,065)	(40.2%)
Transmission revenues	6,095	9,834	(3,739)	(38.0%)
Total	**4,854,766**	**4,057,798**	**796,968**	**19.64%**

Sales revenues were generated mainly in Italy.
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 Type of Business

(in thousands of euros)	2006	2005	Change	% change
Electric power operations	2.895,158	2,243,768	651,390	29.0%
Hydrocarbons operations	1,941,259	1,782,675	158,584	8.9%
Corporate activities	18,349	31,355	(13,006)	(41.5%)
Total	**4,854,766**	**4,057,798**	**796,968**	**19.6%**

Sales revenues increased by 796,968,000 euros, or 20% more than in 2005. The reasons for this improvement are reviewed below:

- The electric power operations (+29% compared with the previous year) boosted unit sales in the deregulated market and benefited from an increase in the average price charged, made possible by a rise in the fuel component.
- The hydrocarbons operations reported a 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 255,059,000 euros, a gain of 108,179,000 euros compared with 2005. A breakdown is as follows:

(in thousands of euros)	2006	2005	Change	% change
Out-of-period income	90,804	20,797	(70,007)	n.m.
Swaps and exchanges of natural gas	40,441	27,091	(13,350)	(49.3%)
Recovery of costs from partners in hydrocarbon exploration projects	26,405	16,887	(9,518)	(56.4%)
Commodity and foreign exchange derivatives	24,683	268	(24,415)	n.m.
Utilizations of provisions for risks	20,780	16,301	(4,479)	(27.5%)
Contract penalties received	6,619	824	(5,795)	n.m.
Recovery of payroll costs	5,955	4,152	(1,803)	(43.4%)
Proceeds from the sale of buildings and land	3,725	6,438	2,713	n.m.
Leases of Company-owned property	2,744	2,486	(258)	(10.4%)
Revenues from the sale of miscell. materials	2,631	2,681	50	1.9%
Operating grants	1,679	1,155	(524)	(45.4%)
Gains on asset disposals	696	1,673	977	58.4%
Sundry items	27,897	46,127	18,230	39.5%
Total	**255,059**	**146,880**	**(108,179)**	**(73.7%)**

Out-of-period income reflects a reduction of the penalties paid for using the strategic gas reserve during the first quarter of 2005, 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 and the recovery of green-certificate charges made possible by AEEG Resolution No. 113/06.

The utilizations of the provisions for risks refer mainly to adjustments made to the balances of the provisions set aside to cover a shortfall in CO_2 emissions rights and site remediation at gas field and electric power facilities.

22. Raw Materials and Services Used

The cost of raw materials and services used, which rose in tandem with sales revenues, totaled 4,194,092,000 euros, or 22% more than in 2005. A breakdown is as follows:

(in thousands of euros)	2006	2005	Change	% change
Purchases :				
- Natural gas	2,943,493	2,317,825	625,668	27.0%
- Electric power	55,066	55,151	(85)	(0.2%)
- Blast furnace, recycled and coke furnace gas	392,380	276,180	116,200	42.1%
- Oil and other fuels	56,238	37,938	18,300	48.2%
- Demineralized industrial water	32,936	27,170	5,766	21.2%
- Green certificates	48,706	35,829	12,877	35.9%
- Other materials and utilities	70,783	47,917	22,866	47.7%
Total puchases	**3,599,602**	**2,798,010**	**801,592**	**28.6%**
- Facilities design, construction and plants maintenance	100,063	92,893	7,170	7.7%
- Transmission of electric power	6,064	6,021	43	0.7%
- Transmission and treatment of natural gas	245,615	256,088	(10,473)	(4.1%)
- Professional services	81,648	99,821	(18,173)	(18.2%)
- Insurance services	19,416	17,193	2,223	12.9%
- Commodity derivatives	37,273	-	37,273	n.m.
- Additions to provisions for risks	28,851	50,610	(21,759)	n.m.
- Writedowns of trade receivables	6,925	4,553	2,372	n.m.
- Change in inventory of finished goods	(68,634)	(20,571)	(48,063)	n.m.
- Sundry charges	137,269	135,482	1,787	1.3%
Total	**4,194,092**	**3,440,100**	**753,992**	**21.9%**

Breakdown by Type of Business

(in thousands of euros)	2006	2005	Change	% change
Electric power operations	800,296	678,499	121,797	18.0%
Hydrocarbons operations	3,311,498	2,664,737	646,761	24.3%
Corporate activities	82,298	96,864	(14,566)	(15.0%)
Total	**4,194,092**	**3,440,100**	**753,992**	**21.9%**

This expense item consists mainly of purchases of natural gas, electric power and other raw materials used in production processes, which totaled 3,599,602,000 euros (+28.6% compared with 2005). It also includes the cost of blast furnace, recycled and coke oven gases (392,380,000 euros) used as fuel for the production of electric power, and 251,679,000 euros in electric power and natural gas transmission costs (6,064,000 euros and 245,615,000 euros, respectively), which increased by 154.4% compared with the previous year.

The inventory of finished goods grew by 48,063,000 euros compared with December 31, 2005, due mainly to higher inventories of natural gas and fuel oil.

The value of commodity transactions reflects both the transactions that qualify as hedges under IAS 39 and margin hedges. The increase in costs incurred in connection with commodity and foreign exchange derivatives (and the rise in the corresponding revenues) is attributable mainly to new hedging contracts executed in 2006.
Information about the impact of commodity derivatives is provided in a separate note.

23. Labor Costs

At 132,610,000 euros, labor costs were 5,359,000 euros more than in 2005, due both to higher wages and salaries and to an increase in the number of employees.

24 EBITDA

At December 31, 2006, EBITDA amounted to 783,123,000 euros, or 23% more than the amount earned in 2005.

The reasons for this improvement included:

- Higher unit sales of electric power in the deregulated market, an increase in installed generating capacity made possible by the full availability of the Candela and Altomonte power plants and the refunds granted by the AEEG to the CIP 6 power plants to cover the costs incurred to purchase green certificates, which more than offset the negative impact of the loss of incentives by some of the Company's CIP 6/92 facilities.
- The positive impact of favorable conditions in the markets for petroleum products and of the renegotiated price paid for natural gas under certain long-term contracts, which countered the impact of a provision set aside to cover the fine (20 million euros) imposed by the AEEG for the alleged use of storage capacity for purposes different from those for which it had been awarded and of another provision established as a result of the issuance of Resolutions No. 298/05 and No. 134/06, with which the AEEG updated the sales prices that can be charged for natural gas, in accordance with Resolution No. 248/05. The Company is challenging the validity of the two abovementioned resolutions before an administrative court.

25. Depreciation, Amortization and Writedowns

A breakdown of depreciation, amortization and writedowns, which totaled 462,374,000 euros, is provided below:

(in thousands of euros)	2006	2005	Change	% change
Depreciation of property, plant and equipment	(363,241)	(263,308)	(99,933)	38.0%
Depreciation of investment property	(402)	(671)	269	(40.1%)
Amortization of hydrocarbon concessions	(20,205)	(33,854)	13,649	(40.3%)
Amortization of other intangible assets	(24,657)	(2,879)	(21,778)	-
Writedowns of property, plant and equipment	(62,000)	(35,821)	(26,179)	73.1%
Writedowns of investment property	-	(5,749)	5,749	-
Reversals of writedowns	8,131	11,257	(3,126)	(27.8%)
Total	**(462,374)**	**(331,025)**	**(131,349)**	**39.7%**

The increase in **depreciation** of property, plant and equipment compared with 2005 is due mainly to the commissioning of two power plants: one in Candela in the second half of 2005 and another in 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 CIP 6/92 Ordinance. This change caused depreciation to increase by about 56,485,000 euros.

This negative factor was offset in part by the effect of a six-year extension of the concession for the Battiggio hydroelectric power plant, which produced a marginal improvement in overall depreciation.

Amortization of other intangible assets refers almost exclusively to the expensing out of hydrocarbon exploration costs (17,162,000 euros).

Writedowns of property, plant and equipment (62,000,000 euros) are mainly due to the results of an impairment test that showed that the value of certain facilities owned by the electric power operations had decreased.

Reversals of writedowns refer to hydrocarbon concessions (6,553,000 euros) and related facilities (1,578,000 euros).

26. Net Financial Income (Expense)

Net financial expense came to 200,868,000 euros, or 46,052,000 euros more than in 2005. This increase reflects the impact of higher interest rates on the interest paid on bond issues and the adverse effect produced by the valuation of an implied derivative recognized in connection with the assignment of tax credits.

