



SUSTAINABILITY REPORT

2006



EDISON IN ITALY



* Edipower thermoelectric power plants
 ** Edipower hydroelectric power plants

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SUSTAINABILITY REPORT

2006

THE FUTURE IS OUR COMMITMENT

For the Edison Group, 2006 was an especially important year, not only because the Company reported outstanding operating and financial results, but also because it laid the foundations for its future growth with a capital investment plan that has been extremely appreciated our shareholders and the financial markets.

Net profit rose to 650 million euros, or 30% more than the 504 million euros earned last year, which was itself a record for Edison. In addition, the Group reinstated its dividend payment in 2006 after a four-year hiatus, underscoring its belief that compensating shareholders, who have invested and believed in the Company, is a primary obligation for any business. Equally important is the need to provide a growing contribution to the development of the communities that host the Group.

In 2006, we all but completed one of the most ambitious capital investment programs carried out in Europe in the last decade. In 2007, as the power plants in Simeri Crichi and Turbigio (Edipower) will go on stream, the Group's installed generating capacity will rise to almost 12,500 MW, most of which consists of gas-fired power plants that use combined-cycle technology, the most efficient and environmentally compatible system available today. The production of clean energy is in Edison's DNA: we were the first company in Italy to develop hydroelectric power generation and we are leading the way in wind-power generation. Moreover, Edison was the first company in Italy to adopt the ISO 14001 and EMAS management systems. At the end of 2006, 98% of the Group's electric power facilities used certified environmental and safety management systems. As a result, emissions from Edison's power plants have been declining steadily and by significant amounts.

In order to make sustainable growth possible, we are working to lower as much as possible the amount of CO₂ emitted per unit of energy generated.

We are already in the forefront of this effort, as we have gradually replaced the oil-fired systems of the former Enel (now Edipower) facilities with ecocompatible, combined-cycle systems fueled with natural gas. But we are committed to doing even better, as demonstrated by our increasing investments in the area of renewable sources. In 2006, the Company approved a

plan that calls for investments in renewable resources totaling 480 million euros.

However, irrespective of the strength of our commitment, we must reflect in concrete terms on how the goals of sustainable development can be made compatible with today's technology, if we are to face realistically the challenges posed by climate change and the Kyoto protocol.

At the end of 2006, the relevant Italian Ministries published a draft of the National Emissions Allocation Plan for the "transitional period" (2008-2012). This draft is currently being revised to address issues raised by the European Union. In our opinion, the Plan's allocation method does not reflect, as we recommended, the principle of making more costly the sources that account for most of the CO₂ emissions.

We hope that this key principle will be included in the changes that are now being discussed and will become the reference paradigm for the period after 2012.

In any case, if we are to protect the environment, it is essential that technological progress and carefully framed regulations go hand in hand with educational campaigns conducted at the national and local level to increase public awareness of the importance of energy conservation and change the daily habits of consumers. An example of such projects is the campaign that Edison helps Legambiente conduct each year in the Italian school system to encourage a culture of energy conservation.

Italy has chosen natural gas as its primary fuel for producing electric power. Our responsibility is to make sure that our country has access to the gas it needs for continued growth and progress. Accordingly, we are committed to designing and building new importation infrastructures that will make it possible to diversify supply sources and make the entire system more reliable.

Working in partnership with ExxonMobil and Qatar Petroleum, Edison is currently the only company engaged in constructing a regasification terminal. This facility, which is being built in the Northern Adriatic, will have a capacity of 8 billion cubic meters of natural gas per year. It is expected to go on stream in 2008,



making it possible, for first time in Europe, to import liquefied natural gas from Qatar.

Edison is also involved in the development of two new pipelines: the Galsi pipeline, which will connect Algeria and Italy, and the IGI pipeline, which will link Italy and Greece. The latter will provide access, through Turkey, to the substantial reserves in the Caspian Sea Basin. Both projects have been classified as being of priority interest by the European Union, thus validating the wisdom of Edison's strategic vision.

Edison has always followed sound practices of social responsibility, which are now evolving into more structural and formal policies. Through its Code of Ethics, its Sustainability Report (now in its fourth edition), the definition of its Corporate Values, the decision to join the Global Compact and the adoption of formal CSR policies and objectives, Edison has confirmed its commitment to behave responsibly toward its shareholders, its

employees, its customers, its partners and the communities in which it operates. In 2006, for example, we more than doubled our support for local communities, sponsoring cultural, sports, environmental and educational programs.

In the future, we will continue to follow this path with commitment and determination in pursuit of the primary goals of continuing to build balanced and lasting relationships with the communities in which it operates, both in Italy and abroad; improve the quality of relations within the Company; and consolidate the position of excellence achieved in environmental performance.

Giuliano Zuccoli
Chairman

Umberto Quadrino
Chief Executive Officer

WHO WE ARE. EDISON TODAY

Edison is one of Italy's top energy companies, with operations in the procurement, production and distribution of electric power and natural gas. At December 31, 2006, its electric power operations had an installed capacity of 11,686 MW, counting Edison's share of Edipower's output (3,513 MW at 50% consolidation). Edison has been a key player in the deregulated electric power and natural gas markets since their inception in the early 1990s. Today, Edison's market share is 20.8% for the overall electric power market (it rises to 22.4% for the deregulated market) and 15.7% for the natural gas market.

Facilities and Infrastructures that Serve Italy

Energy production is provided by the following facilities:

- 36 thermoelectric power plants, including 32 cogenerating, combined-cycle facilities that are fueled with natural gas, 2 combined-cycle units that burn steel-mill gases and 2 conventional power plants, for a total installed capacity of 9,590 MW;
- 42 hydroelectric power plants with an installed capacity of 1,837 MW;
- 24 commissioned wind farms with an installed capacity of about 260 MW (15% of Italy's total), comprising 451 wind turbines located in 7 different regions, mostly in central and southern Italy.

Edison's hydrocarbon operations include the following:

- 61 concessions and exploration permits in Italy and 12 concessions and exploration permits outside Italy for exploration and production of natural gas and crude oil in Norway (5 blocks), Croatia, Egypt, Ivory Coast, Algeria and Senegal;
- Hydrocarbon reserves of 30 billion m³;
- 2 storage centers in Italy (Collalto and Cellino), plus development of a new location in San Potito-Cotignola, for a total capacity of 1

billion standard m³;

- Over 3,200 Km of low- and medium-pressure gas pipelines for distribution to consumers in Italy.

Main Achievements of 2006

In 2006, the Group completed a number of projects and made significant progress in many areas:

- Completion of the Torviscosa power plant, with startup of the steam turbine in May.
- Programs to optimize the Candela and Altomonte power plants and completed the Torviscosa facility. The high levels of reliability achieved enabled these facilities to enter the deregulated and dispatching services market.
- Progress in the construction of a new 800-MW power plant in Simeri Crichi (CZ), which is scheduled to start production in 2007.
- Commissioning of 16-MW wind farm in Ripabottoni (Campobasso) and completion of wind farms in Faeto (FG), Volturino (FG) and Sella di Conza (SA).
- Passed the 50%-completion mark in the construction of the "Isola di Porto Levante" LNG regasification terminal in the Adriatic Sea. This facility, which will have a capacity of 8 billion cubic meters per year, is being built jointly with ExxonMobil and Qatar Petroleum and is expected to become operational in the second half of 2008.
- Reached 30% completion of the Cavarzere-Minerbio gas pipeline.
- Further progress in hydrocarbon exploration and in developing hydrocarbon production fields in Italy and abroad (Croatia, Ivory Coast, Senegal, Algeria, Egypt, Libya and Qatar) both as operator and as a participant with other partners.
- New gas discovery in the Reggane District in Algeria.
- Signature of two major commercial agreements with Sonatrach (the Algerian state oil company) for the supply of up to 4 billion



m³ per year: 2 billion m³ will be delivered via the Transmed-TTPC pipeline and the other 2 will be imported using the new Galsi pipeline that will link Algeria with Italy through Sardinia. Edison is the main shareholder of the pipeline company.

More detailed information about the LNG Adriatic Terminal, the Galsi gas pipeline that will link Algeria with Italy passing through Sardinia and the IGI project (pipeline connection between Greece and Italy) to import natural gas through the Turkish and Greek networks is available online at www.edison.it

Production

Electric Power – Sources (GWh)⁽¹⁾

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

⁽¹⁾ One GWh is equal to one million kWh.

⁽²⁾ Net of line losses and tolls.

Natural Gas – Sources (millions of m³)

	2006	2005	% change
Total net production	1,068	1,248	(14.4)
Production in Italy	712	902	(21.1)
Production outside Italy	356	346	3
Pipeline imports	7,705	6,601	16.7
LNG imports	62	80	(22.5)
Domestic and other purchases⁽¹⁾	4,804	5,714	(15.9)
Total sources	13,639	13,643	-

⁽¹⁾ Includes inventory changes and pipeline leaks.

Capital Investments (in millions of euros)⁽¹⁾

	2006	2005	% change
Capital expenditures	480	584	(19.7)
a) Electric power operations	347	511	(32)
pro rata share of Edipower's total	84	93	(9.6)
b) Hydrocarbons operations	133	73	82
Investments in exploration	41	22	86.4
In Italy	17	20	(15)
Abroad	24	2	110

* These amounts refer to Edison's core businesses. They have been restated to reflect the adoption of IFRIC 4.

A LONG TRADITION OF SUSTAINABILITY

- 1881** Giuseppe Colombo founds the Committee to Promote the Use of Electric Power in Italy in Milan. The Committee will become Società Generale Italiana di Elettricità Sistema Edison in 1884.
- 1883** Santa Radegonda, Europe's first power plant capable of distributing a continuous supply of electric power begins to operate in Milan.
- 1887** A contract is signed with the city of Milan to provide public lighting.
- 1898** The Bertini power plant in Paderno d'Adda is commissioned. The plant was the most powerful in Europe and second in the world only to T. Edison's Niagara power plant.
- 1931** Edison begins to supply natural gas to homes in Milan.
- 1953** To provide service to its electric power and natural gas customers, Edison establishes the 8830 telephone service.
- 1963** Italian electric utilities are nationalized.
- 1966** The merger with Montecatini creates Montedison.
- 1990** A new National Energy Plan allows private-sector companies to build new power plants, provided they use eco-compatible technologies.
- 1992** Between 1992 and 1998, Edison introduces to Italy the combined-cycle technology for power plants fueled with natural gas. It is the most efficient power generation technology available and has the lowest environmental impact.
- 1993** The Edison Research Center opens in Trofarello (TO).
- 1994** Edison publishes its first Environmental Report.
- 1996** Edison commissions its first wind farm. The farm is located in Casone Romano, in the municipality of Castelnuovo della Daunia, province of Foggia.
- 1997** Edison's Bussi power plant is the first facility in Italy to receive environmental certification in accordance with the UNI EN ISO 14001 standard.
- 1997** The CET 3 power plant in Taranto, which was commissioned in the summer of 1997, is the first facility in the world to use, on an industrial scale, a combined-cycle system fueled with recycled gas taken from the neighboring steel mill complex.
- 1999** Sarmato is the first thermoelectric power plant in Italy to receive EMAS registration.
- 2002** Edison Energie Speciali (wind power generation) is the first organization in Italy to receive multi-site EMAS registration.
- 2003** The Code of Ethics is approved.
- 2004** Edison publishes the first edition of its Sustainability Report and approves the 231 Organizational Model.
- 2005** Edison joins the Global Compact.
- 2006** The Antitrust Code is approved.
By the end of the year, the percentage of Group facilities that is covered by certified environmental and safety management systems reaches 98% for the electric power operations and 50% for the hydrocarbons operations.



Shareholder Base

The table below lists the shareholders who hold, directly or indirectly (including third parties, nominees and subsidiaries), an interest greater than 2% of the voting stock.

The Company is controlled by TdE, which, pursuant to the definition provided in Article 93 of Legislative Decree No. 58/1998, is not controlled by any individual or legal entity. For the sake of full disclosure, it should be noted that TdE is

owned in equal shares by two partners: WRGM Holding 4, a wholly owned subsidiary of EDF, and Delmi Spa, a 51% subsidiary of AEM. Delmi's other shareholders are: Enià Spa (15%), Società Elettrica Altoatesina-SEL Spa (10%), Dolomiti Energia Spa (10%), Mediobanca Spa (6%), Fondazione Cassa di Risparmio di Torino (5%), and Banca Popolare di Milano S.c.ar.l. (3%). None of these parties exercises oversight or control over Edison.

Shareholder	Number of common shares held	Percentage of voting shares	Percentage of share capital
Transalpina di Energia	2,965,041,428	63.327	61.866
EDF	721,505,448	15.410	15.054
breakdown:			
held directly	13,556,470	0.290	0.283
held indirectly	707,948,978	15.120	14.771
Tassara Group	519,415,667	11.094	10.838
breakdown:			
held directly	4,100,000	0.088	0.086
held indirectly	515,315,677	11.006	10.752

At 2/16/07

Simplified Structure of the Group at December 31, 2006



■ Electric Power Operations ■ Hydrocarbons Operations

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

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

SUSTAINABILITY HIGHLIGHTS

Financial Responsibility⁽¹⁾	2005	2006
Net revenues	6,629	8,523
EBITDA	1,288	1,536
EBIT	639	752
Financial expense	203	246
Profit before taxes	442	559
Group interest in net profit	504	654
Capital expenditures and investments in exploration	620	530
Net invested capital	11,251	11,146
Net borrowings	4,820	4,256
Shareholders' equity before minority interest	6,431	6,890
Debt/Equity ratio	0.75	0.62
Social Responsibility⁽²⁾		
Number of employees	2,276	2,280
Number of training hours per employee	46	38
Accident frequency index for Company employees	2.4	4.2
Serious accident index for Company employees	0.04	0.07
Accident frequency index for Contractor employees	8.2	5.8
Serious accident index for Contractor employees	0.53	2.02
Number of customers with CRM access	167,000	174,000
Hours worked by contractor employees	5,347,193	4,446,870
Hours worked by Edison employees	4,151,373	4,033,912
Equivalent full-time employees hired by contractors	3,038	2,527
Number of qualified suppliers (Supplier Register and Vendor List)	2,216	2,413
Number of environmental and safety audits and reviews at new-construction jobsites	85	40
Charitable contributions and sponsorships (millions of euros)	0.8	2
Environmental Responsibility⁽³⁾		
Level of coverage provided by certified integrated environmental and safety management systems – Electric Power Operations (% of locations covered)	98	98
Level of coverage provided by certified integrated environmental and safety management systems – Hydrocarbons Operations (% of locations covered)	38	50
Level of coverage provided by certified integrated environmental and safety management systems – Total (% of locations covered)	80	85
Number of environmental, health, safety and quality training provided	29,687	32,297
Environmental and safety investments and costs (millions of euros) ⁽³⁾	15.5	30.8

⁽¹⁾ The operating and financial data are the consolidated data of the Edison Group, which include, on a pro rata basis, the data of companies consolidated by the proportional method.