A breakdown of net financial expense is as follows:

(in thousands of euros)	2006	2005
Financial income		
Financial income from financial derivatives	82,891	89,090
Financial income from Group companies	25,002	23,090
Interest earned on trade receivables	2,517	368
Interest earned on amounts due from the tax administration	2,125	5,215
Other financial income	4,238	8,197
Total financial income	**116,773**	**125,960**
Financial expense		
Interest paid on bond issues	(145,028)	(117,854)
Financial expense from financial derivatives	(103,602)	(94,734)
Financial expense paid to Group companies	(22,840)	(21,291)
Interest paid to banks	(33,122)	(22,692)
Bank fees	(7,807)	(12,751)
Interest paid on decommissioning projects	(7,986)	(6,218)
Interest paid to other lenders	(1,037)	(1,986)
Interest paid in connection with employee severance benefits	(1,651)	(1,642)
Other financial expense	(1,566)	(1,599)
Total financial expense	**(324,639)**	**(280,767)**
Foreign exchange translation gains (losses)		
Foreign exchange translation gains	10,835	15,254
Foreign exchange translation losses	(3,837)	(15,263)
Net foreign exchange translation gain (loss)	**6,998**	**(9)**
Net financial income (expense)	**(200,868)**	**(154,816)**

Interest paid on decommissioning projects (7,986,000 euros) are offset by the provisions for decommissioning risks of the hydrocarbons operations. The charge of 1,651,000 euros in interest paid in connection with **severance benefits** reflects the impact of the adoption of IAS 19.

Other financial income includes 2,517,000 euros in interest earned on trade receivables.

Further to a transaction involving the assignment of tax credits, financial expense from financial derivatives includes a charge of 14,237 million euros related to the net valuation of the corresponding derivative at December 31, 2006.

Information about other transactions involving financial and commodity derivatives is provided in a special section of this Report.

27. Income from (Expense on) Equity Investments

The main components of the credit balance of 164,769,000 euros are analyzed below:

- 168,658,000 euros in dividends received from investee companies, with the largest amounts provided by the following subsidiaries: Finel (70,400,000 euros), Edison Stoccaggio (6,023,000 euros), Edison Energia (19,360,000 euros), Serene (13,263,000 euros), Termica Milazzo (9,484,000 euros), Edison Trading (8,700,000 euros), Edison D.G. (6,900,000 euros) and Edison International (3,447,000 euros).
- 15,330,000 euros in charges for writedowns of equity investments, including, in particular, writedowns applied to the carrying values of the Gever (7,500,000 euros), Nuova Alba Srl (3,104,000 euros) and Montedison Srl (1,937,000 euros) subsidiaries and to the International Water Holding BV affiliated company (1,320,000 euros).
- 10,250,000 euros in gains on sales of equity investments, including 8,324,000 euros on the disposal of the investment in the S.A.T. Servizi Ambiente Territorio Spa subsidiary and 1,926,000 euros on the sale of equity investments held for trading purposes.

28. Other Income (Expense), Net

Other income of 31,607,000 euros is the net result in its entirety 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 102,018,000 euros includes 84,674,000 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 17,220,000 euros in out-of-period income, which includes an 11,079,000-euro refund received from the French tax authorities for taxes paid in previous years.

Expense:

- The total of 70,411,000 euros includes a charge of 32,506,000 euros for 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 14,907,000 euros added to other provisions for risks, including accrued statutory interest of 6,532,000 euros and 21,805,000 euros in sundry nonoperating charges.

29. Income Taxes

As detailed in the table below, the income statement shows a net tax credit of 188,016,000 euros (tax credit of 100,076,000 euros at December 31, 2005) made possible primarily by the 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 (201,858,000 euros):

(in thousands of euros)	2006	2005	Change	% change
Current taxes	141,595	29,610	111,985	79.1%
Net deferred-tax liabilities (assets)	(329,611)	(129,686)	(199,925)	60.7%
Total	**(188,016)**	**(100,076)**	**(87,940)**	**46.8%**

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 in 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 95,933,000 euros and was then able to utilize provisions for deferred taxes totaling 297,791,000 euros, for a net positive effect of 201,858,000 euros.

In addition to the abovementioned substitute-tax payment amounting to more than 95,933,000 euros, **current taxes** include 21,597,000 euros for IRES and 23,800,000 euros for IRAP and a credit of 1,212,000 euros generated by the filing of a consolidated income tax return.
For the purpose of computing its current-tax liability, the Company availed itself of the option of making non-accounting adjustments to taxable income, which included the higher depreciation expense generated by the rates allowed for tax purposes, which are higher than those based on financial and technical considerations that are used for reporting purposes. The total amount of these adjustments was 145.2 million euros, which, net of the applicable deferred taxes, places a restriction on shareholders' equity totaling 93.2 million euros.

Net deferred-tax assets totaled 329,611,000 euros. This amount is the net result of the following:
- 297,791,000 euros related to the partial realignment by Edison Spa of the carrying amounts and tax values of property, plant and equipment.
- 23,698,000 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.
- 46,000,000 euros from the utilization of the deferred-tax assets attributable by the tax loss carryforward balance at December 31, 2005.
- 38,846,000 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 thousands of euros)	12.31.2005	Additions	Utilizations	IAS 39 to Shareholders' Equity	Reclassifications	12.31.2006
Provision for deferred taxes:						
Valuation differences of property, plant and equipment	794,038	45,190	(366,679)	-	-	472,549
Adoption of IAS 17 to value finance leases	31,604	-	(613)	-	-	30,991
Adoption of IAS 39 to value financial instruments:						
- impact on the income statement	4,717	-	(4,717)	-	-	-
- impact on shareholders' equity	4,985	-	-	554	(4,985)	554
Other deferred-tax liabilities	841	433	(5,270)	617	6,190	2,811
	836,185	**45,623**	**(377,279)**	**1,171**	**1,205**	**506,905**
Offsets	-	-	-	-	-	(91,530)
Provision for deferred taxes net of offsets	**836,185**	**45,623**	**(377,279)**	**1,171**	**1,205**	**415,375**
Deferred-tax assets:						
Tax loss carryforward	46,000	-	(46,000)	-	-	-
Taxed reserves for risks	44,000	47,431	(8,585)	-	-	82,846
Adoption of IAS 39 to value financial instruments:						
- impact on the income statement	-	5,110	-	-	-	5,110
- impact on shareholders' equity	3,569	-	-	5	-	3,574
Other deferred-tax assets	435	-	-	-	(435)	-
	94,004	**52,541**	**(54,585)**	**5**	**(435)**	**91,530**
Offsets	-	-	-	-	-	(91,530)
Deferred-tax assets net of offsets	**94,004**	**52,541**	**(54,585)**	**5**	**(435)**	**-**

30. Profit (Loss) from Discontinued Operations

The amount of 127,955,000 euros reflects primarily the result reported by Edison Rete Spa after taxes and directly related divestiture expenses.

OTHER INFORMATION

Information About the Discontinued Operations (IFRS 5)

Edison Rete Spa

On November 24, 2006, Edison Spa completed the divestiture of Edison Rete Spa that was announced in the Semiannual Report, selling all of the shares of Edison Rete Spa to RTL Spa, a wholly owned subsidiary of Terna Spa.
The price paid by RTL Spa to Edison Spa for the shares (about 294 million euros) reflects the enterprise value assigned to Edison Rete, which amounted to 311 million euros.
In the financial statements, the sale generated a gain of 128 million euros, after incidental selling expenses and taxes, and helped reduce net borrowings by about 311 million euros. In 2007, Edison plans to sell for about 10 million euros certain assets that are appurtenant to the divested operations.

Serene Spa

On December 14, 2006, Edison Spa signed an agreement selling to British Gas Italia Spa 66.32% of the shares of Serene Spa at a price of about 98 million euros. British Gas Italia already owned the remaining 33.68% of Serene Spa. The price includes a component, which may not exceed 13 million euros, the payment of which is predicated on the AEEG making certain changes to the CIP6/92 regulations that concern Kyoto emissions rights.
This transaction, which closed on February 14, 2006, reduced the net borrowings of Edison Spa by about 107.5 million euros. This amount includes dividends totaling about 10 million euros that were collected at closing. Under the terms of the sales agreement, a portion of the sales proceeds, amounting to 13 million euros, has been deposited in an escrow account and will be released when the abovementioned changes in CIP 6/92 regulations are enacted.
Currently, Serene operates five thermoelectric power plants that were commissioned in 1997 and have an aggregate installed capacity of 400 Megawatts. These five power plants operate under CIP 6/92 contracts that are scheduled to expire in 2012, but the incentives provided to these facilities ended in 2005.

Contingent Commitments and Risks

(in thousands of euros)	12.31.2006	12.31.2005	Change
Guarantees provided	2,352,282	2,658,167	(305,885)
Collateral provided	1,382,779	1,638,455	(255,676)
Other commitments and risks	550,197	631,518	(81,321)
Total	**4,285,258**	**4,928,140**	**(642,882)**

Guarantees Provided

Guarantees provided of 2,352,282,000 euros include the following:

- 755,056,000 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.
- 61,140,000 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, 2.5% of which is owned by Edison Spa). This option is exercisable starting in 2007. 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.
- 17,907,000 euros in sureties provided by Edison Spa to banks to secure financing facilities and credit lines provided to Group companies.
- 25,000,000 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).
- 368,151,000 euros for guarantees provided to customers of Tecnimont Spa, a former Group company. These commitments are offset by the obligation undertaken by the buyer of Tecnimont to take over these commitments (with the approval of the third-party beneficiaries), providing the required sureties (secured in part by bank guarantees) and promising to hold Edison harmless if these guarantees are enforced.
- 44,496,000 euros for a commitment to hold the seller (EDF International Sa) harmless and replace it as soon as possible in the guarantees it provided on behalf of EDF Energia Italia, later absorbed by Edison Energia.

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). It is important to note that none of these commitments have been enforced by Edipower thus far.

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).

Lastly, on January 29, 2007, Edipower and a group of banks signed a new loan agreement to replace an existing facility. On February 2, 2007, Edison repaid in full the existing financing facility. The new loan agreement no longer requires the posting of collateral to secure the provision of financial resources to Edipower (Completion Equity Contribution Agreement and Repowering Equity Contribution Agreement).

Collateral Provided

Collateral provided totaled 1,382,779,000 euros. It consists primarily of Edipower Spa shares (800,534,000 euros) pledged to banks to secure financing (this collateral requirement was maintained in the new loan agreement dated January 29, 2007). Lenders have agreed to the cancellation of collateral obligations securing indebtedness that had been repaid as of December 31, 2006 (489,422,000 euros) and evidence thereof is currently being entered in the public record. Liens related to outstanding indebtedness amount to 49,920,000 euros.

Other Commitments and Risks

The largest components of other commitments and risks of 550,197,000 euros include:

- 187,570,000 euros related to the potential exercise by the financial shareholders of a put option to sell a 7.5% interest in Edipower. This option is exercisable starting in 2007.
- 180,450,000 euros for commitments undertaken in connection with the construction of facilities.
- 1,620,000 euros representing the exercise value of an option to buy a 30% interest in Eneco Energia Srl. This option may be exercised between July 1, 2007 and July 31, 2008.

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.

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 18 billion cubic meters a year.

In addition, the Group signed three new contracts to import additional quantities of natural gas in future years:

- The first of these supply contracts is with RasGas (Qatar). It calls for deliveries to begin upon completion by Terminale GNL Adriatico Srl of the Isola di Porto Viro LNG terminal, which is currently being built and is expected to go on stream in 2008. When this agreement is fully operational, RasGas will supply a total of 6.6 billion cubic meters of natural gas a year.
- The second contract, which was signed with Sonatrach, involves importing 2 billion cubic meters of natural gas a year from Algeria. Deliveries are scheduled to start in 2008, once the first phase of the expansion of the pipeline linking Algeria and Italy through Tunisia (TTPC: Trans Tunisian Pipeline Company) is completed.
- The third contract (*Protocole d'accord*), which was signed with Sonatrach in November 2006, calls for the supply of 2 billion cubic meters of natural gas a year through the new Galsi pipeline that will link Algeria with Sardinia and Tuscany. The implementation of this agreement is subject to the construction of the pipeline, which is currently in the project development phase.

The contract concerning 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 would not be 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 sum of the capital contributions provided until 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.

With regard to the **electric power** operations, Edison agreed to sell to Cartiere Burgo Spa a call option to purchase a 51% interest in Gever. This option is exercisable when the contract under which Gever supplies Cartiere Burgo with electric power and steam expires (in 2017) at a price equal to the corresponding pro rata interest in the company's shareholders' equity.

In addition:
- In December 2006, further to the terms of the Shareholders' Agreement executed by Edison Spa and Edf International Sa that defines Finel's governance structure, Edf exercised the right to sell to Edison Spa the remaining 20% interest in Finel that it still owned. The sale to Edison of the shares held by Edf to Edison closed on January 10, 2007 at a price of 136,858,000 euros.
- 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.

Tax Status of Share Capital and Reserves in the Event of Distribution

A: reserves that, if distributed, would not be included in the taxable income of the Company or its shareholders.

Retained earnings*	17,500

(*net of the substitute tax paid pursuant to Law No. 266/05)

B: reserves the taxation of which has been suspended and which, if utilized, would be included in the Company's taxable income:

• Reserve for government grants (former Edison - grants under Article 55)	3,770
• Reserve for government grants (former Edison Gas - Law No. 488/92)	15,055

C: reserves the taxation of which has been suspended and which have been included in share capital. If the share capital is reduced upon a shareholder distribution, these reserves would become taxable:

• Reserve under Law No. 576 of 12.1.75 (old Edison form. Montedison)	31,064
• Reserve under Law No. 72 of 3.19.83 (old Edison form. Montedison)	15,283
• Reserve under Law No. 576 of 12.1.75 (former Finagro)	1,331
• Reserve under Law No. 72 of 3.19.83 (former Finagro)	3,310
• Reserve under Law No. 72 of 3.19.83 (former Montedison)	8,561
• Reserve under Law No. 72 of 3.19.83 (former Silos di Genova Spa)	186
• Reserve under Law No. 413 of 12.30.91 (former Finagro)	4,762
• Reserve under Law No. 576 of 12.1.75 (former Calcemento)	976
• Reserve under Law No. 72 of 3.19.83 (former Calcemento)	4,722
• Reserve under Law No. 413 of 12.30.91 (former Sondel)	2,976
• Reserve under Law No. 413 of 12.30.91 (former Edison)	118,911
• **TOTAL**	**192,082**

D: portion of shareholders' equity restricted pursuant to Section 469 of Law No. 266/2005 (so-called realignment), which, if utilized, would be included in the Company's taxable income, increased by a 12% substitute tax, with the concurrent earning of a 12% tax credit (equal to the substitute tax paid)

• Share capital pursuant to Law No. 266/2005	588,627
• Statutory reserve pursuant to Law No. 266/2005	17,553
• Retained earnings pursuant to Law No. 266/2005	79,829
• **TOTAL**	**686,009**

Any taxes that may be due on the reserves listed above would amount to 7 million euros for those of Item B, 63.3 million euros for those of Item C and 164 million euros (net of tax credit) for those of Item D.

Starting in 2004, further to the repeal of Section 2 of Article 2426 of the Italian Civil Code, which allowed the posting of "value adjustments and provisions allowed exclusively under specific tax laws," negative income components that are not reflected in the income statement may be deducted for tax purposes pursuant to a special provision of the tax law if they are listed on a separate schedule annexed to the income tax return. In order to protect any claims that nay be put forth by the tax administration, Article 109 of the Uniform Tax Code requires that, if a company has earnings from which taxes have not been withheld temporarily, a corresponding amount of the unrestricted reserves or retained earnings should be maintained on the Company's financial statements and, if the abovementioned amount is distributed, it would be included in the Company's taxable income.

As a result of the derecognition in the 2004 financial statements of entries booked for tax purposes but which had no relevance for statutory reporting purposes, of the entries made in 2005 and 2006 in connection with divestitures and depreciation and the realignment of reporting and tax-related asset values allowed under Law No. 266/05, the total amount of the remaining tax-related items that need to be derecognized, net of the corresponding deferred taxes, is 17.5 million euros and the requirement of a restriction on retained earnings was satisfied in 2006 using the reserves listed in Item A) above.

In addition, in 2006, the Company booked non-accounting depreciation totaling 145.2 million euros and recognized deferred taxes of 51.8 million euros in connection with these entries.

Therefore, should the Company choose to distribute earnings or reserves, it must have residual qualified reserves, as defined in Article 109 of the Uniform Tax Code, totaling at least 93.4 million euros. When this amount is added to the 17 million euros required in connection with the derecognition of items recorded exclusively for tax purposes in previous years, the total is 110.4 million euros. If the Company lacks or has insufficient qualified reserves, any uncovered portion of the distribution, increased by the applicable deferred taxes, would become part of the Company's taxable income.

Lastly, the reform of the corporate income tax system, which went into effect on January 1, 2004, introduced the overriding presumption that the profit for the year and the portion of reserves other than share capital reserves that has not been set aside in a suspended taxation status will be distributed, irrespective of the motions approved by the Shareholder's Meeting (Article 47 of the Uniform Tax Code).

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).

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 December 2006 shows that the Group owed the tax administration 23 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

In 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 and consistent with regular market practices, is provided below.

(in thousands of euros)	AEM Group	EDF Group	ENIA Group	SEL Group	Mediobanca
Balance sheet transactions					
Value of trade reveivables	2,830	5,269	98,393	1,497	-
Value of trade payables	52	2,980	4,257	-	-
Value of loans receivables	-	-	-	-	-
Value of loans payables	-	-	-	-	527
Income statement transactions					
Sales of goods and services	5,835	12,441	376,453	1,965	-
Purchases of goods and services	29	25,456	15,577	3	-
Financial income	-	-	-	-	-
Financial expense	-	-	-	-	466

In October 2006, Edison Spa purchased from EDF International Sa 100% of EDF Energia Italia at a price of about 8 million euros. EDF Energia Italia is a company that operates in the deregulated electric power market and has a broad portfolio of industrial customers.

Commercial Transactions

See the comments provided in the same section of the Consolidated Financial Statements.

Financial Transactions

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

- Banca Popolare di Milano provided a 34-million-euro revocable line of credit, from which 1 million euros has been drawn down, and an unused 40-million-euro committed line of credit. Both lines of credit accrue interest at market rates. The same bank also provided bank sureties totaling about 12 million euros.