⁽²⁾ The data relative to social and environmental issues are those of the Group's core businesses (electric power, natural gas and corporate activities). The data of Edipower, which publishes its own Sustainability Report, are not included (see page 43).

⁽³⁾ Environmental and safety outlays do not include training costs.

WORDS THAT BECOME FACTS

Edison's Mission

Edison's mission is to supply its customers with energy and high-quality services, working in partnership with its suppliers to develop and deploy more efficient technologies that are compatible with the environment and increase safety.

Through these activities, Edison intends to:

- Create value for its shareholders and ensure the long-term growth of the Company;
 - Contribute to the well-being and professional development of its employees and partners;
 - Transfer innovations to the community and contribute to its economic and social development;
- while complying fully with the Company's fundamental values of ethical and transparent behavior.

Our Values and Our Conduct

The Code of Ethics

Edison's fundamental principles of ethics are enshrined in its Code of Ethics (www.edison.it). They provide the foundation for our corporate culture and represent a standard of behavior that all Group employees are required to follow in business transactions and other activities, both in Italy and abroad.

The fundamental principles are:

A Ethics in Business Conduct and Corporate Activities

- Lawfulness
- Integrity
- Loyalty
- Transparency
- Respect for the Dignity of Individuals

B Ethics in Employment and Protection and Empowerment of Associates

- Commitment to Improve
- Confidentiality
- Absence of Conflicts of Interest
- Safety, Occupational Health and Work Conditions
- Equal Opportunity
- Professional Development

C Commitment to Sustainable Development and Responsible Behavior Toward the Public

- Promotion of Sustainable Development
- Responsibility Toward the Public

Our Values

In 2005, Edison redefined its position, confirming the formulation of a mission that places corporate social responsibility at the core of its corporate strategy and embracing new values that guide every aspect of the way its does business at all times.

- INTEGRITY
- TEAM SPIRIT
- EXCELLENCE
- INNOVATION
- SERVICE
- RESPECT
- SPEED

Quality, Safety and Environmental Policy

For many years, Edison has pursued excellence in the fields of quality, the environment and safety, striving to continuously improve its performance. Customer satisfaction, respect for environmental protection laws, protection of the health and safety of employees and all other parties involved, and cooperation with public authorities and local communities are the principles that guide the activities of all Group employees and associates.

The full text of the Policy is available online at www.edison.it.

Edison and Its Stakeholders

In 2006, working with the support of Eurisko, Edison conducted a new survey of its main reference stakeholders and of the public in general, with the objective of evaluating and improving the quality of its relationships with its counterparts and comparing this year's findings with those of the previous year. The survey targeted six categories of stakeholders (journalists, suppliers, political decision makers, customers and financial analysts). It involved 120 in-depth interviews that covered such topics as overall opinion, quality of personal relationships, credibility and quality and quantity of information supplied by the Company.

The findings were grouped under three headings:

- 1) Name recognition: 93% of the main reference stakeholders were very familiar or fairly familiar with Edison.
- 2) Overall opinion: Overall stakeholder opinion was mostly positive (88%) and better than in 2005.
- 3) Quality of relationships: The stakeholders' opinion of their relationship with the Company was very good, with an increase in the perceived level of excellence (78% of respondents said that the relationship was excellent or very good).

In 2006, we also completed a customer satisfaction survey. The survey showed that the information and communication channels we have established have helped make industrial customers significantly more familiar with Edison. Interviews of 1,800 customers or potential customers showed that there is good level of appreciation for Edison's services. The survey also helped identify areas where there is room for improvement. Recognition of the Edison logo increased significantly.

Map of the Company's Stakeholders and Our Commitments to Each Group

Shareholders

Commitments to our shareholders: Provide a return on risk capital; manage the resources entrusted to us by our shareholders efficiently, rigorously and transparently; ensure that power is balanced fairly among shareholders; guarantee access to information; guarantee compliance with the law and fairness in the endeavors pursued for the Company's growth over the short, medium and long term.

Company organizations: Board of Directors and senior management

Tools: Governance System, System of Internal Controls, 231 Organizational Model, Code of Ethics, Antitrust Code, Company procedures

Financial Community

Commitments to investors, financial analysts and rating agencies: Maintain an ongoing dialog with the financial markets while complying with all laws and regulations and the provisions that govern the circulation of insider information and the procedures for handling confidential information; ensure that all investors receive the same information before making an informed choice; ensure the prompt delivery and availability of information.

Company organizations: Finance Department and Investor Relations

Tools: Company procedures, website

Customers

Commitments to our customers: Establish trust between those who produce energy resources and those who consume them, providing stability to the interaction between these two equal partners; guarantee the reliability of supplies and develop the service with a qualified knowhow, working proactively with customers; offer a diversified range of value-added services to maximize conservation opportunities, reduce consumption and offer "green" energy produced from renewable sources; simplify access to services and provide transparent contracts and invoices.

Company organization: Marketing and Distribution Business Unit

Tools: Offer formulas, standardized contracts, specialized and extensive sales network

Human Resources

Commitments to employees: Provide equal opportunities, fair compensation, professional development and a balance between work and personal commitments; help employees grow through a transparent, merit-based system; provide safe work environments and procedures; offer transparent and clear contract terms; recognize the rights of employees and conduct industrial relations on the basis of respect and equality; guarantee dialog and internal communications.

Company organizations: Personnel and Organization, External Relations and Communications

Tools: Code of Ethics, internal labor agreements, internal programs and procedures, internal communications, events, website

Suppliers

Commitments to suppliers of goods and services: Establish collaborative relationships with transparency and mutual respect of con-

tract terms; demonstrate openness to innovative proposals and to new or alternative solutions; guarantee the absence of discrimination by adopting objective, transparent and documentable criteria for selecting and considering offers and evaluating the performance of suppliers.

Company organization: Procurement

Tools: Code of Ethics, internal procedures, website

Environment – Future Generations

Commitments to environmental management: Strive for continuous improvement in environmental performance in transactions over which the Company has direct control or influence; comply with current legislation; research, develop and deploy more sustainable technologies; evaluate the potential impact of new facilities and work to minimize it; adopt integrated management systems; guarantee a dialog and cooperation with external counterparts and local communities; provide complete, reliable and clear information.

Company organizations: Environmental Protection, Safety and Quality; Development; Engineering; Research and Development; Renewable Sources

Tools: Code of Ethics, Environmental Policy, Company procedures and programs, website

Local Communities

Commitments to local communities: Ensure dialog and cooperation with external counterparts and local communities, with the objective of developing projects and initiatives of common interest; return value to the host communities; provide complete, reliable and clear information.

Company organizations: Electric Power Business Unit, Hydrocarbons Business Unit, Environmental Protection, Safety and Quality; Development; Engineering; Research and Development; Renewable Sources; External Relations and Communications

Tools: Code of Ethics, Environmental Policy, Company procedures, website

Media

Commitments to the media: Ensure dialog and transparent communications with journalists, with the goal of communicating to the public an image of the Company that is consistent with its business objectives; provide complete, reliable and clear information.

Company organizations: External Relations and Communications, Press Office

Tools: Code of Ethics, press releases, events, website

Public Institutions

Commitments to public institutions: Foster dialog and cooperation with central and local institutions in Italy and the European Union; guarantee fairness and transparency.

Company organization: Institutional and Regulatory Affairs

Tools: Code of Ethics, 231 Organizational Model, Antitrust Code, Company procedures

Edison Joins the Global Compact

In 2005, Edison joined the Global Compact, an initiative launched by the United Nations to publicize and obtain the support of major

international companies for ten universal principles in the areas of human rights, labor standards and the environment and make these principles part of each company's strategic vision and operating

Areas of implementation	Edison is committed to:	...and these are its accomplishments
HUMAN RIGHTS	<ol style="list-style-type: none"> 1. Supporting and respecting human rights in the areas under its control. 	<p>Edison respects the laws of each of the countries in which it operates and recognizes international conventions on human rights and labor standards. Outside Italy, it abides by the contractual conditions for the oil and gas industry that govern labor relations at the international level.</p>
LABOR STANDARDS.	<ol style="list-style-type: none"> 2. Making sure that it is not complicit, even indirectly, in human rights abuses. 3. Upholding the freedom of association and the effective recognition of the right to collective bargaining. 4. Ensuring that it does not employ forced or compulsory labor. 5. Abstaining from the use of child labor. 6. Eliminating all forms of discrimination in its hiring and termination policies. 	<p>As part of its effort to provide optimum working conditions in terms of health and safety, it has adopted in Italy a management system that complies with OHSAS standards, and the achievement of a "zero risk" environment is its stated goal. In 2006, the Group began to develop for its operations outside Italy guidelines to define an integrated environmental and safety system for exploration and production projects pursued by the Hydrocarbons Business Unit. In addition, it issued organizational procedures for foreign operations. One of these procedures, which deals with establishing new companies or opening branches, is designed to ensure that environmental risks and risks affecting employee health and safety are properly assessed and that best international practices are followed in addition to complying with local laws. Another procedure regulated purchasing and requires local suppliers to comply with existing local laws and with Company regulations in the area of safety, protection and environmental health.</p> <p>The Code of Ethics has also been presented to, and is being disseminated and implemented by, employees and managers outside Italy. Its content has been communicated to suppliers, sales agents and partners. Suppliers whose work has a significant impact on areas related to the environment or labor standards are asked to formally accept the Code of Ethics whenever a contract is signed. In addition, the Company joined the SIRF Project in 2006 and plans to adopt the Project's guidelines to establish a procurement system that is consistent with best international practices and corporate social responsibility criteria.</p> <p>As part of its efforts to foster acceptance of a culture that respects individual rights and to help educate young people in the areas of economy and development, particularly in newly developing countries, Edison, working in partnership with the UNDP (United Nations Development Program), provides support to the Centre de Recherche et de Formation sur l'État en Afrique.</p> <p>Edison supports Save the Children's Back to School program to rebuild the Banda Aceh school system, which was devastated by the Tsunami at the end of 2004, and to help provide access to education, which is a fundamental right of every child.</p> <p>The Company's hiring process is governed by special internal procedures that protect individuals from discrimination of any kind. The principle of non-discrimination is also enshrined in the Company's Code of Ethics. The processes implemented in connection with early retirement and long-term unemployment programs are carried out in full compliance with existing laws and are handled in a manner that is consistent with industrial relations that are based on fairness and transparency.</p>

practices. Accordingly, Edison has undertaken clear social responsibility commitments toward the United Nations and its stakeholders. These commitments are summarized below:



Areas of implementation	Edison is committed to:	...and these are its accomplishments
ENVIRONMENT	7. Using a preventive approach to address environmental challenges.	<p>The Group adopted an Environmental Management System (ISO 14001 Certification/EMAS registration) for direct activities with an impact on the environment.</p> <p>In 2006, the Group began to develop for its operations outside Italy guidelines to define an integrated environmental and safety system for exploration and production projects pursued by the Hydrocarbons Business Unit.</p>
	8. Undertaking initiatives that promote greater environmental responsibility.	<p>The Group adopted an Environmental Management System (ISO 14001 Certification/EMAS registration) for indirect activities with an impact on the environment.</p> <p>All contracts for the supply of technical services in areas of "critical" importance for the environment contain technical specifications that include environmental obligations for contractors.</p> <p>Working with Legambiente, Edison pursued projects to encourage energy conservation.</p> <p>In 2006, the Group launched a project to protect biodiversity that included sponsoring a program by the Abruzzo, Latium and Molise National Park to protect a local bear species.</p>
	9. Encouraging the development and diffusion of environmentally friendly technologies.	<p>Edison was the first company to invest in high-efficiency (combined cycle) technologies that use environmentally friendly natural gas, adopting from the start an Environmental Management System (ISO 14001 Certification/EMAS registration) for its production units and operational organizations. In addition, all contracts for the supply of technical services in areas of "critical" importance for the environment contain technical specifications that include environmental obligations for contractors. Edison supplies energy audit services to customers, with the goal of identifying areas where potential savings in the use of electric power could be realized and the environmental impact reduced. In addition, it provides "ecodoc" energy, which is energy that is certified as being produced exclusively with renewable sources.</p> <p>In its work with Legambiente, Edison has been promoting for many years programs to raise awareness among Italian school children of the importance of energy conservation.</p> <p>Edison's research and development projects focus on innovative energy technologies that are more respectful of the environment (photovoltaic, energy storage and super conductivity).</p>
CORRUPTION	10. Promoting initiatives that prevent corruption.	<p>The Company's Code of Ethics and the 231 Organizational Model have been distributed to all employees in Italy and abroad. In 2006, the Group defined and implemented for each Group company in Italy and abroad separate procedures that are consistent with the 231 Group Organizational Model.</p>

FINANCIAL RESPONSIBILITY



GOVERNANCE IS TRANSPARENCY

Consistent with its status as a company under Italian law with shares traded on a stock exchange that follows the guidelines of the Code of Conduct, Edison's corporate governance structure includes:

- A Shareholders' Meeting;
- A 12-member Board of Directors, with two independent Directors;
- A Chairman and a Chief Executive Officer;
- An Audit Committee;
- A Compensation Committee;
- A Strategy Committee;
- A Board of Statutory Auditors;
- Independent Auditors.

Since 2002, the Company has provided the Board of Directors with the support of internal committees. These committees are:

- The Audit Committee, which makes proposals and provides advice, assisting the Board of Directors in discharging its duties with regard to the System of Internal Controls, including evaluating the adequacy and the operating effectiveness of the System of Internal Controls and of the process used to prepare the financial statements;
- The Compensation Committee, which makes proposals regarding the compensation of Directors who perform special functions, the compensation policies applicable to senior executives and long-

term compensation plans;

- The Strategy Committee, which is responsible for developing, assessing and submitting to the Board of Directors strategic options for the Company.

Given Edison's current shareholder base and the corporate governance system that it has adopted, the establishment of a nominating committee did not appear to be necessary. Edison's corporate governance structure also includes procedures for allocating and delegating authority, a system of internal controls, a 231 Organizational Model (approved in 2004) and the Code of Ethics (approved in 2003). The Company has been using for some time a procedure for the internal management and external communication of documents and information concerning its status as an issuer of securities, with special emphasis on insider information. This procedure, which is an integral part of the 231 Model, was revised in 2006 by the Board of Directors, acting upon a proposal by the Oversight Board and based on the findings of a preliminary review by the Audit Committee, in order to make it more responsive to changes in statutory requirements introduced by the inclusion in the Italian legal system of EU regulations on market abuse. The Board of Directors also approved an Antitrust Code – Conduct Manual for the Edison Group for the Protection of Competition. This document is a follow up on the section of the Code of Ethics entitled "Ethics in

Structure of the Board of Directors and the Board Committees

Board of Directors

Post held	Name of member	Board meeting attendance (%)	No. of other posts held ⁽⁴⁾	Audit Committee ⁽³⁾	Compensation Committee	Strategy Committee
DIRECTORS IN OFFICE SINCE OCTOBER 28, 2005						
Chairman	Giuliano Zuccoli	100	6			X
Chief Executive Officer	Umberto Quadrino ⁽²⁾	100	3			X
Director	Marc Boudier	100	7		X	X
Director	Daniel Camus	87.50	4	X		
Director	Giovanni De Censi ⁽¹⁾	100	4		X	
Director	Pierre Gadonneix	62.50	3			
Director	Gian Maria Gros-Pietro ⁽¹⁾	87.50	5	X	X	
Director	Mario Mauri	87.50	6		X	X
Director	Renato Ravanelli ⁽²⁾	100	2			
Director	Ivan Strozzi ⁽³⁾	100	3	X		
Director	Klaus Stocker	100	4	X		
Director	Gerard Wolf	87.50	1			
DIRECTORS OUT OF OFFICE						
Director	Uris Cantarelli	85.71	2	X		

⁽¹⁾ Independent Director.

⁽²⁾ Executive Director.

⁽³⁾ Appointed on December 6, 2006.

⁽⁴⁾ Number of other companies with shares traded in regulated markets in Italy or abroad, including financial, banking or insurance companies or companies of significant size of which the party in question is a Director or Statutory Auditor. Details about the different posts held are provided in the Corporate Governance Report.

Managing the Company's Businesses and Activities:

The following documents are available on Edison's website (www.edison.it): the Bylaws, the Code of Ethics and the Annual Corporate Governance Report.

The Governance Agreements set at 12 the number of Edison Directors, including 10 representing TdE (of which five designated by EdF and WGRM and five designated by Delmi) and two independent Directors designated one each by EdF/WGRM and Delmi. For additional information about independent Directors, please consult the Corporate Governance Report. The Board of Directors has launched a self assessment process. This process has been entrusted to the independent Directors, who are working with the support of the Secretary to the Board of Directors and expect to complete it early in 2007. Even though the professional expertise of the members of the current Board of Directors has made them fully capable of understanding the obligations and responsibilities inherent in the office they hold, the Directors receive regular updates about changes in the regulatory framework and their obligations.

In 2006, the average attendance of Directors at Board meetings was 91.67%. The average attendance of Statutory Auditors at Board meetings was 87.50%.

System of Internal Controls

Edison's System of Internal Controls is a structured and organic set of rules, procedures and organizational structures designed to prevent or minimize the impact of unexpected results and allow the achievement of the Company's objectives in terms of strategy, operations (effectiveness and efficiency in conducting its operations and protecting corporate assets), compliance with applicable laws and regulations, and accurate and transparent internal and market communications (reporting). This System permeates every aspect of the Company's operations and involves different parties who perform specific functions and discharge specific responsibilities. Responsibility for the effectiveness of the system of internal controls rests with the Board of Directors, which sets the system's guidelines and periodically evaluates its effectiveness and operating performance, relying, if appropriate, on the input of its Audit Committee and that of the Directors with executive powers. The Internal Control Officer reports to the Directors with executive authority, the Audit Committee and the Board of Statutory Auditors. The Internal Controls Department is responsible for performing the Internal Auditing function, which involves assessing the effectiveness of the system of internal controls and monitoring risks and controls at the line level.

Board of Statutory Auditors

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

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

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

Risk Management

The purpose of the Group's risk management activities is to stabilize the cash flow generated by its portfolio of assets and existing contracts. Edison uses strategic guidelines to contain risk (strategic hedging) and to protect its operating results (at the EBITDA level) from fluctuations caused by the impact of price risk and foreign exchange risk on commodities, while at the same time safeguarding the value of its assets from any impairment that may result from market price volatility.

Edison's policy is to minimize the use of the financial markets for hedging purposes, relying instead on leveraging the benefits of the vertical and horizontal integration of its different businesses. The use of financial instrument for strictly speculative purposes is not allowed, as it would increase the Group's overall risk profile.

The Risk Committee (see Governance Structure) meets at least once a month to review the Group's overall level of exposure, which is the aggregate of the risk exposure of the operating companies. This level is compared with the risk ceiling approved by the Board of Directors and the Committee decides which corrective action should be taken whenever the ceiling is exceeded.

The Group's risk management objectives and guidelines are set forth in the Energy Risk Policy approved by the Audit Committee.

Number of Meetings Held in 2006

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

Statutory Auditors	Number of meetings attended in 2006	Percentage
Sergio Pivato	6	100%
Salvatore Spiniello	5	83%
Ferdinando Superti Furga	6	100%

FINANCE. SOLID RESULTS

Financial Position

Consolidated net indebtedness decreased to 4,256 million euros at December 31, 2006, down from 4,820 million euros at the end of 2005. This reduction was accomplished without slowing the rapid implementation pace of the Group's capital investment program, which is budgeted at 4.5 billion euros in the 2007-2012 Industrial Plan.

The Group's debt structure includes four bond issues totaling 2,630 million euros, 1,430 million euros of which are due in 2007. Indebtedness owed to banks and other lenders totaled 1,963 million euros at December 31, 2006. Cash and cash equivalent assets, which consist exclusively of short-term bank deposits, amounted to 340 million euros.

Relations with Investors and Financial Communications

The Group's investor relations activities are carried out through an ongoing dialog with the financial community, which is carried out in compliance with the rules and regulations that govern the handling of insider and confidential information and are designed to ensure transparency and provide equal access to information.

All relevant documents – from the draft Annual Report (immediately upon being approved by the Board of Directors) to press releases, required corporate notices and any other price-sensitive disclosure – are published promptly on the Company website (www.edison.it).

The Company website, which was extensively redesigned in 2006, was named the second best Italian corporate website in the annual ranking published by Hallvarsson & Hallvarsson.

In 2006, the Company's financial communications activity was particularly intense. Specifically, it organized four conference calls in

connection with the release of year-end, semiannual and quarterly reports (in February, May, August and November, respectively). At the beginning of the year, a presentation was organized at the Group's headquarters, with remote audio-link capability, to explain the 2006-2011 Business Plan. Another conference call was held at the end of the year to present the 2007-2012 Business Plan. In addition, Edison attended three utility industry conferences that were organized by investment firms to present companies to institutional investors and two large-scale meetings that were also organized by investment firms, in these instances for customers who had a specific interest in Edison. Lastly, numerous one-on-one meetings were held at the Group's headquarters, a roadshow was organized in Frankfurt and a meeting with financial analysts was held to illustrate a project for an LNG terminal in Spain and explain Edison's natural gas strategy in detail.

Assessment by the Rating Agencies

The ratings provided by both Moody's Investors Services and Standard & Poor's give Edison a stable outlook, reflecting the Company's stronger balance sheet and its success in pursuing its growth plans.

Edison engages in an ongoing, active dialog with the main rating agencies, providing regular updates and offering specific information in connection with special events that could have a material impact on its financial position.

The annual management review provides the occasion for a meeting during which the rating agencies and Edison's top management can meet and go over the Group's operating performance and its short-term and long-term strategies in detail.

For a number of years, Edison has maintained a dialog with the segment of the financial markets that includes mutual funds and investors who are concerned with corporate social responsibility issues, providing useful information to assess its performance in specific areas.

Rating

		2004	2005	2006
Standard & Poor's	Medium/Long-term rating	BBB+	BBB+	BBB+
	Short-term rating	A-2	A-2	A-2
	Medium/Long-term outlook	Stable	Stable	Stable
Moody's	Rating	Baa3	Baa2	Baa2
	Medium/Long-term outlook	Positive	Stable	Stable

DISTRIBUTION OF VALUE ADDED

The value added created by Edison is the incremental wealth that the Company creates through its industrial activities. The table below shows the process for computing value added. Value added is the difference between production value and intermediate costs paid to acquire goods and services. The data are those of the Group's core businesses (electric power operations, hydrocarbons operations and corporate activities) from the consolidated financial statements. Obviously, this year as well, the Annual Report was prepared in consolidated form in accordance with Consob Resolution No. 11971/99, as amended, and with International Financial Reporting Standards (IAS/IFRS). In 2006, about 58% of the net overall value added generated by Edison was distributed to stakeholders, with the wealth retained by the Company accounting for the remaining 42%. The remuneration earned by the Company was boosted by a gain earned on the sale of equity investments.

A breakdown of how value added was allocated to the different categories of stakeholders is as follows:

- Personnel (direct and indirect compensation: wages and salaries, social security and retirement benefits, bonuses, supplemental training and development costs), equal to 203 million euros (18% of the total).
- Public administration (income taxes), equal to 7.07 million euros, or 0.6% of the total. This figure, which is in line with the figure for

2005, reflects the impact of a reversal of a provision for deferred taxes, net of which the actual tax liability for the year would have been 9 million euros.

- Lenders (remuneration of debt capital), equal to 246 million euros (22% of the total). The increase from 2005 is mainly due to higher interest rates.
- Remuneration of risk capital (dividends), equal to 183 million euros (16% of the total), remunerating the shareholders after a four-year hiatus.
- Host communities (noncommercial sponsorships, community initiatives and charitable contributions), equal to 2.51 million euros (about 0.2% of the total).

Breakdown of Value Added (in millions of euros)

	2005	2006
a) Personnel	199.73	203.37
b) Public Administration	9.23	7.07
c) Remuneration of debt capital (financial expense)	215.59	246.31
d) Remuneration of the Company	502.93	474.50
e) Remuneration of risk capital	-	183.00
f) Charitable contributions	0.37	0.44
g) Host communities	0.89	2.07
Net overall value added	928.74	1,116.77

Detailed Schedule of the Computation of Overall Value Added (in millions of euros)

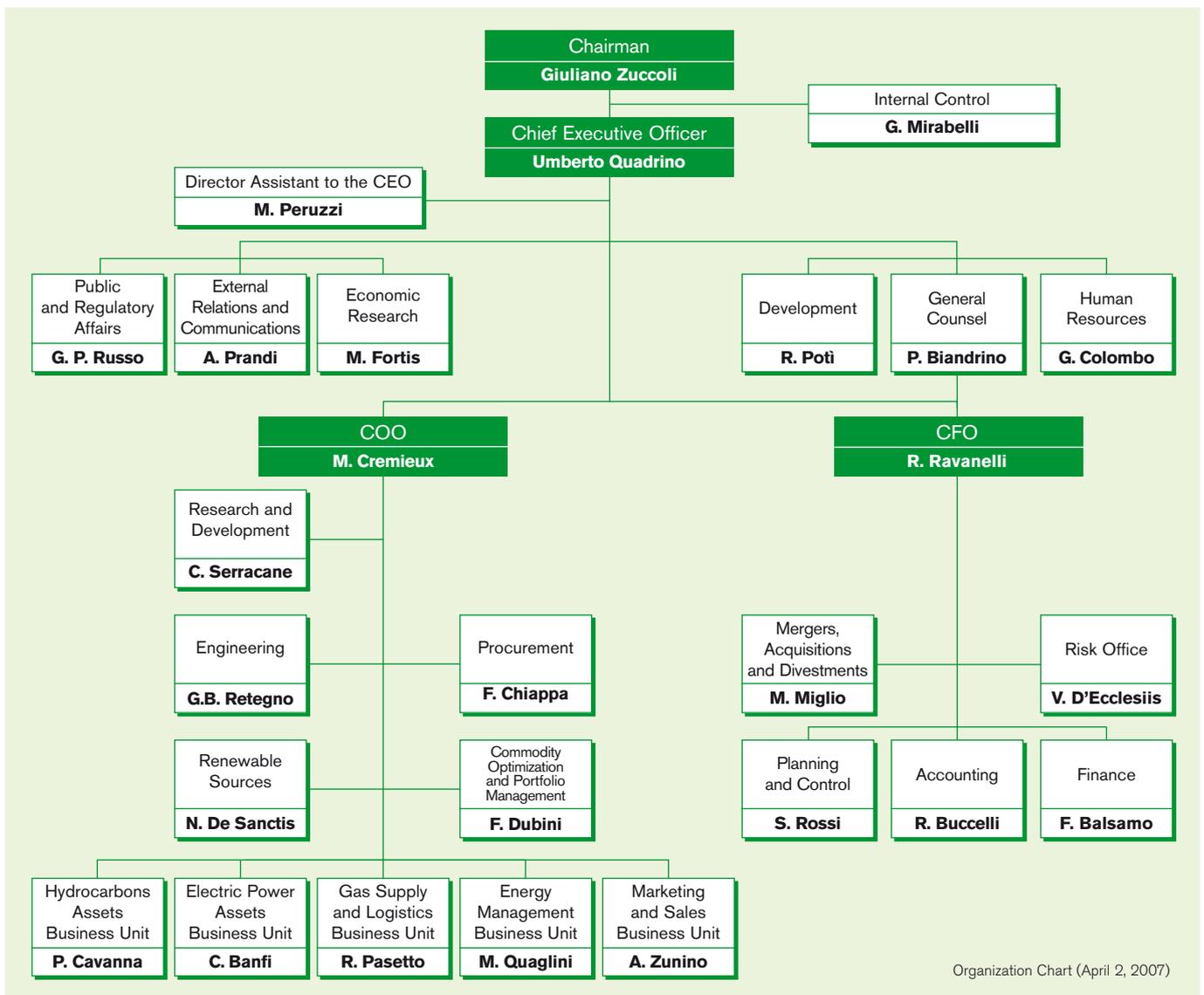
	2005 (IAS/IFRS)	2006 (IAS/IFRS)
A) Production value		
Sales and service revenues	6,405.36	8,489.34
Changes in inventory of work in progress, semifinished goods and finished goods	20.57	73.99
Changes in contract work in process	7.36	(1.00)
Increase in Company-produced additions to fixed assets	9.28	14.44
Other revenues	561.27	775.36
Total operating revenues	6,989.12	9,352.54
Revenues from non operating production (internal building construction)	-	-
Overall production value	6,989.12	9,352.54
B) Intermediate cost of production		
Raw materials and outside services used (items B6 - B7 - B8 - B11 - B14 P&L)	5,452.92	7,560.61
Additions to provisions for risks (12)	28.32	40.12
Other additions to provisions (13)	8.83	1.98
Intermediate cost of production	5,490.07	7,602.71
Gross value added from operations	1,499.05	1,749.83
C) Extraordinary items and incidentals		
Financial income	-	-
Other income and expense, net	6.54	4.00
Incidental revenues and expenses	6.54	-
Extraordinary income and expense (item E in P&L)	93.15	166.27
Gross overall value added	1,598.73	1,920.10
Depreciation, amortization and writedowns	670.01	803.33
Net overall value added	928.73	1,116.77

TEAMWORK. TOGETHER WE WIN

The challenges posed by the Business Plan required a further strengthening of the organization of the strategic units that operate the Group's natural gas business. Specifically, the Business Units that are responsible for managing the Group's activities concerning electric power and natural gas procurement, production and distribution are now supported by a new Gas Supply and Logistics Business Unit. The Electric Power and Hydrocarbons Business Units Assets are responsible, respectively, for managing electric power production facilities and carrying out natural gas and oil exploration and production. The Renewable Sources Department is specifically concerned with developing the Group's wind power operations and coordinating the management of CO₂ emissions rights and other environmental securities and certificates.