Other Transactions

- On December 27, 2006, Edison Spa, Enìa Spa and SAT Finanziaria Spa signed an "Agreement to Permanently Settle Disputes Concerning the Shareholder Agreement and for the Temporary Management of Blumet Spa," with which they resolved and settled certain disputes that had arisen concerning the management of Blumet Spa, a company in which all of the abovementioned parties held equity investments and which they operated jointly and exclusively to distribute, sell and supply natural gas and electric power in the Emilia Romagna Region, in accordance with the contractual and governance rules set forth in the shareholder agreement executed in 2002. With the agreement signed on December 27, 2006, the parties further agreed that the shareholder agreement would expire on December 31, 2006 and undertook to renegotiate and renew the shareholder agreement by June 15, 2007. During the interim period between the expiration of the shareholder agreement and June 15, 2007, the commercial operations of Blumet Spa will be carried out in accordance with the governance rules set forth in the old shareholder agreement.

Consob Communication No. DEM/6064293 of July 28, 2006

Significant Nonrecurring Events and Transactions

In addition to the transactions discussed in the section of this Report entitled "Information About the Discontinued Operations (IFRS 5)," the following significant nonrecurring transactions occurred in 2006:

- The Company adopted a new method, based on the economic benefits produced, to depreciate CIP 6/92 facilities. This change increased depreciation by 56 million euros
- In December 2006, Edison Spa assigned certain income tax credits with a total face value of about 129 million euros.

Positions and Entries Arising from Atypical and/or Unusual Transactions

In this area, 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), with a net positive impact of 202 million euros. A comment on this issue is provided in the note on income taxes.

Treasury Shares

At December 31, 2006, the Company did not own any treasury shares.

Compensation of Directors and Statutory Auditors, Stock Options Awarded to Directors and Equity Investments of Directors

For information concerning:

- the compensation of Directors and Statutory Auditors;
- stock options awarded to Directors;
- equity investments of Directors;

please consult the chapter on Corporate Governance of the Report on Operations.

Milan, February 19, 2007

The Board of Directors
by Giuliano Zuccoli
Chairman

LIST OF EQUITY INVESTMENTS

LIST OF EQUITY INVESTMENTS

Company	Head office	Share capital			% interest
		Currency	Amount	Par value per share	held in share capital
A1. Equity Investments in Subsidiaries					
Atema Ltd	**Dublin (Ireland)**				
Balance at 12/31/05		EUR	1,500,000	0.50	100.000
Balance at 12/31/06		EUR	1,500,000	0.50	100.000
Biomasse Emilia Romagna Srl in liquidation	**(*) Cesena (FC)**				
Balance at 12/31/05		EUR	10,000	-	51.000
Elimination due to deletion		EUR	-	-	(51.000)
Balance at 12/31/06		EUR	-	-	-
Calbiotech Srl in bankruptcy	**Ravenna**				
Balance at 12/31/05		LIT	90,000,000	-	55.000
Balance at 12/31/06		LIT	90,000,000	-	55.000
Calcestruzzi Palermo Srl in receivership(single shareholder)	**Palermo**				
Balance at 12/31/05		EUR	108,360	1.00	100.000
Balance at 12/31/06		EUR	108,360	1.00	100.000
Consorzio di Sarmato Soc. Cons. P.A.	**Milan**				
Balance at 12/31/05		EUR	200,000	1.00	52.500
Balance at 12/31/06		EUR	200,000	1.00	52.500
Ecofuture Srl (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	10,200	-	100.000
Advances by shareholders on future capital contributions		EUR	-	-	-
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	10,200	-	100.000
Edison D.G. Spa (single shareholder)	**(*) Selvazzano Dentro (PD)**				
Balance at 12/31/05		EUR	460,000	1.00	100.000
Demerger of business operations for the benefit of Edison Energia Spa			EUR	-	-
Balance at 12/31/06		EUR	460,000	1.00	100.000
Edison Energia Spa (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	22,000,000	1.00	100.000
Merger by absorption EdF Energia Italia Srl		EUR	-	-	-
Merger by absorptionEstgas Spa		EUR	-	-	-
From demerger of business operations by Edison D.G. Spa		EUR	-	-	-
Balance at 12/31/06		EUR	22,000,000	1.00	100.000
Edison Energie Speciali Spa (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	4,200,000	1.00	100.000
Balance at 12/31/06		EUR	4,200,000	1.00	100.000
Edison Gas España Sa (Sociedad Unipersonal en liq.)	**Barcelona (Spain)**				
Balance at 12/31/05		EUR	60,200	1.00	100.000
Elimination due to deletion		EUR	-	-	-
Balance at 12/31/06		EUR	-	-	-

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost (1)	Writedowns	Net carrying value (1)	Sharehold. equity in latest approved fin. statements (2)	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements (2)	Pro rata interest in net result
3,000,000	1,381,681	-	1,381,681				
3,000,000	1,381,681	-	1,381,681	2,370,685	2,370,685	50,098	50,098
5,100	37,225	(37,224)	1				
(5,100)	(37,225)	37,224	(1)				
-	-		-	-	-	-	-
49,500,000	1	-	1				
49,500,000	1	-	1	-	-	-	-
108,360	1	-	1				
108,360	1	-	1	(92,192)	(92,192)	(96,746)	(96,746)
105,000	98,849	-	98,849				
105,000	98,849	-	98,849	194,641	102,186	-	-
10,200	468,801	(109,000)	359,801				
-	100,000	-	100,000				
-	-	(391,722)	(391,722)				
10,200	568,801	(500,722)	68,079	68,079	68,079	(45,944)	(45,944)
460,000	42,467,948	-	42,467,948				
-	-	(3,955,146)	-	(3,955,146)			
460,000	38,512,802	-	38,512,802	24,361,630	24,361,630	3,406,081	3,406,081
22,000,000	44,978,075	-	44,978,075				
-	8,300,000	-	8,300,000				
-	165,000	-	165,000				
-	3,955,146	-	3,955,146				
22,000,000	57,398,221	-	57,398,221	22,805,360	22,805,360	(26,007,309)	(26,007,309)
4,200,000	205,242,647	-	205,242,647				
4,200,000	205,242,647	-	205,242,647	93,610,799	93,610,799	31,529,222	31,529,222
60,200	123,307	(107,931)	15,376				
(60,200)	(123,307)	107,931	(15,376)				
-	-	-	-	-	-	-	-

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

CHF Swiss franc EUR euro NLG Dutch guilder PTE Portuguese escudo BRL Brazilian real GBP British pound EGP Egyptian pound LIT Italian lira

LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital			% interest held in share capital
		Currency	Amount	Par value per share	
Edison Hellas Sa	**Athens (Greece)**				
Balance at 12/31/05		EUR	263,700	2.93	100.000
Balance at 12/31/06		EUR	263,700	2.93	100.000
Edison International Spa	**(*) Milan**				
Balance at 12/31/05		EUR	17,850,000	1.00	70.000
Balance at 12/31/06		EUR	17,850,000	1.00	70.000
Edison Rete Spa (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	106,778,200	1.00	100.000
Disposal		EUR	(106,778,200)	(1.00)	(100.000)
Balance at 12/31/06		EUR	-	-	-
Edison Stoccaggio Spa (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	81,497,301	1.00	100.000
Balance at 12/31/06		EUR	81,497,301	1.00	100.000
Edison Trading Spa (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	30,000,000	1.00	100.000
Balance at 12/31/06		EUR	30,000,000	1.00	100.000
Edison Treasury Service Srl	**Conegliano (TV)**				
Balance at 12/31/05		EUR	-	-	-
Acquisition		EUR	10,000	1.00	100.000
Balance at 12/31/06		EUR	10,000	1.00	100.000
EdF Energia Italia Srl (single shareholder)	**(*) Rome**				
Balance at 12/31/05		EUR	-	-	-
Acquisition		EUR	10,000	1.00	100.000
Merger by absorption into Edison Energia Spa		EUR	(10,000)	(1,00)	(100,000)
Balance at 12/31/06		EUR	-	-	-
Eneco Energia Spa	**Bolzano**				
Balance at 12/31/05		EUR	-	-	-
Acquisition		EUR	300,000	1.00	70.000
Share capital increase		EUR	-	-	-
Balance at 12/31/06		EUR	300,000	1.00	70.000
EURoil Exploration Ltd	**London (England)**				
Balance at 12/31/05		GBP	9,250,000	1.00	0.000
Balance at 12/31/06		GBP	9,250,000	1.00	0.000
Ferruzzi Trading France Sa in liquidation	**Paris (France)**				
Balance at 12/31/05		EUR	7,622,451	15.24	99.999
Balance at 12/31/06		EUR	7,622,451	15.24	99.999
Finanziaria di partecipazioni elettriche - Finel Spa	**(*) Milan**				
Balance at 12/31/05		EUR	194,000,000	1.00	80.000
Balance at 12/31/06		EUR	194,000,000	1.00	80.000