The Marketing and Sales Business Unit operates in the end markets, in which Edison is active through both direct and indirect channels, offering customers electric power, natural gas and all related services.

The Energy Management Business Unit is responsible for trading electric power in the wholesale market and handles sales on the Italian Power Exchange (IPEX). In addition, it is responsible for electric power planning and dispatching and for the overall optimization of the electric power and natural gas operations. The Gas Supply & Logistics Business Unit is charged with supplying the Group's thermoelectric power plants with natural gas and with developing Edison's end markets by managing domestic and international supply contracts and the operational aspects of transmission and storage contracts.



Organization Chart (April 2, 2007)

BUSINESS PLAN.

MISSION SUSTAINABLE

Strategy

The 2007-2012 Industrial Plan, which was approved in December 2006, is designed to strengthen Edison's position as a leading player in the electric power and hydrocarbons industries. Over the duration of the Plan, the Company will invest 4 billion euros in transnational infrastructures for the importation of natural gas, in hydrocarbon exploration and production projects and in activities that will expand its presence in the electric power area, with special emphasis on renewable sources (the total amount to be invested includes 50% of the capital expenditures of Edipower Spa).

An overview of the Plan's strategic guidelines is provided below.

Hydrocarbons Operations

In this area, we intend to play an increasingly significant role by increasing our market share while at the same time securing an affordable supply of fuel for our combined-cycle power plants, thereby strengthening the integration between the electric power and hydrocarbons operations, which we view as a critical success factor in an oil market that will continue to be characterized by significant pressure on prices.

Our 2012 objective is to increase our Italian supply base to 22 billion cubic meters of natural gas per year (about 20% of all natural gas available in Italy), which we will accomplish in part by developing European-level infrastructures that will help transform Italy from a mere consumption market into a hub of strategic importance in meeting the growing needs of the Europe.

In addition, the Rovigo regasification terminal, the only LNG project currently under construction in Italy, will come on stream during the Plan period. It will deliver about 8 billion cubic meters of natural gas per year to the Italian market, 6.4 billion cubic meters of which will be available to the Group. Edison has a 10% interest in GNL Adriatic, the company building the facility, and Qatar Petroleum and ExxonMobil each own 45%.

In 2006, we signed important agreements with Sonatrach, in Algeria, to import 2 billion cubic meters per year of natural gas through an upgraded Transmed-TTPC natural gas pipeline and an additional 2 billion cubic meters per year through the new Galsi pipeline that will link Algeria with Italy (Edison is the main Italian shareholder).

A third key project that Edison is pursuing is the IGI natural gas pipeline linking Italy and the Caspian Sea through Greece and Turkey. Edison has acquired the right to import 6.4 billion cubic meters per year for 25 years through the IGI pipeline. EU authorities have designated the IGI and GALSI pipelines as "Projects of European Interest." At that point, the Group will have a well-structured portfolio of long-term contracts for natural gas from a variety of geographic regions and will be supplied directly by the producing countries, thereby gaining greater autonomy and flexibility. In order to increase the reliability of the system, the Group will expand its natural gas storage network, increasing total working gas

capacity to more than 2 billion cubic meters (equal to more than 10% of total Italian storage capacity) by 2012. This will be accomplished by expanding the Group's existing facilities in Collalto (Treviso) and Cellino (Teramo) and by developing newly acquired concessions in San Potito-Cotignola (Ravenna) and Mafalda-Sinarca. Lastly, special attention will be paid to hydrocarbon exploration projects in North Africa and other high-potential regions, with the goal of increasing reserves and annual production. Hydrocarbon production will contribute to the Group's profitability while at the same time providing a "natural" hedge against fluctuations in purchasing costs caused by the volatility of the oil markets. Our long-term objective is to achieve annual production equal to 15% of the Group's requirements.

Electric Power Operations

The planned 2007 startup of the Group's Simeri Crichi power plant (800 MW) and of Edipower's Turbigo facility (800 MW, 50% available to Edison) will mark the completion of one of the most ambitious production capacity construction programs carried out in Europe in the last 10 years.

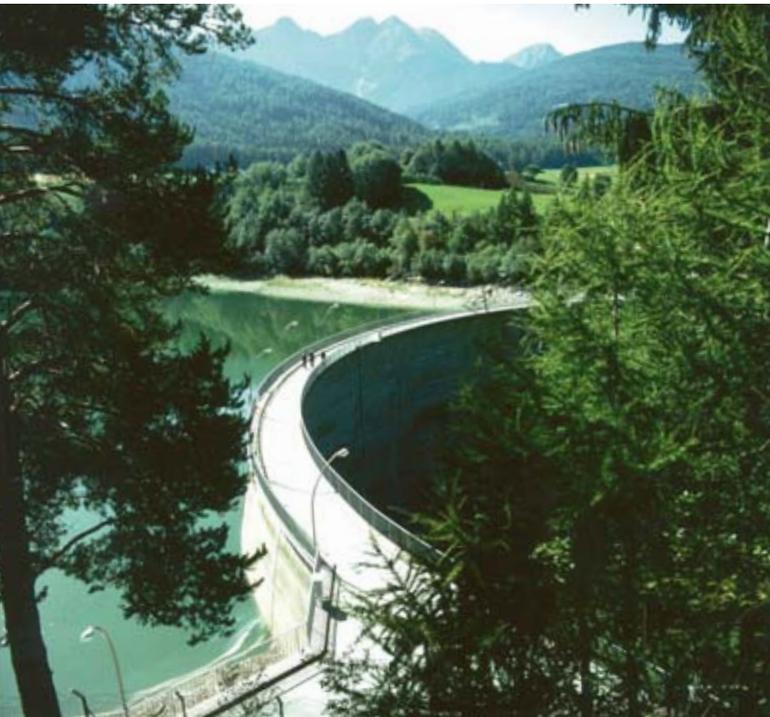
Plans for the 2007-2012 period call for the construction of another 800-MW combined-cycle power plant and for the development of renewable-source facilities, which will require investments of about 500 million euros. Specifically, we intend to double our installed wind-power capacity (currently 260 MW) through new projects that we will develop directly.

The hydroelectric operations will work to expand the existing facilities, with the resulting benefit of increasing the output of green certificates, and the portfolio of CIP6 power plants will be streamlined. Total generating capacity is expected to rise to 14,000 MW by 2012. Edison plans to increase its market share by seizing the opportunities provided by full market deregulation and the high flexibility of its portfolio of production facilities. Specifically, we expect to boost sales to customers in the deregulated market to about 50 terawatt-hours by 2012, with about 80% of the total sold in the retail market and 20% sold to wholesalers.

Lastly, we are pursuing growth opportunities outside Italy, particularly in the Balkans and in Greece. Greece and Italy have already established a fruitful relationship in the hydrocarbons area with the IGI project.

The operating and financial objectives of the 2007-2012 Plan are:

- EBITDA growing at an average annual rate of 6% to 8%;
- EBIT increasing at an average annual rate of 11% to 13%;
- Steadily increasing returns on invested capital (ROI) that will average about 10% over the Plan period;
- Assumption of distributing dividends equal to about 50% of net profit;
- Significant reduction of net indebtedness over the Plan period.



Research and the Environment

Edison's research organization pursues projects that involve many areas of science and are designed to develop innovative energy technologies that can provide competitive opportunities and help protect the environment. R&D programs are coordinated from the Milan headquarters. The main operating unit is the Edison Research Center in Trofarello, which was opened in 1993. Our efforts are supported by a vast network of competencies and research organizations created through numerous collaborative relationships that we have established with public- and private-sector operators and universities in Italy and abroad.

In 2006, Edison focused its R&D efforts on new methods of generating energy that respect the environment. Specific projects involved fuel cells, innovative photovoltaic technologies, super conductivity and energy storage.

As part of the process of developing synergies that leverage their respective competencies and research organizations, Edison and EDF's research organization established a collaborative process in this area, which is governed by a special framework agreement. Two projects have already been activated under this arrangement. These two projects concern fuel cell and energy storage technologies.

As part of this collaborative effort, Edison carried out tests for two different European projects: the AUTOBRANE project, which pursues the development of new cells of the PEM (Proton Exchange Membrane) type, and the REALSOFC project, which focuses on the development of better cells of the SOFC (Solid Oxide Fuel Cell) type. A project involving a series of tests of metal/air batteries for stationary applications was also carried out.

The Trofarello Research Center also operates a photovoltaic cell laboratory, which is used to characterize cells and other components of photovoltaic systems. The results of these tests are of vital importance in guiding Edison's efforts to develop high-efficiency photovoltaic systems based on multijunction cells.

In 2006, the Research Center was also involved in monitoring innovative storage technologies that have the potential of providing greater flexibility, both at the power generation and consumption levels. Additional work involved the development of a special, fully-equipped external test platform that will be used in the coming months to install and test a nominal 5kWh co-generating system fueled with natural gas and based on SOFC fuel cells.

SOCIAL RESPONSIBILITY



FRESH ENERGY FOR ITALIANS

Our Market

Edison operates in every segment of the energy industry, from production to distribution and marketing. The Group operates in the deregulated market through Edison Energia (Edison's wholly owned subsidiary), which sells electric power, natural gas and related services to end customers in the deregulated market. Edison's market strategy is to offer customers both electric power and natural gas through customized plans that include innovative services tailored to meet the requirements of each consumer, while at the same time emphasizing respect for the environment through the production of clean energy and the promotion of energy conservation.

In 2006, sales of electric power totaled 65,400 GWh, or 24% more than in the previous year. Deliveries of natural gas again exceeded 13.6 billion cubic meters (including intra-Group sales).

Edison Energia's direct sales force serves 2,200 industrial customers in the Business segment (consumption >1 GWh) and provides consulting support to the production activities. Because of this function, it was recently reorganized by industrial sector. In the Microbusiness segment (consumption <1 GWh), which had a portfolio of 16,000 customers at December 31, 2006 and expects to expand to 27,000 by the end of 2007, Edison operates through an extensive network of sales agencies (their number increased from 28 to 52 in 2006) that are present throughout Italy. In our work with these agencies, whose internal processes we have already helped to improve, we invest annually in training and services.

In the residential market for natural gas, the Group operates through Edison Per Voi, which has a portfolio of 168,000 customers.

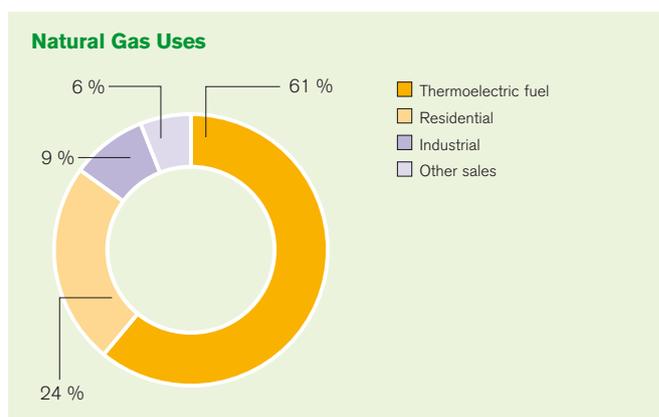
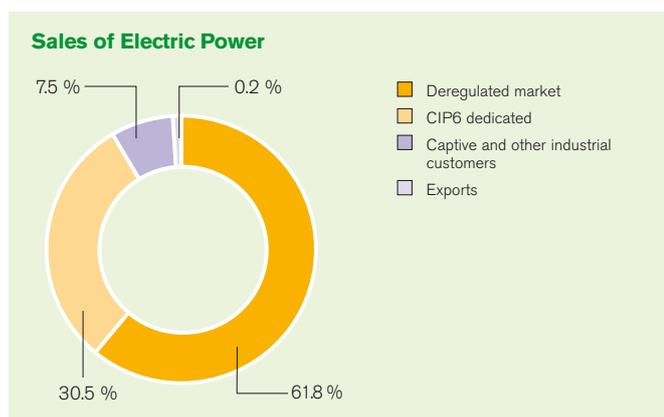
Edison has also established joint ventures with former municipal gas utilities: Blumet in the Emilia region, Eta3 in Tuscany and the province of Perugia, and Prometeo in the Marche region.

Edison's focus on its customers resulted in the development of multiple contract formulas that address the complex needs of different types of customers, based on their consumption profile, need to plan a steady level of cost or, on the contrary, acceptance of greater risk and willingness to anticipate changes in the international fuel markets. Lastly, two important initiatives were launched at the end of 2006: a quality project, which is aimed at securing ISO 9001 certification for Edison Energia within the Marketing and Distribution Business Unit and, after conducting tests in 2006 with positive results, development of a Teleselling service for customers and potential customers who want to access energy supply services quickly through a simple telephone contact, without sacrificing efficiency or the transparency of the offer and contractual conditions.

Services for Intelligent Energy Consumption

One of Edison's goals is to help its customers achieve a structural reduction in the amount of energy they use, which it pursues through the delivery of services with a high value added. These services range from intelligent, transparent and concise reports to monitor consumption to the Energy Check service, which performs a rigorous diagnosis of the equipment used by customers and helps them plan the actions needed to optimize consumption and reduce costs.

Projects completed in the natural gas area in 2006 included developing the Services Chart and activating the Gas Data Monitor Service to control consumption. Between 2005 and 2006, Edison provided Energy Check and Simplified Energy Check services at 130 customer locations. Customers continue to respond positively to the online services that are available in the protected section of the www.edisonenergia.it website because they address the diverse characteristics and needs of individual businesses. In 2006, Consumption on the Web was used by more than 480 customers and Energy Data Monitor by more than 127 production facilities.





Sustainable Supply

Like all operators in the electric power industry, the Group is required by law to use renewable sources to generate a percentage of the energy it produces. Edison, however, has exceeded the requirements of industry regulations and plays an active part in developing and promoting green energy projects.

In 2005, in pursuit of this goal, we launched ECODOC – Electric Power from Nature, a special brand that certifies the purchase of electric power produced entirely from renewable sources. Among the various renewable sources that exist in nature or are designated as such under the incentives provided by industry regulations, the ECODOC brand covers only wind power and hydroelectric generation.

This brand, which is the property of Edison, is made available free of charge to customers who, due to their strong commitment to the environment, choose to meet 100% of their energy needs using energy produced from clean sources and agree to sign a Green Idea or Green Option supply contract (offered to small and medium-to-large users, respectively).

The ECODOC brand is based on the RECS International certification system, under which the source of electric power produced from renewable sources is certified by an independent third party that is recognized at the European level. As a guarantee that the energy being purchased is green, customers receive a certification issued by RECS International with their electric bill.

Under the usage regulations, customers are allowed to affix the ECODOC logo on their advertising material and product packaging, thus emphasizing and proclaiming their environmental commitment and contributing to increasing awareness of environmental issues. ECODOC sales increased from 5 GWh in 2005 to 17.9 GWh in 2006.

Edison's training programs are also focused on energy conservation and consumption optimization. A particularly noteworthy project carried out in 2006 was the second seminar for Energy Managers of hospitals within the Lombardy Consortium. This event, which was attended by about 50 customers, was held at the Group's Milan headquarters.

Customer Management System

Edison operates a Customer Relationship Management (CRM) system that uses a broad array of channels to communicate with its customers. A new CRM project, the development of which began in 2005 and will be completed in 2007, will result in the establishment of a true service supply center that will manage relations with all of Edison's customers, whether they are served directly or indirectly through partners.

The portion of this project that concerns the management of customers in the Microbusiness market segment was completed in 2006. In 2006, the existing CRM system served a total of 9,000 Edison Energia customers and 165,000 EdisonPerVoi customers. The Contact Center fielded a total of 138,000 incoming calls, providing a level of service of 80.4% (calls answered within 30 seconds). The Center also placed 162,000 outgoing calls, which were made mainly in connection with Teleselling programs and other sales solicitations.

Fine Imposed by the Authority

Upon the conclusion of an investigation launched in February to determine whether certain sellers of natural gas inappropriately used the modulation storage capacities allocated for the 2004-2005 and 2005-2006 thermal years, the Electric Power and Gas Authority imposed administrative fines on five companies, including Edison Spa. While Edison challenged this decision, it established a separate provision for risks for the full amount of the fine (20 million euros).

OUR PEOPLE. OUR ENERGY

In 2006, Edison's core businesses had 2,280 employees. Female employees accounted for a slightly larger percentage of the total staff. The same was also true at the middle management and executive levels. In terms of the level of education, a large percentage of the Group's employees has received higher education, with 83% of the total staff holding either a diploma or a college degree. Insofar as hiring is concerned, since 1993, Edison has been using a formal procedure for employee recruitment and selection that is based on the principles of equal opportunity, objectivity, transparency and traceability of the evaluation process. In 2006, employee turnover (number of employees who left the Company over the average annual staff) was 2%. The absenteeism rate was 4.7%

Personnel Development Policies

Edison uses its Performance Evaluation Process – which in 2006 was applied to 744 employees, including executives, middle managers and office staff with a college degree – to promote the professional development of its employees, achieve its business objectives and implement a merit-based development and management policy in all areas, including compensation, within the framework of a transparent and objective dialog between managers and associates. Edison has also developed a program to assess the potential of executives and middle managers based on a company management model, which was applied to 435 employees in 2005 (the first year in which the data were validated).

Profile of Edison's Staff in 2006

	Men	Women
Executives	89%	11%
Middle managers	78%	22%
Office staff	75%	25%
Production staff	100%	0%
Total	81%	19%

This three-year process is designed to address both personal development and staffing need issues using, when appropriate, internal and international transfer options.

In 2006, the Group refined the Management Review process carried out in 2005 through the use of organizational development programs tailored for professional families and functional feedback that involved a total of 450 executives and middle managers.

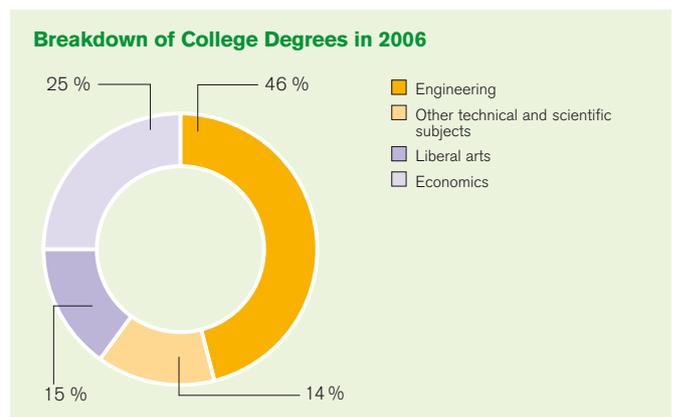
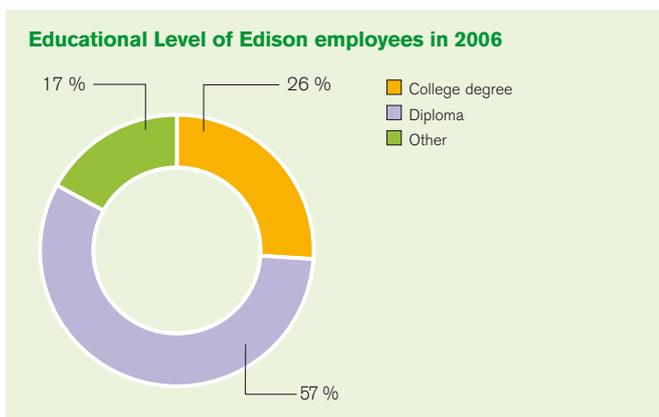
Compensation Policies and Incentive Systems

Consistent with previous years, the compensation policy guidelines continued to reflect a merit-based approach that is mindful of the findings of the management review process, which provided an integrated assessment of management's achievements and potential, and takes into account external market conditions.

Edison is especially mindful of the needs of recent college graduates, for whom it has developed a special compensation and development policy for their first three years at the Company.

The compensation system that applies to executives and other professionals who work in different areas within the Group (for example, sales resources or managers of thermoelectric and hydroelectric power plants) includes, in addition to a salary, a variable incentive tied to the achievement of annual targets. This system has the two-fold objective of fostering a results-oriented attitude and achieving a continuous improvement in performance by the Company and individual employees.

Lastly, the compensation system that applies to all employees, other than executives, is supplemented by collective incentive packages governed by specific agreements with the unions, which are based on profitability and productivity targets for each area of business and are designed to foster a more direct involvement of the employees in the pursuit of targeted Company results.





Training and Personnel Development

During 2006, more than 90% of the Group's staff were involved in training activities, with employees receiving almost 11,000 training days, equal to more than 85,000 hours, at an educational cost of more than 1.2 million euros.

Training programs addressed areas of professional development, such as specific industry issues, environmental protection, occupational safety (4,038 man days in 2006, up from 3,695 man days in 2005) technical and operational skills at production sites, corporate issues and languages. Another project launched during the year involved defining and assessing employee competencies within each professional family. The main purpose of the project was to identify key competencies for the development of Edison's businesses and assess the effectiveness of key professionals in relation to the established competency profiles.

In addition, institutional training support continued to be provided to recent graduates (who were also educated about fundamental principles of ethics), professionals and managers. There was a modest expansion of language training programs, which involved the introduction of experimental teaching methods, such as learning by watching foreign-language films.

Lastly, the Group organized special events involving institutional training, such as updates on the new privacy law, and professional-type training, such as specialized workshops on energy derivatives or internal seminars on subcontracting. In 2006, 5% of total training was provided by Company personnel (Group managers) in order to encourage managers to share their knowledge with their employees.

Industrial Relations

Edison operates in full compliance with the provisions of national collective bargaining agreements, which it applies by making specific reference to those chapters that enunciate the fundamental principles upon which the system of industrial relations is based (so called "initial parts" of the national collective bargaining agreements).

Edison applies a model of industrial relations that calls for tackling preventively and proactively issues that are relevant to all parties through contacts and discussions with the unions both at the industry level and locally.

Accordingly, the Company pursues the following objectives:

- establish a system of regular consultations among the parties at all levels;
- define clear and functional contractual provisions;
- achieve an adequate level of employee involvement in the development of Group strategies;
- prevent individual or collective conflict.

In recent years, there has been no occurrence of collective work stoppages directed at the Company.

The main developments that occurred in 2006 included: Renewal of the collective bargaining agreement that covers employees in the energy and petroleum industry, which contract applies to about 250 employees of the Edison Group; and renewal of both the benefits and compensation portions of the collective bargaining agreement covering employees in the electric power industry, which applies to 75% of the Group's staff. The benefits portion of the contract incorporates the main contract guidelines of the Biagi Law and the latest legislative innovations concerning the flexibility of the labor market. All of the provisions that govern work schedules were also revised to make them consistent with the new provisions of Legislative Decree No. 66/2003.

The extension, in 2006, to employees covered by the collective bargaining agreement for the electric power industry of Company health insurance benefits that supplement those of the National Health Service (at a cost to the Company of about 400 euros per person) was also noteworthy. All Company employees are now provided with supplemental health benefits, in addition to the supplemental pension benefits they have been receiving for some time.

Work and Private Life

Edison encourages the use of a number of tools that can help our employees handle more effectively the relationship between their work obligations and their private lives.



One of these tools is the option of a flexible schedule based on the principle that individuals can manage their work schedule while respecting company needs and complying with contractual and statutory provisions. In the same spirit of reconciling, whenever possible, family and personal obligations with work commitments, Edison supports the use of part-time employment. At the end of 2006, about 2% of the Company's staff, mostly women with recently born children, worked on a part-time basis.

The Company also supports the Edison Recreational Association, which is a nonprofit organization established in accordance with agreements with the unions, that serves cultural, artistic, tourism and sports purposes. Currently, about 760 Edison employees (not counting those of the former Montedison companies) are members of the Association. The Company supports the Association with contributions that totaled about 40,000 euros in 2006. The Recreational Association offers its members numerous discounts and makes facilities available to them in such areas as purchases of personal and household products, summer camps for children, medical services, personal care services, insurance and car services.

An institution that provides support to employees after their retirement is the Edison Seniors Group, which has 7,200 members throughout Italy and was one of the founders of the National Association of Elderly Workers, with which it is still actively engaged. After 20 years of service, Edison employees are rewarded by the Company and receive the title of Senior. A special bonus is awarded to female employees with 30 years of service and male employees with 35 years of service. In addition to organizing regular events (trips, cultural events, meetings and discussions), the Edison Seniors Group also provides support to elderly colleagues who need financial support or other assistance. Edison supports the Seniors Group's programs with an annual contribution of 93,000 euros.

Lastly, Edison complies with the provisions of current laws regarding "protected categories" (Law No. 68/99) and has entered into special contracts and agreements with agencies of provincial governments

that have specific jurisdiction over this area, with the practical goal of developing a "virtuous" path for the inclusion of "protected" employees in the workforce in a manner that is beneficial both for the employee and the Company. In 2006, the Company had 91 "protected" employees in Italy.

Employees Outside Italy

At the end of 2006, the Group employed 51 local nationals at offices or facilities outside Italy. Edison complies with labor laws on employment contracts and, acting in accordance with these laws and local socioeconomic systems, pursues its personnel management standards and the principles of its Code of Ethics, making sure that the rights described in the Universal Declaration of the Rights of Man are protected in every country in which it operates.

In December 2006, Edison introduced a set of regulations and procedures to govern the main processes that support Edison companies and branches and ensure the implementation of consistent policies and management systems at all foreign locations.

As a rule and insofar as it is permissible in accordance with the principles and rules of local laws, the values and guidelines provided in the Group's Code of Ethics apply to all Group organizations outside Italy. This is particularly true for the "Rules of Conduct" and "Ethics in Employment and Protection and Empowerment of Associates." It is the responsibility of branch and company managers, working with the support of local HR managers (when available), to introduce the Code of Ethics (with the adjustments that may be necessary), making sure that it is widely circulated at each location and issuing the required implementation protocols. Other specific procedures set minimum safety and health standards for Company employees who work at foreign branches. Prevention and protection issues concerning the health and safety of employees who work directly at facilities outside Italy are in turn addressed by specific rules that are consistent with the principles of environmental protection and occupational safety that the Group applies to promote higher international standards and compliance with local laws.



Internal Communications

In 2006, the internal communications staff continued to develop a series of initiatives that were consistent with the Group's strategy and helped support its operations and development. Accordingly, several of the projects carried out in 2006 were designed to strengthen the flow of communications. These projects included the presentation and distribution of the Edison Brand Book, a manual about the Company's new identity that contains the Group's chart of values.

MondoEdison, a quarterly distributed to all employees, and internal posters were revamped to support the new brand identity. In order to foster and strengthen employee cohesion, the Company provided meeting opportunities on a regular basis and organized corporate, cultural, sports and team-building events. These events included: the Christmas Party, a year-end event that provides an opportunity to discuss results and future challenges in an informal atmosphere and celebrate the efforts made by everyone; the Summer Feast, which was held at the conclusion of the Ninth Company Tournament of Arena Soccer; the collective viewing on a giant screen installed on Company premises of the games played by the Italian national team at the Soccer World Cup; snacks for the children of employees who attended an event on energy conservation with their parents.

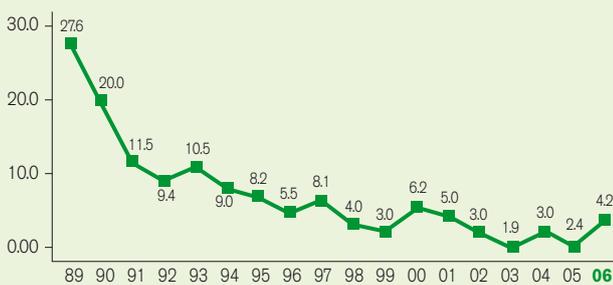
When the *Ecoludobus* of *Kyoto Anch'io* stopped in Milan, children were welcomed at the Foro Buonaparte offices, where they played and worked with Legambiente promoters to learn how everyone can contribute to conserving energy.