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost [1]	Writedowns	Net carrying value [1]	Sharehold. equity in latest approved fin. statements [2]	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements [2]	Pro rata interest in net result
90,000	187,458	(8,000)	179,458				
90,000	187,458	(8,000)	179,458	240,321	240,321	2,076	2,076
12,495,000	53,978,794	-	53,978,794				
12,495,000	53,978,794	-	53,978,794	74,219,717	51,953,802	2,590,335	1,813,235
106,778,200	160,524,093	-	160,524,093				
(106,778,200)	(160,524,093)	-	(160,524,093)				
-	-	-	-	-	-	-	-
81,497,301	81,497,301	-	81,497,301				
81,497,301	81,497,301	-	81,497,301	91,289,398	91,289,398	7,405,646	7,405,646
30,000,000	30,000,000	-	30,000,000				
30,000,000	30,000,000	-	30,000,000	228,078,805	228,078,805	187,058,812	187,058,812
-	-	-	-				
10,000	10,000	-	10,000				
10,000	10,000	-	10,000	4,454,167	4,454,167	4,444,049	4,444,049
-	-	-	-				
10,000	8,300,000	-	8,300,000				
(10,000)	(8,300,000	-	(8,300,000)				
-	-	-	-	-	-	-	-
-	-	-	-				
210,000	3,780,000	-	3,780,000				
-	202,770	-	202,770				
210,000	3,982,770	-	3,982,770	-	-	-	-
1	950	-	950				
1	950	-	950	-	-	-	-
499,997	5,860,389	-	5,860,389				
499,997	5,860,389	-	5,860,389	9,142,125	9,142,034	156,368	156,366
155,200,000	520,917,888	-	520,917,888				
155,200,000	520,917,888	-	520,917,888	682,912,396	546,329,917	(1,378,537)	(1,102,830)

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital
Finimeg Spa in liquidation (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	2,425,200	1.00	100.000
Balance at 12/31/06		EUR	2,425,200	1.00	100.000
Frigotecnica Srl in liquidation (single shareholder) (in receivership)	**Palermo**				
Balance at 12/31/05		EUR	76,500	-	100.000
Balance at 12/31/06		EUR	76,500	-	100.000
Gever Spa (pledged shares)	**Milan**				
Balance at 12/31/05		EUR	10,500,000	1,000.00	51.000
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	10,500,000	1,000.00	51.000
Hydro Power Energy HPE Srl (single shareholder)	**Bolzano**				
Balance at 12/31/05		EUR	50,000	-	100.000
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	50,000	-	100.000
Jesi Energia Spa	**(*) Milan**				
Balance at 12/31/05		EUR	5,350,000	1.00	70.000
Balance at 12/31/06		EUR	5,350,000	1.00	70.000
Monsei Esco Srl (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	100,000	-	100.000
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	100,000	-	100.000
Montedison Srl (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	2,583,000	-	100.000
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	2,583,000	-	100.000
Montedison Finance EURope NV	**Amsterdam (Netherlands)**				
Balance at 12/31/05		EUR	4,537,803	1.00	100.000
Balance at 12/31/06		EUR	4,537,803	1.00	100.000
Nuova Alba Srl (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	2,016,457	-	100.000
Advances by shareholders on future capital contributions		EUR	-	-	-
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	2,016,457	-	100.000
Nuova C.I.S.A. Spa in liquidation (single shareholder)	**(*) Milan**				
Balance at 12/31/05		EUR	1,549,350	1.00	100.000
Balance at 12/31/06		EUR	1,549,350	1.00	100.000

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost (1)	Writedowns	Net carrying value (1)	Sharehold. equity in latest approved fin. statements (2)	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements (2)	Pro rata interest in net result
2,425,200	2,023,652	-	2,023,652				
2,425,200	2,023,652	-	2,023,652	2,680,449	2,680,449	45,429	45,429
76,500	1	-	1				
76,500	1	-	1	1,475,061	1,475,061	13,833	13,833
5,355	24,055,699	(6,000,000)	18,055,699				
-	-	(7,500,000)	(7,500,000)				
5,355	24,055,699	(13,500,000)	10,555,699	21,926,245	11,182,385	(3,781,162)	(1,928,393)
-	50,000	-	50,000				
-	-	(19,657)	(19,657)				
-	50,000	(19,657)	30,343	29,738	29,738	(15,448)	(15,448)
3,745,000	15,537,145	-	15,537,145				
3,745,000	15,537,145	-	15,537,145	16,372,957	11,461,070	9,451,525	6,616,068
100,000	135,405	(29,878)	105,527				
-	-	(45,419)	(45,419)				
100,000	135,405	(75,297)	60,108	60,108	60,108	(22,933)	(22,933)
2,583,000	68,750,329	(60,708,167)	8,042,162				
-	-	(1,937,342)	(1,937,342)				
2,583,000	68,750,329	(62,645,509)	6,104,820	6,104,820	6,104,820	(1,937,342)	(1,937,342)
4,537,803	13,946,000	(11,354,934)	2,591,066				
4,537,803	13,946,000	(11,354,934)	2,591,066	4,020,004	4,020,004	(797,593)	(797,593)
2,016,457	13,148,550	(11,153,696)	1,994,854				
-	3,350,000		3,350,000				
-	-	(3,104,468)	(3,104,468)				
2,016,457	16,498,550	(14,258,164)	2,240,386	2,240,386	2,240,386	(3,101,786)	(3,101,786)
1,549,350	1,476,457	(1,086,596)	389,861				
1,549,350	1,476,457	(1,086,596)	389,861	2,301,798	2,301,798	1,911,937	1,911,937

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital
Sarmato Energia Spa	**Milan**				
Balance at 12/31/05		EUR	14,420,000	1.00	61.000
Balance at 12/31/06		EUR	14,420,000	1.00	61.000
Selm Holding International Sa	**Luxembourg**				
Balance at 12/31/05		EUR	24,000,000	120.00	99.950
Balance at 12/31/06		EUR	24,000,000	120.00	99.950
Società Generale per Progettazioni Consulenze e Partecipazioni Spa (under extraordinary administration)	**Rome**				
Balance at 12/31/05		LIT	300,000,000	10,000.00	59.333
Balance at 12/31/06		LIT	300,000,000	10,000.00	59.333
Stel Spa in liquidation	**Milan**				
Balance at 12/31/05		EUR	1,000,000	1.00	75.000
Writedown		EUR	-	-	-
Reduction of share capital through reduction in par value		EUR	(480,000)	0.52	-
Liquidation distribution		EUR	-	-	-
Balance at 12/31/06		EUR	520,000	0.52	75.000
Termica Boffalora Srl	**(*) Milan**				
Balance at 12/31/05		EUR	14,220,000	-	70.000
Balance at 12/31/06		EUR	14,220,000	-	70.000
Termica Celano Srl	**(*) Milan**				
Balance at 12/31/05		EUR	259,000	-	70.000
Balance at 12/31/06		EUR	259,000	-	70.000
Termica Cologno Srl	**(*) Milan**				
Balance at 12/31/05		EUR	9,296,220	-	65.000
Balance at 12/31/06		EUR	9,296,220	-	65.000
Termica Milazzo Srl	**(*) Milan**				
Balance at 12/31/05		EUR	23,241,000	-	60.000
Balance at 12/31/06		EUR	23,241,000	-	60.000
Volta Spa	**Milan**				
Balance at 12/31/05		EUR	130,000	1.00	51.000
Balance at 12/31/06		EUR	130,000	1.00	51.000
Total A1. Equity investments in subsidiaries					

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost (1)	Writedowns	Net carrying value (1)	Sharehold. equity in latest approved fin. statements (2)	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements (2)	Pro rata interest in net result
8,796,200	35,575,744	-	35,575,744				
8,796,200	35,575,744	-	35,575,744	26,398,459	16,103,060	7,310,027	4,459,116
199,900	226,732,571	(177,036,223)	49,696,348				
199,900	226,732,571	(177,036,223)	49,696,348	42,709,871	42,688,516	2,632,885	2,631,568
17,800	1	-	1				
17,800	1	-	1	-	-	-	-
750,000	750,000	-	750,000				
-	-	(388,624)	(388,624)				
-	-	-	-	-	-	-	-
-	(361,375)	-	(361,375)				
750,000	388,625	(388,624)	1	-	-	-	-
9,954,000	22,971,331	(1,100,000)	21,871,331				
9,954,000	22,971,331	(1,100,000)	21,871,331	19,580,423	13,706,286	3,871,893	2,711,025
181,300	40,403,320	(57,630)	40,345,690				
181,300	40,403,320	(57,630)	40,345,690	41,000,859	28,700,601	12,159,959	8,511,971
6,042,543	6,069,782	-	6,069,782				
6,042,543	6,069,782	-	6,069,782	8,930,136	5,804,588	197,148	128,146
13,944,600	69,957,191	-	69,957,191				
13,944,600	69,957,191	-	69,957,191	56,087,944	33,652,766	22,646,988	13,588,193
66,300	107,406	(41,106)	66,300				
66,300	107,406	(41,106)	66,300	246,192	125,558	47,822	24,389
	1,544,317,762	**(282,072,462)**	**1,262,245,300**				