In addition, a new platform for the intranet portal was developed and implemented in 2006. The objective for 2007 is to present a simple, user-friendly knowledge management application that everyone can use to quickly access knowledge-building information. Lastly, the 2007 Sustainable Development Trophy was finalized in 2006 and launched in February 2007. The objective of this initiative is to use direct participation in a contest to raise the awareness of all employees of sustainability issues as they relate to the area in which the employees work.

The Health and Safety of Our Employees

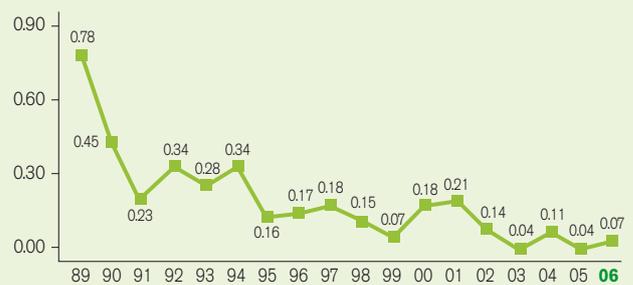
Focusing on issues related to occupational health and safety is a commitment shared by everyone at Edison. In the past few years, the Company has been completing the implementation of sophisticated safety management systems that comply with the OHSAS 18001 standard and integrating them with environmental and quality systems at all locations and organizations, with the goal of improving the prevention of accidents and occupational illnesses (see also the section entitled "Environmental Responsibility").

Accident Frequency Index (Fi) for Company Employees



Fi = No. of accidents per 1,000,000 hours worked.

Serious Accident Index (SAi) for Company Employees



SAi = No. of work days lost due to accidents per 1,000 hours worked.



The trend shown by the accident indices confirms the effectiveness of the policies adopted in past years with regard both to company employees and contractor employees. Nevertheless, two serious accidents that resulted in the loss of human life occurred in 2006: an Edison employee was killed in an accident while in transit and a contractor employee lost his life while working at a hydroelectric power plant. We are deeply saddened by and sorry for these accidents, which, however, provide fresh momentum to our commitment to proceed rigorously along the path to prevention. One of the reasons for our success is the involvement of the entire organization and the empowerment of all employees. This approach was emphasized in the intensive training programs provided in 2006, which targeted primarily Prevention and Protection Services Officers and Managers and exceeded the requirements of the applicable laws. Jobsite assistants were also

instructed on the importance of prevention. Safety training accounted for 30% of total training hours in 2006, about the same as in the previous year. In 2006, as the new computerized risk assessment method adopted pursuant to Legislative Decree 626/94 became more established, the Group's Divisions have begun to assess, on an ongoing basis, the risks entailed by their activities and to identify priority areas that need improvement based on consistent criteria.

A noteworthy project involved the performance of extraordinary maintenance to avoid the dispersion of asbestos fibers in the work environment at the Piombino and Porto Marghera power plants.

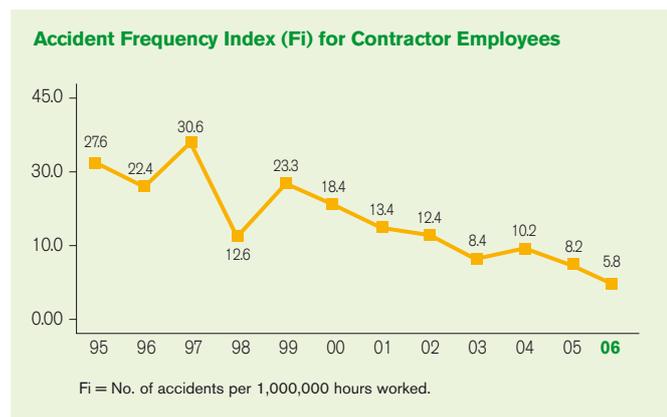
Safety Training

	2003	2004	2005	2006
Total training hours	24,786	26,768	25,093	25,505

Occupational Accidents in 2006

	Number of accidents*	Number of work days lost	Hours worked	Accident frequency index	Serious accident index
Edison employees	17	268	4,033,912	4.2	0.07
Contractor employees	26	8,990	4,446,870	5.8	2.02

* >3 work days lost, excluding in-transit accidents.



SUPPLIERS: PARTNERS IN OUR GROWTH

Cooperation, transparency and strict compliance with contractual conditions are the guiding principles that govern our daily transactions with suppliers of goods and services.

Edison's Code of Ethics requires all employees to comply with internal procedures in qualifying and evaluating suppliers and to refrain from discriminating among suppliers, based on objective, clearly stated, transparent and documentable criteria.

Because we are open to trying alternative solutions, we are responsive to innovative proposals that are compatible with our environmental and safety concerns.

In 2006, the Group's total outlays for purchases of goods and for construction contracts exceeded 522 million euros. Italian suppliers accounted for 92% of total purchases (84% in 2005); 8% went to companies in other countries. There are currently 2,413 qualified suppliers (1,959 on the Vendor List for regular purchases and 454 in the Supplier Register, which is reserved for items that are strategic and/or critical from a quality, environmental or safety standpoint).

With regard to the stability and longevity of supplier relationships, it is worth noting that 59% of suppliers received orders in both 2005 and in 2006, as well as in the previous period.

In 2006, invoices representing 54% of purchases were paid within 60 days of the invoice date (44% in 2005), and invoices representing 91% of purchases were paid within 90 days (91% in 2005).

In past years, the number of disputed items was always very low, and there were no disputes in 2006.

Quality of Supplier Relations

In 2006, Edison and a number of major Italian companies took part in the Sustainability and Integrity in Supplier Relations Project promoted by the Procurement Executive Circle (PEC). In addition to contributing to the development of procurement management guidelines that are consistent with best practices and international criteria for corporate social responsibility, Edison agreed to perform an assessment of its implementation of these guidelines. The assessment was carried out by means of a questionnaire that measured the effectiveness of the Company's procurement policies and practices.

The results of this survey will be published in the spring of 2007.

The main aspects of the system that governs the Group's relationships with its suppliers are reviewed below:

- The supplier qualification and control procedures require the input of the Purchasing, Environmental Protection, Safety and Quality, Accounting, Engineering, and Production Departments.
- The qualification of the Group's suppliers includes verification of compliance with environmental, quality and safety requirements. Verification is currently carried out through the review of documents such as those containing the accident indices of contractors, which are compared with the relevant industry averages.



- The Engineering Department, acting in accordance with its quality management system, performs quality, environmental and safety audits at new construction job sites. At the end of construction and before delivering the facility to the internal customer, a safety review is performed at the request of the Environmental Protection, Safety and Quality Department at Group headquarters to verify that the facility meets the project's safety specifications.
- In the case of critical supply contracts, compliance with environmental, health and safety procedures and with the Code of Ethics is spelled out in the contracts.

Accessible Information and Communications

The Purchasing Department and the Group's suppliers communicate through a single, dedicated web portal that provides

access to information and can be used to share technical and administrative documents.

This portal can also be used to manage business-to-business (B2B) transactions and supplier qualification procedures and to check on the progress made in implementing projects (completion reports or measurement sheets) covered by contracts with Edison.

Efficient Purchasing Processes

In the case of repetitive purchases of nonstrategic items, the Company is increasingly placing orders from online catalogs via dedicated software through the B2B system (active agreements increased from 37 to 45 in 2006), instead of forwarding orders issued directly by users, which are managed with the SAP/R3 operating system.

Audits at New Construction Job Sites

Type of audit	Department	2004	Number of audits in 2005	2006
Quality, environment and safety audit	Engineering	55 (at 22 jobsites*)	69 (at 20 jobsites*)	31 (at 15 jobsites*)
Safety review	Environment and Safety + Engineering	8	9	3
Audit	Environment and Safety	7	7	6

* Job sites of relevant size involving more than 1,000 man hours.



ENERGY FOR THE COMMUNITY

The fundamental principles that govern our presence at the local level are respect for the environment, commitment to safety and dialog and support for the economic and social development of our host communities.

At every location where it operates, Edison strives to build lasting and quality relationships with local partners (suppliers, customers and business associates, government and the community) for a balanced development.

The most significant impact that Edison's activities have at the local level is the economic and occupational benefits that it generates through suppliers and contractors as a result of the capital investment program it launched in the 1990s and which will continue until 2012. In 2006, construction of new power plants and programs to restructure or upgrade existing facilities, coupled with other work carried out through contractors both at field offices and at Group headquarters, generated more than 4 million man hours of work.

Dialoguing with Our Host Communities

Because its facilities are located throughout Italy, the Group interacts with a number of public and other local institutions, generally within the framework of Agreements signed with local government agencies in connection with the construction of industrial facilities.

The projects pursued by the Company focus on protecting the environment and providing information to local communities. Most Agreements call for environmental improvements that exceed statutory requirements, particularly with respect to the monitoring of air quality and noise levels. Work carried out to control, study and minimize environmental impacts is often augmented by initiatives to improve local areas, such as landscaping and reforestation of municipal lands.

The work carried out to provide information to local communities is equally important. Edison's facilities welcome visitors, provided a request is made in advance. In addition, technicians from local regulatory authorities can request access to the power plants at any time to verify that they are being operated pursuant to applicable laws, regulations and local agreements.

Helping Those Who Need to Grow Edison and the School System

Edison is keenly aware of the needs of younger generations and of their environment. Accordingly, it is involved in programs that focus on environmental education and energy conservation or provide support to children in order to safeguard their fundamental rights to education, to recreation and family life.

The Vajont October 9, 1963 Foundation

In 2003, Edison joined the town of Longarone, the Veneto Region, Enel and the towns of Castellavazzo, Erto, Casso and Vajont to establish the "Vajont October 9, 1963 Foundation." The purpose of the Foundation is to promote studies and scientific research in the prevention of hydrogeological risks and to organize research and study activities, and scientific, cultural and promotional projects designed to prevent unbalanced uses of natural resources, so as to avoid future recurrences of disasters such as 1963 Vajont flood.

Among several initiatives currently under way, the Foundation is about to complete a research project carried out with the Psychology of Development and Socialization Department of the University of Padua entitled *The Vajont Disaster: Preserving a Memory of This Traumatic Event and Sharing It with Future Generations*. This study focuses on how sharing the memory of an event within a family impacts the representation of the event in future generations. Its findings will provide an insight in the cognitive and emotional impact of the memory of this traumatic event, how the event's perception changes over time and the event's impact on people lives.

The purpose of another study that is nearing completion (*The Vajont Disaster: Long-term Consequences on the Mental Health of the Survivors*) is to determine the incidence of post-traumatic disorders among the survivors of the Vajont disaster and the impact of these disorders on mental and physical health, assess the medical and psychological/social needs of survivors, analyze the impact of the

disaster on the next generation and collaborate on the definition of a project for the establishment and organization of a center for the documentation of the psychological impact of severe trauma.

The Foundation's main endeavors in 2007 will involve the establishment of a research center for the prevention of natural disasters and the study of civil protection issues in cooperation with the Provincial Administration of Belluno and the University of Padua. The research center will work primarily to support municipal administrations, public institutions and any private parties that operate businesses related to the management and use of the environment. The center plans to study and prevent soil erosion problems and civil protection issues in connection with natural disasters (river and other floods) in populated areas and intends to create a permanent link between the university research community and local institutions.

Mo.di.Te, another study planned for the beginning of 2007 in collaboration with the Universities of Padua and Genoa, will involve the development of effective modeling tools to study the development and propagation of river floods and the resulting movement of sediments, with the objective of assessing the effectiveness of environmental protection alternatives. The knowhow acquired will be made available to professionals and entities responsible for soil conservation and environmental management through professional development courses, seminars, conferences and publications.



The Kyoto anch'io – La scuola amica del clima Project

For a number of years Edison has helped Legambiente develop projects in the areas of environmental education and energy conservation: from 1996 to 2003, it was the *Treno Verde* Project, followed in 2004 by *Nontiscordardimè- La scuola amica del clima* a contest on energy conservation for school children. In 2005, came *Kyoto anch'io - la scuola amica del clima* (www.legambiente.com), a project based on an idea developed by Legambiente and Edison. What makes Edison's approach to sponsorships unique is its willingness to be more than just a financial partner, choosing instead to contribute content and develop and implement together with its partners joint projects that help establish a real and constructive dialog with the public. *Kyoto anch'io* is a campaign about clean energy and energy conservation addressed to all Italian schools. This project includes a nationwide contest and a tour by an environmental and amusement bus (*ecoludobus*) that will make stops in every region of Italy. In addition, prizes will be awarded to classes that develop effective energy conservation educational practices and schools that succeed in reducing their emissions of greenhouse gases through structural, organizational and educational initiatives. The best performers will receive the School Is a Friend of the Earth's Climate award and will be included in a regional and national listing of virtuous schools. An energy consumption monitoring form called Energy in the School, which was provided together with the contest rules, was used to collect valuable information about the energy usage of Italian schools, which was used to develop a map of the best performers. Schools in 10 Italian cities had access to the *ecoludobus* (a sort of

mobile laboratory) as a support tool in studying material related to energy conservation. Professionals from Legambiente displayed equipment for renewable sources, organized educational games and monitored the school's energy consumption. In order to facilitate the involvement of its employees, Edison organized a special day reserved for a visit by children of their employees and their parents. The contest, which was addressed to 12,000 schools in Italy, involved 15,000 students from 150 schools from all levels and 500 classes. The next edition of the *Kyoto anch'io* contest was announced in January 2007.

The Back to School Project

In the days immediately following the tsunami that hit southeast Asia at the end of 2004, Edison agreed to help fund the "Back to School" project. This project, which is coordinated by Save the Children, is devoted to the protection of children and the reconstruction of the school system in Banda Aceh, the province of Indonesia that was worst hit by the tsunami. The project calls for the construction of 93 permanent schools. Edison will pay for five schools that will accommodate 1,200 students a year. The first three Edison-funded schools were completed in 2006 and a fourth one is under construction. The Edison project includes school reconstruction; training of teachers and school administrators; establishment of centers and activities for preschool children, young people and disabled persons; and creation of safe play areas. Additional information about the work done by Save the Children in southeast Asia is available at www.savethechildren.it/emergenze/sudestasia.



A Commitment to Culture

For Edison, being an active member of the community means not only being transparent and ready to welcome any technical control or audit, but also being open to the community and willing to use culture as an avenue for dialog. Accordingly, the Company directly promotes cultural and educational programs and supports a number of diverse initiatives developed by outsiders, provided they are consistent with its corporate social responsibility strategy.