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital
A2. Equity Investments in Joint Ventures and Affiliated Companies					
Bluefare Ltd (*)	**London (England)**				
Balance at 12/31/05		GBP	1,000	0.01	50.000
Balance at 12/31/06		GBP	1,000	0.01	50.000
Blumet Spa	**Reggio Emilia**				
Balance at 12/31/05		EUR	7,600,000	1.00	25.791
Acquisition		EUR	-	1.00	2.525
Balance at 12/31/06		EUR	7,600,000	1.00	28.316
Coniel Spa in liquidation	**Rome**				
Balance at 12/31/05		EUR	1,020	0.51	35.250
Balance at 12/31/06		EUR	1,020	0.51	35.250
Consorzio Montoro	**Narni (TR)**				
Balance at 12/31/05		EUR	4,000	-	25.000
Balance at 12/31/06		EUR	4,000	-	25.000
Edipower Spa (*)	**Milan**				
Balance at 12/31/05		EUR	1,441,300,000	1.00	40.000
Balance at 12/31/06		EUR	1,441,300,000	1.00	40.000
ESTGAS Spa	**Udine**				
Balance at 12/31/05		EUR	495,000	1.00	33.333
Acquisition upon demerger		EUR	(330,000)	-	66.667
Merger by absorption into Edison Energia Spa		EUR	(165,000)	(1.00)	(100.000)
Balance at 12/31/06		EUR	-	-	-
Eta 3 Spa	**Arezzo**				
Balance at 12/31/05		EUR	2,000,000	1.00	33.013
Balance at 12/31/06		EUR	2,000,000	1.00	33.013
Finsavi Srl in receivership (shares under attachment)	**Palermo**				
Balance at 12/31/05		EUR	18,698	-	50.000
Balance at 12/31/06		EUR	18,698	-	50.000
GASCO Spa	**Bressanone (BZ)**				
Balance at 12/31/05		EUR	350,000	1.00	40.000
Balance at 12/31/06		EUR	350,000	1.00	40.000
Ibiritermo Sa (pledged shares) (*)	**Ibiritè (Brazil)**				
Balance at 12/31/05		BRL	7,651,814	1.00	50.000
Balance at 12/31/06		BRL	7,651,814	1.00	50.000
Inica Sarl in liquidation	**Lisbon (Portugal)**				
Balance at 12/31/05		PTE	1,000,000	-	20.000
Balance at 12/31/06		PTE	1,000,000	-	20.000

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost (1)	Writedowns	Net carrying value (1)	Sharehold. equity in latest approved fin. statements (2)	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements (2)	Pro rata interest in net result
50,000	30,061	-	30,061				
50,000	30,061	-	30,061	10,424	5,212	(6,601)	(3,301)
1,960,090	1,960,090	-	1,960,090				
191,892	191,892	-	191,892				
2,151,982	2,151,982	-	2,151,982	15,081,880	4,270,585	6,362,397	1,801,576
705	308	-	308				
705	308	-	308	-	-	-	-
1,000	1,000	-	1,000				
1,000	1,000	-	1,000	-	-	-	-
576,520,000	800,534,250	-	800,534,250				
576,520,000	800,534,250	-	800,534,250	2,095,924,000	838,369,600	23,688,000	9,475,200
165,000	165,000	-	165,000				
-	-	-	-				
(165,000)	(165,000)	-	(165,000)				
-	-	-	-	-	-	-	-
660,262	660,262	-	660,262				
660,262	660,262	-	660,262	-	-	-	-
9,349	1	-	1				
9,349	1	-	1	290,409	145,205	62,908	31,454
140,000	140,000	-	140,000				
140,000	140,000	-	140,000	459,121	183,648	97,747	39,099
3,825,907	1,161,904	-	1,161,904				
3,825,907	1,161,904	-	1,161,904	-	-	-	-
200,000	1	-	1				
200,000	1	-	1	-	-	-	-

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital
International Water Holdings Bv (*)	**Amsterdam (Netherlands)**				
Balance at 12/31/05		EUR	40,000	10.00	50.000
Distribution of equity reserves		EUR	-	-	-
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	40,000	10.00	50.000
Kraftwerke Hinterrhein (KHR) Ag	**Thusis (Switzerland)**				
Balance at 12/31/05		CHF	100,000,000	1,000.00	20.000
Balance at 12/31/06		CHF	100,000,000	1,000.00	20.000
Prometeo Spa	**Osimo (AN)**				
Balance at 12/31/05		EUR	1,938,743	1.00	21.000
Balance at 12/31/06		EUR	1,938,743	1.00	21.000
Roma Energia Srl	**Rome**				
Balance at 12/31/05		EUR	50,000	-	35.000
Balance at 12/31/06		EUR	50,000	-	35.000
Rosfid Srl in liquidation	**Milan**				
Balance at 12/31/05		LIT	46,000,000	-	42.285
Elimination due to deletion		LIT	(46,000,000)	-	(42.285)
Balance at 12/31/06		LIT	-	-	-
SAT Servizi Ambiente Territorio Spa	**Sassuolo (MO)**				
Balance at 12/31/05		EUR	27,752,560	5.17	40.000
Demerger of business operations		EUR	-	-	-
Disposal		EUR	(27,752,560)	(5,17)	(40.000)
Balance at 12/31/06		EUR	-	-	-
SAT. Finanziaria Spa	**Sassuolo (MO)**				
Balance at 12/31/05		EUR	-	-	-
DDemerger of business operations by SAT Servizi Ambiente Territorio Spa		EUR	1,000,000	1.00	40.000
Balance at 12/31/06		EUR	1,000,000	1.00	40.000
Sel-Edison Spa	**Castelbello (BZ)**				
Balance at 12/31/05		EUR	84,798,000	1.0	42.000
Balance at 12/31/06		EUR	84,798,000	1.0	42.000
Sistemi di Energia Spa	**Milan**				
Balance at 12/31/05		EUR	10,475000	1.00	40.573
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	10,475,000	1.00	40.573

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost (1)	Writedowns	Net carrying value (1)	Sharehold. equity in latest approved fin. statements (2)	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements (2)	Pro rata interest in net result
2,000	20,658,497	-	20,658,497				
-	(800,000)	-	(800,000)				
-	-	(6,319,997)	(6,319,997)				
2,000	19,858,497	(6,319,997)	13,358,500	-	-	-	-
20,000	11,362,052	-	11,362,052				
20,000	11,362,052	-	11,362,052	79,095,878	15,819,176	3,048,035	609,607
407,136	451,289	-	451,289				
407,136	451,289	-	451,289	-	-	-	-
17,500	455,000	-	455,000				
17,500	455,000	-	455,000	1,220,617	427,216	(14,826)	(5,189)
19,451,000	1	-	1				
(19,451,000)	(1)	-	(1)				
-	-	-	-	-	-	-	-
2,147,199	21,198,044	-	21,198,044				
-	(822,074)	-	(822,074)				
(2,147,199)	(20,375,970)	-	(20,375,970)				
-	-	-	-	-	-	-	-
-	-	-	-				
400,000	822,074	-	822,074				
400,000	822,074	-	822,074	1,265,178	506,071	(551)	(220)
35,615,160	35,615,160	-	35,615,160				
35,615,160	35,615,160	-	35,615,160	-	-	-	-
4,250,057	4,249,906		4,249,906				
-	-	(235,669)	(235,669)				
4,250,057	4,249,906	(235,669)	4,014,237	-	-	-	-

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital
Società Gasdotti Algeria Italia - Galsi Spa	**Milan**				
Balance at 12/31/05		EUR	3,850,000	0.35	18.000
Reduction of share capital through reduction in par value		EUR	(2,970,000)	0.08	18.000
Reverse stock split to 1 euro par value		EUR	880,000	1.00	18.000
Reduction of share capital		EUR	(42,000)	1.00	18.000
Balance at 12/31/06		EUR	838,000	1.00	18.000
Syremont Spa	**Messina**				
Balance at 12/31/05		EUR	750,000.00	1.00	40.000
Balance at 12/31/06		EUR	750,000.00	1.00	40.000
Utilità Spa	**Milan**				
Balance at 12/31/05		EUR	2,307,692	1.00	35.000
Balance at 12/31/06		EUR	2,307,692	1.00	35.000
Total A2. Equity investments in affiliated companies					
Total A. Equity investments					

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital

Equity Investments in Subsidiaries

DISCONTINUED OPERATIONS

Company	Head office	Currency	Amount	Par value per share	% interest held in share capital
Serene Spa (*)	**Milan**				
Balance at 12/31/05 pledged shares		EUR	25,800,000	5.16	63.000
Balance at 12/31/05 shares owned outright		EUR	-	-	3.316
Balance at 12/31/06		EUR	25,800,000	5.16	66.316
Total discontinued operations					

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost [1]	Writedowns	Net carrying value [1]	Sharehold. equity in latest approved fin. statements [2]	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements [2]	Pro rata interest in net result
1,980,000	1,278,000	-	1,278,000	-			
(1,980,000)	-	-	-	-			
158,400	-	-	-	-			
(7,560)	-	-	-	-			
150,840	1,278,000	-	1,278,000	416,382	74,949	(2,684,212)	(483,158)
300,000	400	-	400				
300,000	400	-	400	-	-	-	-
807,692	807,692	-	807,692				
807,692	807,692	-	807,692	3,155,099	1,104,285	670,279	234,598
	879,579,839	**(6,555,666)**	**873,024,173**				
	2,423,897,601	**(288,628,128)**	**2,135,269,473**				