As a significant expression of its commitment, Edison supports the FAI, Italy's main non-profit foundation for the protection of the nation's cultural and environmental assets.

In the spring of 2006, Edison was the main sponsor of a show entitled "Caravaggio and the Seventeenth Century" that was held at the Museum of Cycladic Art in Athens. The show, which was by far the most important cultural event of the year in Greece, was inaugurated on April 27, 2006 by Karolos Papoulias, President of Greece.

Also in 2006, Edison sponsored a local initiative in Milan. It was a show entitled "A clinical Eye. Milan through the photographs of the IRCCS- Ospedale Maggiore Policlinico, Mangiagalli e Regina Elena Foundation." This show, which was organized in collaboration with the Municipal Historical Archives of the City of Milan, enabled the public to gain a glimpse, through a select group of about 100 photographs, of the wealth of hospital related photographic material held at the Historical Archives.

Edison has never limited its cultural interests to art, embracing music as well.

For example, Edison has been a long-standing supporter of the town of Reggio Emilia's effort to bring great classical music to its residents. In 2006, the Company helped organize an extraordinary Mozart concert at the Valli theater, with Claudio Abbado conducting and the great Romanian pianist Radu Lupu.

Our Historical Assets

Edison owns a series of photographic and cinematographic assets of enormous importance. These assets are the most tangible evidence of an extremely far-sighted corporate communication strategy and they tell the story of more than a century of Italian industry.

Edison's historical photography archive, which is stored at the Center for Entrepreneurial Culture in Milan (www.culturadimpresa.org) and has been recognized as an asset of historical interest by the Superintendent of Archives of the Lombardy Region, is a collection of images commissioned over the years by Montecatini, Edison and Montedison, from the early 1900s to the 1980s.

The cinematographic assets are kept in Ivrea, at the Center for Entrepreneurial Culture – National Film Library, within the framework of a major project that will involve collecting at a former Olivetti factory 50,000 productions authored by such directors as Ermanno Olmi, Dino Risi and Bernardo Bertolucci. The National Archive of Enterprise Cinema was inaugurated in November 2006.

In 2006, Edison and Federico Motta Editore published a book entitled *The Craft of a Man*. This book is a conversation with Ermanno Olmi about his unique experience at Edison. During the 1950s and 1960s, Olmi, who was an Edison employee and, as an amateur actor, was given a movie camera as a prize, became the organizer and the film director of the Edisonvolta Cinema Association. He produced about 40 documentaries, mainly for Company employees, as part of an internal communication project that was designed to foster employee loyalty. At an event called the "The Cinema Factory," which was held at the Edison Building on June 6, 2006, the director Ermanno Olmi, Tullio Kezich (film critic for the *Corriere della Sera*) and Sergio Tuffetti (Conservator of the National Film Library) reviewed the birth of Italian industrial films during the years when Olmi worked at Edison.



Relationships with Universities

Edison has an ongoing relationship with major universities in Italy, with the goal of fostering a closer relationship between the educational background provided by schools and the job market. Over the years, the Company has established a strong relationship with the Bocconi University in general and its Institute of Political Economics of Energy and the Environment in particular, which Edison helps in organizing seminars on topics that are relevant to its businesses. The Observatory of Local Italian Utilities, with which Edison collaborates from time to time, is also connected with the Bocconi. The Company's relationship with the Milan Polytech University has deep roots that go back to Professor Colombo, who was Edison's founder. The collaborative relationship with the University of Pavia is particularly intense. In 2006, it included the funding of two graduation prizes in memory of the late Ludovico Priori, who was a top executive of the Company for many years. The Company schedules regular seminars at major universities in Milan and Rome during which it makes presentations and its managers speak on specific subjects. In addition, some Company representatives teach regularly or on special occasions at various colleges and post-graduate schools, and Edison offers students guided tours of its facilities. Moreover, the Company provides scholarships and numerous internship opportunities for recent graduates.

Edison is one of the founding partners of the Collegio di Milano, an institution created jointly by the universities, local government entities and major businesses of Lombardy with the goal of offering an innovative developmental path to the best students from universities in Milan. Recently, the Italian Ministry of Education, University and Research honored the Collegio di Milano by recognizing it as a College of Excellence. Edison's work with the Collegio includes hosting students at its headquarters for project work (projects carried out working directly with Edison) and making its managers available for presentations on issues related to the energy business. For 2007, Edison and the Collegio di Milano are organizing a series of panel discussions on energy sources.

The Edison Foundation

Even though it operates independently, the Edison Foundation is one of the Group's main cultural assets. Its mission is to support and carry out cultural and scientific research projects designed to provide a better understanding of the economic, cultural and social issues related to made-in-Italy products, local manufacturing systems and industrial districts, including problems related to training, research and innovation. The Foundation promotes studies, surveys, publications and events both on its own and in cooperation with outsiders and by sponsoring projects that are consistent with the purposes stated in its Bylaws. The Foundation seeks to attract to its programs individuals who can contribute a diverse array of analytical input due to their vastly different professional backgrounds: universities, research centers of large and small businesses, research agencies and institutions, businesses and other associations, and foundations that study local economic systems.

In 2006, the Edison Foundation pursued a number of projects, including a conference on "Eastern Europe, the EU and Italy – Finding a Strategic Connection," which was organized in cooperation with the Accademia Nazionale dei Lincei, and the publication of two new volumes of a series developed as part of an institutional project created in 2000 by the Edison Foundation and Il Mulino, a prestigious Bolognese imprint. These two books are entitled *Evolution of Public Local Companies – the Enia case*, edited by Marco Elefanti, and *Industry and the Districts. A Paradigm of Continuing Italian Competitiveness*, edited by Marco Fortis and Alberto Quadrio Curzio. The latter work is particularly innovative because, on the one hand, it highlights the renewed competitiveness of the Italian manufacturing system, within which small/medium-size businesses (SMBs) play a crucial role and, on the other, emphasizes the need to integrate Large Businesses (the Pillars), more structured Medium-size Businesses (the Columns) and Districts (SMBs) into a system. More detailed information about the Foundation is available at its website: www.fondazioneedison.it.

Initiatives for Sustainable Development

The Abruzzo National Park and the Protection of the Marsican Bear

At the end of 2006, Edison agreed to collaborate with the Abruzzo, Latium and Molise National Park on a project planned for 2007 to protect the Marsican Brown and its habitat. Specifically, the project will involve initiative to protect this species and raise public awareness, with the goal of improving the condition of the Marsican Brown Bear through campaigns of meaningful information. The Abruzzo National Park has been committed to protecting this endangered local species. This project represents the first instance of partnering with a private enterprise in the Park's history.

The PANE Project

The collaboration that Edison started with the Banco Alimentare Onlus Foundation in 2004 has evolved into a true partnership that works to feed the needy. In 2006, Edison, which in 2005 helped the Foundation buy a refrigerated van used to distribute surplus food from corporate cafeterias to soup kitchens, purchased a temperature reduction system, paid in part by the contribution of Group employees, which is used to store surplus food in accordance with health laws. In 2007, interested employees will have an opportunity to help preparing and transporting food to the delivery locations. The hours used to performed voluntary work will be treated by the company as regular work hours and will be paid accordingly.

Sports and Team Spirit

Team spirit is one of Edison's fundamental values. The Company has supported sports for many years, especially at the local level. Specifically, at locations where it operates a production facility, the Company has sponsored local teams in sports

ranging from rugby to soccer, from target shooting to athletics, from basketball to rowing. In 2006, the Group chose to extend its support also to major international events, such as the Soccer World Cup, the Italian Rugby Team and the Youth World Biathlon Championship.

The National Italian Rugby Team

Also in 2006, Edison agreed to become the Official Partner of the National Italian Rugby Team. The decision to associate Edison's brand with this growing sport reflects a deeply felt commonality with the spirit that inspires rugby. Respect for your teammates and opponents, fairness in a game that does not tolerate unsportsmanlike conduct and willingness to make sacrifices to achieve increasingly challenging goals are shared values. Rugby is the ultimate expression of energy and positive thinking, values of which Edison is the best embodiment.

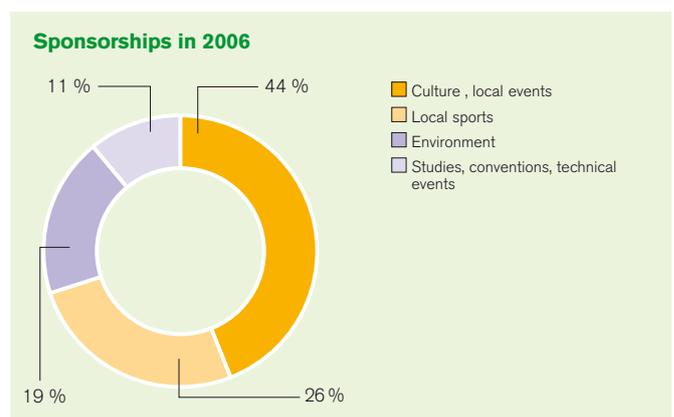
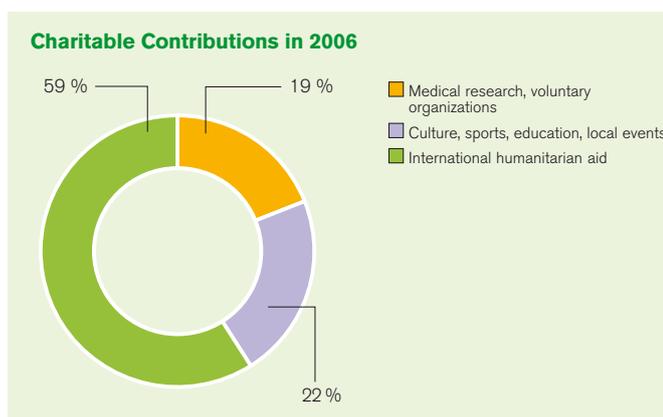
The Youth World Biathlon Championship

At the beginning of 2007, Edison sponsored the Youth-Junior World Biathlon Championship (target shooting and cross-country skiing). Biathlon is a sport that helps develop in close correlation physical discipline and mental concentration. This event, in which 16 to 20 years old athletes from 35 different countries competed, was held in the Venosta Valley, an area in which Edison has been present for many years with hydroelectric power plants.

Sponsorships and Charitable Contributions

In 2006, to support various social and cultural programs reviewed above, Edison invested more than 1.9 million euros in sponsorships and about 430,000 euros in charitable contributions.

The charts shown at the bottom of this page provide a breakdown of these investments by type of project.



DIALOG WITH PUBLIC INSTITUTIONS

In its dealings with national and local institutions and with institutions of the European Union, Edison always maintains a collaborative approach and bases relationships on fairness and transparency.

Interaction with Public Administrations

Edison's activities make it necessary to interact on an ongoing basis with public administrations in order to monitor and manage the process of securing authorizations, permits, concessions and public grants and financing. The Company interacts with public administrations in accordance with specific internal procedures and internal controls, which have been expanded with the adoption of the Organization Model required under Legislative Decree No. 231/01 (rules on administrative liability).

Relations with Italian and European Public Institutions

The Institutional and Regulatory Affairs Department maintains an ongoing dialog with the institutions of the Italian government and Parliament, regulatory and antitrust agencies, EU institutions, and local governments. In a spirit of constructive cooperation, Edison's Rome and Brussels offices make available to public institutions the Company's industry knowhow and contribute to the legislative process, mainly by providing technical and specialized information that could be useful to the individuals involved in the decision-making process.

In Italy, the Institutional and Regulatory Affairs Department monitors daily developments in Parliament (bills, reports of Committee meetings and Chamber of Deputies and Senate sessions, interpellations, interrogations, hearings, investigations, amendments, agendas, etc.) in

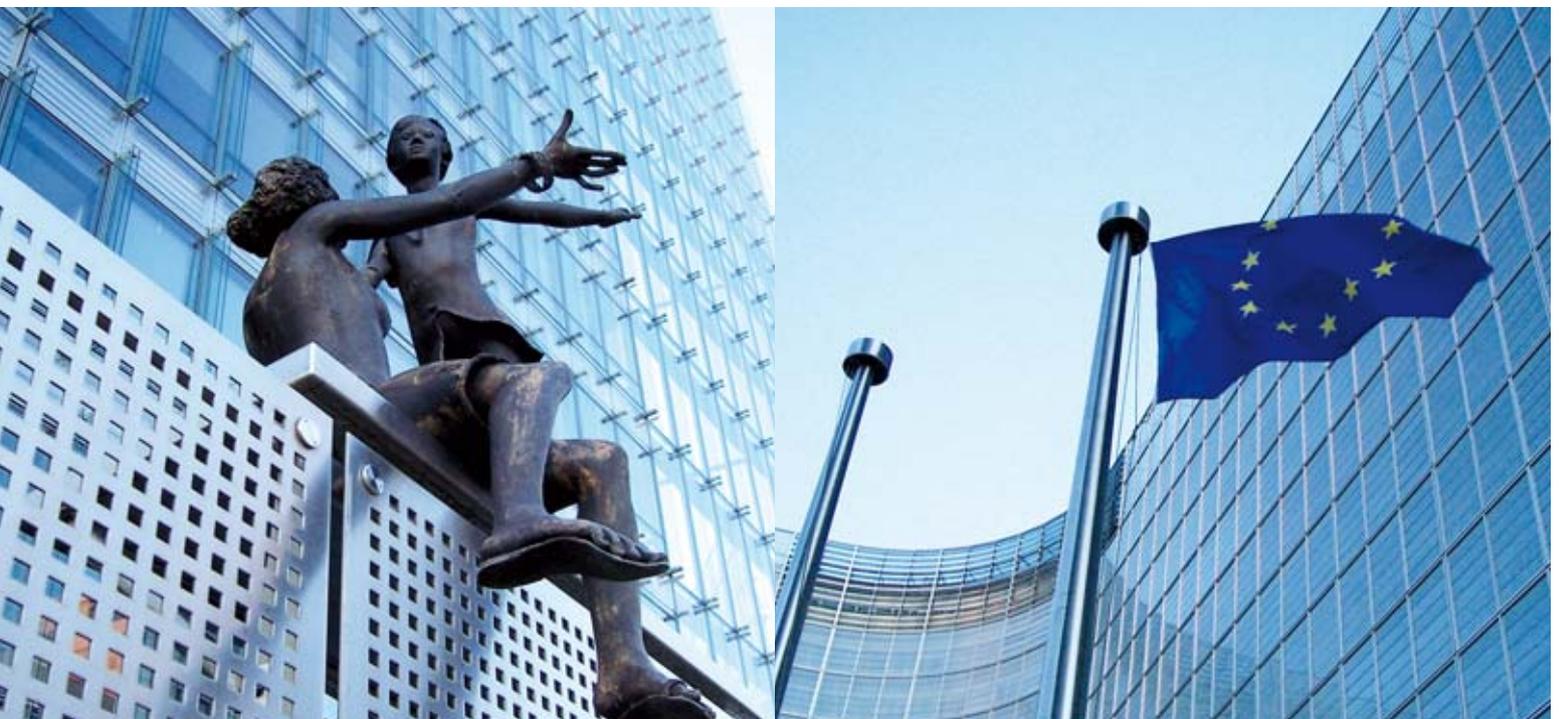
order to provide the applicable Company Departments with comprehensive and timely information about legislative measures that could be relevant to their businesses. This Department is also involved on an ongoing basis in consultations and work groups promoted by the Electric Power and Natural Gas Authority as part of the process of developing regulations that are more reflective of actual industry needs. As part of this effort, working in close contact with the relevant Company functions, the Institutional and Regulatory Affairs Department identifies problems and opportunities in proposed or enacted regulations and prepares and promotes Company actions that best reflect the interests of the Group.