No. of shares or face value of capital interests held	Cost [1]	Writedowns	Net carrying value [1]	Sharehold. equity in latest approved fin. statements [2]	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements [2]	Pro rata interest in net result
3,150,000	78,426,749	-	78,426,749	-	-	-	-
165,789	3,448,411	-	3,448,411	-	-	-	-
3,315,789	81,875,160	-	81,875,160	-	-	-	-
		81,875,160	**-**	**81,875,160**			

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital
B. Equity Investments Held for Sale Valued at Cost					
Cerset Srl	**Bari**				
Balance at 12/31/05		EUR	117,088	-	0.060
Balance at 12/31/06		EUR	117,088	-	0.060
Cesi Spa	**Milan**				
Balance at 12/31/05		EUR	8,550,000	2.50	1.055
Balance at 12/31/06		EUR	8,550,000	2.50	1.055
C.I.S.A. Spa (pledged shares)	**Massafra (TA)**				
Balance at 12/31/05		EUR	1,560,000	5.20	6.667
Balance at 12/31/06		EUR	1,560,000	5.20	6.667
Clark Immobiliare Srl	**Rome**				
Balance at 12/31/05		EUR	110,000	1.0	0.0001
Balance at 12/31/06		EUR	110,000	1.0	0.0001
Compagnia Paramatti Finanziaria Spa	**Milan**				
Balance at 12/31/05 - common shares		LIT	217,631,352	3.00	0.006
Balance at 12/31/06 - common shares		LIT	217,631,352	3.00	0.006
Costruttori Romani Riuniti Grandi Opere Spa	**Rome**				
Balance at 12/31/05		EUR	3,274,429	8,186.07	0.500
Balance at 12/31/06		EUR	3,274,429	8,186.07	0.500
Emittenti Titoli Spa	**Milan**				
Balance at 12/31/05		EUR	4,264,000	0.52	3.890
Balance at 12/31/06		EUR	4,264,000	0.52	3.890
EURopean Energy Exchange Ag - EEX	**Leipzig (Germany)**				
Balance at 12/31/05		EUR	40,050,000	1.00	0.749
Balance at 12/31/06		EUR	40,050,000	1.00	0.749
Finligure Spa (in bankruptcy)	**Genoa**				
Balance at 12/31/05		LIT	6,261,874,080	3,135	0.035
Balance at 12/31/06		LIT	6,261,874,080	3,135	0.035
Finutenti Spezia Srl in liquidation	**La Spezia**				
Balance at 12/31/05		EUR	575,841	-	0.448
Balance at 12/31/06		EUR	575,841	-	0.448
Fornara Spa (in amministrazione straordinaria)	**Turin**				
Balance at 12/31/05 - preferred shares		EUR	3,235,700	0.26	0.001
Balance at 12/31/06 - preferred shares		EUR	3,235,700	0.26	0.001
Gerolimich Spa in liquidation	**Milan**				
Balance at 12/31/05 - common shares		EUR	62,417,088	0.30	0.000
Balance at 12/31/06 - common shares		EUR	62,417,088	0.30	0.000
Idroenergia Scrl	**Chatillon (AO)**				
Balance at 12/31/05		EUR	1,548,000	-	0.067
Balance at 12/31/06		EUR	1,548,000	-	0.067

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost (1)	Writedowns	Net carrying value (1)	Sharehold. equity in latest approved fin. statements (2)	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements (2)	Pro rata interest in net result
70	222	-	222				
70	222	-	222	-	-	-	-
36,065	142,910	-	142,910				
36,065	142,910	-	142,910	-	-	-	-
20,000	-	-	-				
20,000	-	-	-	-	-	-	-
0.15	-	-	-				
0.15	-	-	-	-	-	-	-
3,992	1	-	1				
3,992	1	-	1	-	-	-	-
2	25,823	-	25,823				
2	25,823	-	25,823	-	-	-	-
319,000	164,263	-	164,263				
319,000	164,263	-	164,263	-	-	-	-
300,000	660,000	-	660,000				
300,000	660,000	-	660,000	-	-	-	-
700	1	-	1				
700	1	-	1	-	-	-	-
2,582	1,937	-	1,937				
2,582	1,937	-	1,937	-	-	-	-
63	77	-	77	-	-	-	-
63	77	-	77	-	-	-	-
20	4	-	4	-	-	-	-
20	4	-	4	-	-	-	-
1,032	1,032	-	1,032	-	-	-	-
1,032	1,032	-	1,032	-	-	-	-

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital
Idrovia Ticino Milano Nord Venezia Spa in liquidation	**Brescia**				
Balance at 12/31/05		LIT	509,370,000	10,000	2.146
Balance at 12/31/06		LIT	509,370,000	10,000	2.146
Immobiliare Caprazucca Spa	**Parma**				
Balance at 12/31/05		EUR	7,517,948	0.43	0.003
Balance at 12/31/06		EUR	7,517,948	0.43	0.003
Ipse 2000 Spa	**Rome**				
Balance at 12/31/05		EUR	150,500,000	0.07	7.910
Advances on future capital contributions		EUR	-	-	-
Writeoff of share capital and refusal to recapitalize		EUR	(150,500,000)	(0.07)	(7.910)
Balance at 12/31/06		EUR	-	-	-
Istituto EURopeo di Oncologia Srl	**Milan**				
Balance at 12/31/05		EUR	79,071,770	-	4.365
Balance at 12/31/06		EUR	79,071,770	-	4.365
Istituto Immobiliare di Catania Istica Spa	**Catania**				
Balance at 12/31/05		EUR	6,200,000	3.10	0.058
Balance at 12/31/06		EUR	6,200,000	3.10	0.058
Ass. Nazionale per l'Enciclopedia della Banca e della Borsa	**Rome**				
Balance at 12/31/05		EUR	129,578	1.55	1.435
Balance at 12/31/06		EUR	129,578	1.55	1.435
Istud Spa	**Milan**				
Balance at 12/31/05		EUR	985,094	447.77	0.682
Disposal		EUR	(985,094)	(447.77)	(0.682)
Balance at 12/31/06		EUR	-	-	-
I.SV.E.UR. Spa	**Rome**				
Balance at 12/31/05		EUR	2,500,000	1,000.00	1.000
Balance at 12/31/06		EUR	2,500,000	1,000.00	1.000
Mandelli Spa (under extraordinary administration)	**Piacenza**				
Balance at 12/31/05		EUR	10,200,000	0.51	0.000
Balance at 12/31/06		EUR	10,200,000	0.51	0.000
Nomisma - Società di Studi Economici Spa	**Bologna**				
Balance at 12/31/05		EUR	5,345,328	0.37	2.215
Balance at 12/31/06		EUR	5,345,328	0.37	2.215
Pro.Cal Scrl (in bankruptcy)	**Naples**				
Balance at 12/31/05		LIT	500,000,000	-	4.348
Balance at 12/31/06		LIT	500,000,000	-	4.348
R.E.A. (Regional Energy Agency) Spa in liquidation	**Florence**				
Balance at 12/31/05		EUR	518,000	518.00	1.000
Balance at 12/31/06		EUR	518,000	518.00	1.000

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost [1]	Writedowns	Net carrying value [1]	Sharehold. equity in latest approved fin. statements [2]	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements [2]	Pro rata interest in net result
1,093	1		1				
1,093	1		1	-	-	-	-
546	1		1				
546	1		1	-	-	-	-
170,065,000	23,155,428	(17,811,645)	5,343,783				
-	6,858,098		6,858,098				
(170,065,000)	(30,013,526)	17,811,645	(12,201,881)				
-	-	-	-	-	-	-	-
3,451,632	4,074,528	(550,686)	3,523,842				
3,451,632	4,074,528	(550,686)	3,523,842	-	-	-	-
1,150	1		1				
1,150	1		1	-	-	-	-
1,200	8,615		8,615				
1,200	8,615		8,615	-	-	-	-
15	6,468		6,468				
(15)	(6,468)		(6,468)				
-	-		-	-	-	-	-
25	5,620		5,620				
25	5,620		5,620	-	-	-	-
11	13		13				
11	13		13	-	-	-	-
320,000	479,473	(372,000)	107,473				
320,000	479,473	(372,000)	107,473	-	-	-	-
21,739,000	11,228		11,228				
21,739,000	11,228		11,228	-	-	-	-
10	1,295		1,295				
10	1,295		1,295	-	-	-	-

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital Currency	Amount	Par value per share	% interest held in share capital
Reggente Spa	**Lucera (FG)**				
Balance at 12/31/05		EUR	260,000	0.52	5.209
Balance at 12/31/06		EUR	260,000	0.52	5.209
Sago Spa	**Florence**				
Balance at 12/31/05		EUR	976,005	2.07	1.188
Share capital increase		EUR	186,956	2.07	(0.191)
Balance at 12/31/06		EUR	1,162,961	2.07	0.997
Servizi Territoriali Est Trentino Spa - STET Spa	**Pergine V. (TN)**				
Balance at 12/31/05		EUR	22,439,400	1.00	0.116
Disposal		EUR	(22,439,400)	(1.00)	(0.116)
Balance at 12/31/06		EUR	-	-	-
Sirio - Sicurezza Industriale Scpa - Sirio Scpa	**Turin**				
Balance at 12/31/05		EUR	120,000	1.00	0.259
Balance at 12/31/06		EUR	120,000	1.00	0.259
Sistemi Formativi Confindustria Scpa	**Rome**				
Balance at 12/31/05		EUR	236,022	516.46	6.565
Balance at 12/31/06		EUR	236,022	516.46	6.565
Sistema Permanente di Servizi Spa (in bankruptcy)	**Rome**				
Balance at 12/31/05		EUR	154,950	51.65	12.600
Balance at 12/31/06		EUR	154,950	51.65	12.600
Trentino Servizi Spa - T.S. Spa	**Rovereto (TN)**				
Balance at 12/31/05		EUR	224,790,159	1.00	0.010
Balance at 12/31/06		EUR	224,790,159	1.00	0.010
Unione Manifatture Spa in liquidation	**Milan**				
Balance at 12/31/05		EUR	117,248,793	1.57	0.000
Balance at 12/31/06		EUR	117,248,793	1.57	0.000
Terminale GNL Adriatico Srl	**Rome**				
Balance at 12/31/05		EUR	10,000,000	-	10.000
Advance on future capital contributions		EUR	-	-	-
Free capital increase		EUR	4,406,920	-	10.000
Contributory capital increase		EUR	185,593,080	-	10.000
Balance at 12/31/06		EUR	200,000,000	-	10.000
3R Associati Srl in liquidation	**Bergamo**				
Balance at 12/31/05		EUR	10,000	-	0.180
Writedown		EUR	-	-	-
Balance at 12/31/06		EUR	10,000	-	0.180
Total B1. Equity investments held for sale valued at cost					

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost [1]	Writedowns	Net carrying value [1]	Sharehold. equity in latest approved fin. statements [2]	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements [2]	Pro rata interest in net result
26,043	13,450		13,450				
26,043	13,450		13,450	-	-	-	-
5,600	15,260		15,260				
-	-		-				
5,600	15,260		15,260	-	-	-	-
26,063	25,823		25,823				
(26,063)	(25,823)		(25,823)				
-	-		-	-	-	-	-
311.00	27		27				
311.00	27		27	-	-	-	-
30	15,494		15,494				
30	15,494		15,494	-	-	-	-
378	1		1				
378	1		1	-	-	-	-
22,250	25,823		25,823				
22,250	25,823		25,823	-	-	-	-
12	7		7				
12	7		7	-	-	-	-
1,000,000	17,964,380		17,964,380				
-	47,914,000		47,914,000				
440,692	-		-				
18,559,308	18,559,308		18,559,308				
20,000,000	84,437,688		84,437,688	-	-	-	-
17.98	387,343	-	387,343				
-	-	(387,342)	(387,342)				
17.98	387,343	(387,342)	1	-	-	-	-
90,472,138	**(1,310,028)**	**89,162,110**					

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital			% interest
		Currency	Amount	Par value per share	held in share capital
B. Equity Investments Held for Sale Valued at Fair Value					
RCS Mediagroup Spa	**Milan**				
Balance at 12/31/05 - Common shares		EUR	732,669,457	1.00	1.011
Decreases:					
Common shares - Adjustment to market value		EUR	-	-	-
Balance at 12/31/06		EUR	732,669,457	1.00	1.011
Total B2. Equity investments held for sale valued at fair value					
Total B. Equity investments held for sale					

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

No. of shares or face value of capital interests held	Cost (1)	Writedowns	Net carrying value (1)	Sharehold. equity in latest approved fin. statements (2)	Pro rata interest in sharehold. equity	Net result in latest approved fin. statements (2)	Pro rata interest in net result
7,406,487	29,781,484		29,781,484				
-		(1,614,614)	(1,614,614)				
7,406,487	29,781,484	(1,614,614)	28,166,870	-	-	-	-
	29,781,484	**(1,614,614)**	**28,166,870**				
	120,253,622	**(2,924,642)**	**117,328,980**				

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LIST OF EQUITY INVESTMENTS (continued)

Company	Head office	Share capital			
		Currency	Amount	Par value per share	
C. Equity Investments Held for Trading					
Acea Spa	**Rome**				
Balance at 12/31/05		EUR	1,098,898,884	5.16	
Disposal		EUR	(1,098,898,884)	(5.16)	
Balance at 12/31/06		EUR	-	-	
Acegas - APS Spa	**Trieste**				
Balance at 12/31/05		EUR	282,983,213	5.16	
Adjustment to market value		EUR	-	-	-
Balance at 12/31/06		EUR	282,983,213	5.16	
ACSM Spa	**Como**				
Balance at 12/31/05		EUR	37,496,500	1.00	
Share capital increase		EUR	9,374,125	1.00	
Adjustment to market value		EUR	-	-	-
Balance at 12/31/06		EUR	46,870,625	1.00	
American Superconductor Corp.	**Westborough (USA)**				
Balance at 12/31/05		Usd	19,128,000	1.00	
Adjustment to market value		Usd	-	-	-
Balance at 12/31/06		Usd	19,128,000	1.00	
Azienda Mediterranea Gas e Acqua Spa	**Genoa**				
Balance at 12/31/05		EUR	180,974,079	0.52	
Share capital increase		EUR	10,348,693	-	
Disposal		EUR	(191,322,772)	(0.52)	
Balance at 12/31/06		EUR	-	-	
Total C. Equity investments held for trading					

(1) Amounts in euros.
(2) Draft financial statements.
(*) Company over which Edison Spa exercises management and coordination authority.

% interest held in share capital	No. of shares or capital interests held	Cost	Adjustment to market value	Net carrying value
0.174	370,450	4,009,557.61	(896,666.26)	3,112,891.35
(0.174)	(370,450)	(4,009,557.61)	896,666.26	(3,112,891.35)
-	-	-	-	-
1.298	712,000	7,466,305.86	(1,984,617.86)	5,481,688.00
-	- 579,568.00	579,568.00		
1.298	712,000	7,466,305.86	(1,405,049.86)	6,061,256.00
3.968	1,488,000	5,359,999.53	(2,160,799.53)	3,199,200.00
-	-	-	-	-
-	- 491,040.00	491,040.00		
3.175	1,488,000	5,359,999.53	(1,669,759.53)	3,690,240.00
0.836	160,000	4,975,111.08	(3,907,751.08)	1,067,360.00
-	- 124,439.54	124,439.54		
0.836	160,000	4,975,111.08	(3,783,311.54)	1,191,799.54
2.810	9,780,300	22,421,654.60	(6,274,379.30)	16,147,275.30
(0.152)	-	-	-	-
(2.658)	(9,780,300)	(22,421,654.60)	6,274,379.30	(16,147,275.30)
-	-	-	-	-
		17,801,416.47	**(6,858,120.93)**	**10,943,295.54**

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REPORT OF INDEPENDENT AUDITORS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 58 DATED 24 FEBRUARY 1998

To the shareholders of
EDISON SpA

1 We have audited the financial statements of EDISON SpA as of 31 December 2006, comprising the balance sheet, income statement, cash flow statement, changes in shareholders' equity and related notes. These financial statements are the responsibility of EDISON's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements 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 financial statements. 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.

The financial statements show as comparatives the corresponding amounts of the prior year determined in accordance with the same accounting principles. Moreover, a specific paragraph in the notes to the financial statements illustrates the effects of the transition to the International Financial Reporting Standards as adopted by the European Union and, for the purpose of completeness, contains an explicit reference to "Transition to IAS/IFRS", a document approved by the Board of directors on 2 August 2006 and published as an appendix to the separate interim financial reporting of EDISON SpA as of 30 June 2006. This document reports all the disclosures related to the IFRS 1 reconciliation schedules, which we examined and on which we issued our auditors' report on 4 August 2006.

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PRICEWATERHOUSECOOPERS

3 In our opinion, the financial statements of EDISON SpA as of 31 December 2006 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in shareholders' equity and cashflows of EDISON SpA for the year then ended.

4 Without qualifying our opinion, we emphasise that, as illustrated in the notes to the separate financial statements, in the case of power plants with contracts to sell energy under the tariff regime CIP 6/92, the remaining useful lives being equal, starting from 1 January 2006 the Company, in lieu of using straight-line depreciation referred to the useful lives of the various components, has applied systematic declining-balance depreciation so as to reflect the differences between the economic terms of the CIP 6/92 regulations and the terms of trading prevailing in the market; the reasons for this and the impact of the revised estimate on the income statement in the separate financial statements are amply illustrated in the aforementioned notes.

Milan, 8 March 2007

PricewaterhouseCoopers SpA

Marco Sala
(Partner)

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

(2)

This document is also available on the
Company website: www.edison.it

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