Lastly, the Department coordinates and prepares position papers that are filed in connection with investigations and inquiries carried out by the antitrust authorities. In a similar manner, the Institutional and Regulatory Affairs Department follows the proceedings of the Council of Europe and the European Parliament in Brussels and Strasbourg. It supports Company positions during the consultation process between institutions and stakeholders and, in this context, works closely with the relevant Directorate-Generals of the European Commission.

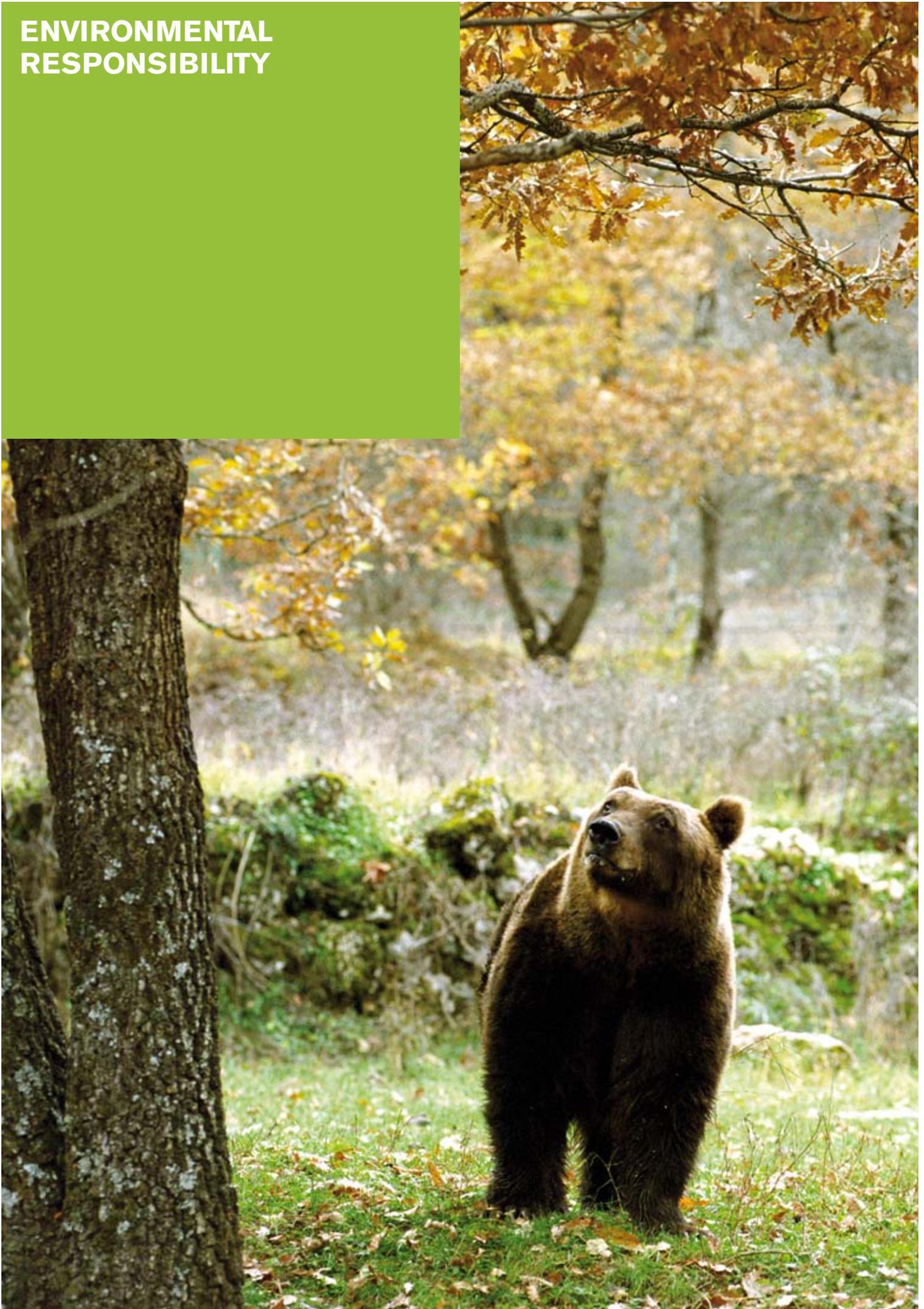
Edison is also actively involved in industry associations (Confindustria, Assoelettrica, Assomineraria, Federestrattiva, Eurelectric and Unice), to which it provides support, through its participation in work groups, in the development of association positions.

The Institutional Relations Department also coordinates:

- relations with associations, movements and interest groups (NGOs, environmental associations, industry associations etc.);
- relations with regional, provincial and municipal administrations in areas of general interest.



**ENVIRONMENTAL
RESPONSIBILITY**



ENVIRONMENT IN FOCUS. PROTECTION IS OUR GOAL

Edison expresses its concern for the environment by striving to comply with the relevant laws, by continuously improving its performance, by researching and using materials and technologies that have a limited impact on the environment and by interacting and cooperating with other parties.

The Company's awareness of environmental issues is demonstrated by many of the elements that characterize how we approach these issues. First of all, the Group adopted integrated and certified systems specifically designed to help Edison implement its environmental policy in a concrete fashion. The Group is also committed to a continuous and voluntary improvement of its performance that goes well beyond mere compliance with the applicable regulations.

After securing certification for virtually all of its locations, the Group proceeded to structure environmental management systems (UNI EN ISO 14001 Standard and EMAS Regulation No. 761/2001), health and safety management systems (BSI OHSAS 18001) and quality management systems (UNI EN ISO 9001 Standard) for entire key corporate organizations, with the goal of consolidating the inclusion of environmental and safety concerns in operational management procedures and decision-making processes.

In 1994, it began publishing a Group Environmental Report that was honored with numerous awards over the years. Starting with the 2004 edition, this publication was incorporated into the Sustainability Report, with the goal of unifying communications with the Group's stakeholders. Last year, the Sustainability section of the www.edison.it website was expanded to provide in-depth information about the environmental performance of the electric power and hydrocarbons operations.

Management Systems

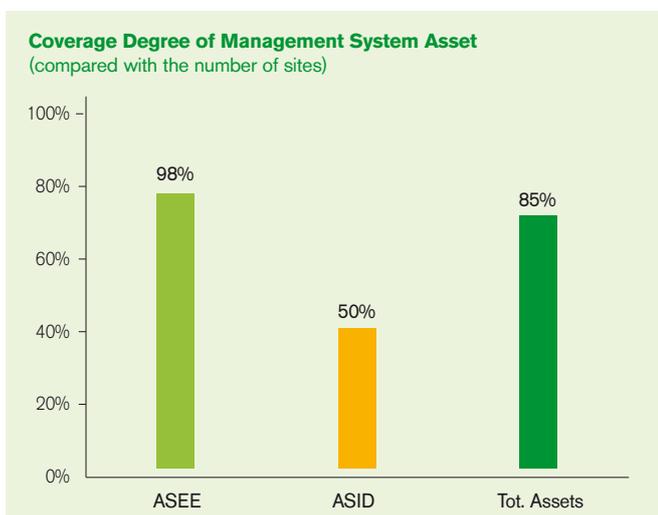
Edison's objective is to adopt, at all production facilities and Group entities, the most advanced environmental management standards and to earn the certification of entire organizations.

Today, Edison represents the standard of excellence in Italy. The Group believes that, by consolidating its management systems, it will be able to:

- Ensure compliance with statutory requirements;
- Involve employees in the achievement of improvement objectives;
- Share with contractors its principles, views and operational management methods;
- Analyze the causes of events and identify corrective and preventive actions;
- Inform the public through Environmental Statements issued by EMAS-registered production facilities that list all key information about environmental issues, the methods used to manage them, improvement objectives and results achieved.

The objectives achieved in 2006 are reviewed below:

- Award of Organizational Certification for Thermoelectric Division 1 in accordance with the UNI EN ISO 14001 Standard, the BSI OHSAS 18001 Specification and EMAS Regulations;
- Award of Organizational Certification for Thermoelectric Divisions 2 and 3 in accordance with the UNI EN ISO 14001 Standard and the BSI OHSAS 18001 specification. Completion of the auditing and validation process for EMAS Registration, with the Ecolabel Ecoaudit Committee expected to provide the registration numbers in the future;
- Successful completion of the auditing and validation process for EMAS Registration for Hubs 1, 2 and 3 of the Hydroelectric Operations and validation of Hub 3 for EMAS registration purposes;
- Launch of a project to develop guidelines for the introduction of integrated environmental and safety systems for activities carried out in connection with natural gas projects outside Italy;



- Upgrading of the procedure used for the internal collection of information and data, with the goal of providing an ongoing assessment of environmental and safety performance at all Group locations;
- Award of certification in accordance with the ISO 14001 and OHSAS 18001 standards of the Environmental and Safety Management System for the Pomezia Operating Unit of Edison Distribuzione Gas and of Multi-site Organizational Certification for the Sambuceto Operating District.

Training provided on environmental issues continued to increase compared with previous years.

The role of the audit process (based on three levels) within Edison's management systems is of fundamental importance for the continuous improvement of environmental, performance and management practices.

The degree of maturity achieved by the management systems currently in use and the gradual shift from implementing these systems at individual locations to organization-wide adoption permitted the development of methods that can be increasingly tailored to meet different levels of risk. This development has helped reduce the number of audits while permitting more detailed analyses.

Extraordinary Events with an Environmental Impact

Four unintended events that had an environmental impact occurred in 2006. While we are always mindful of the importance of analyzing the risk of potential accidents and implementing preventive measures and taking action in the case of an event, leaks did occur, but the quantities involved were limited and did not have a significant environmental impact. For example, burned oil was spilled when a condenser exploded at the Cassano d'Adda electrical station and when a cross-bar switch caught fire at the Mori electrical station. Only the latter incident required notification of the relevant authorities, in accordance with current laws on potential soil contamination.

Key Environmental Issues

Atmospheric emissions, water usage and waste management are the most significant environmental issues that affect Edison's operations. As of this publication was being readied for printing, official 2006 consolidated data were not available for all Group locations. Moreover, they had not been certified.

Consequently, the data provided in this section of the Report and in the chart on the following page represent preliminary

Certification Coverage of Management Systems per Organizational Unit

Organizational Unit	ISO 9001	UNI EN ISO 14001	EMAS (Reg. CE 761/01)	BSI OHSAS 18001
Electric Power Operations				
Thermoelectric Division 1		X	X	X
Thermoelectric Division 2		X	2007	X
Thermoelectric Division 3		X	2007	X
Hydroelectric Hub 1	X	X	X	X
Hydroelectric Hub 2	(staff)	X	X	X
Hydroelectric Hub 3		X	2007	X
Wind farms		X	X	X
Power line network				X
Serene		X	X	X
Hydrocarbons Operations				
Sambuceto Operating District – Production and Storage		X		X
Edison Distribuzione Gas	X	2008		2008
Engineering	X			

Audit Process

	2004	2005	2006
Audits performed by Division staff	131	168	98
Audits performed by Environmental and Safety corporate staff	51	47	24
Audits performed by external certification agencies	43	40	34
Number of issues raised (non-conformity and recommendations)	536	514	691

indicators of performance in the main areas of environmental impact for 2006 and provide merely a projection of the expected trend.

Once they are certified, the data for 2006 will be available in the Analysis of Environmental Performance that will be published in the Sustainability section of the www.edison.it website.

Atmospheric Emissions

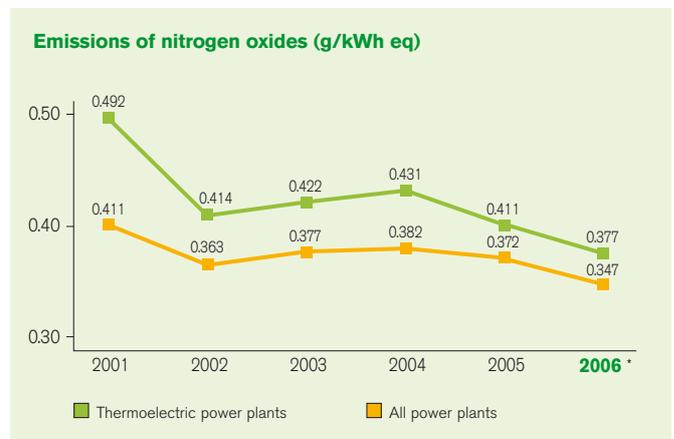
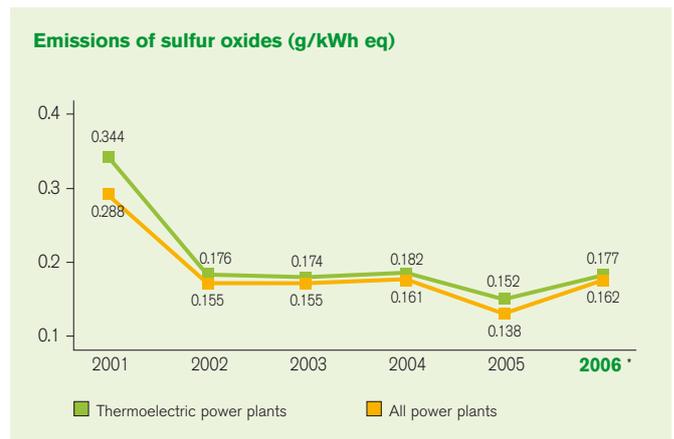
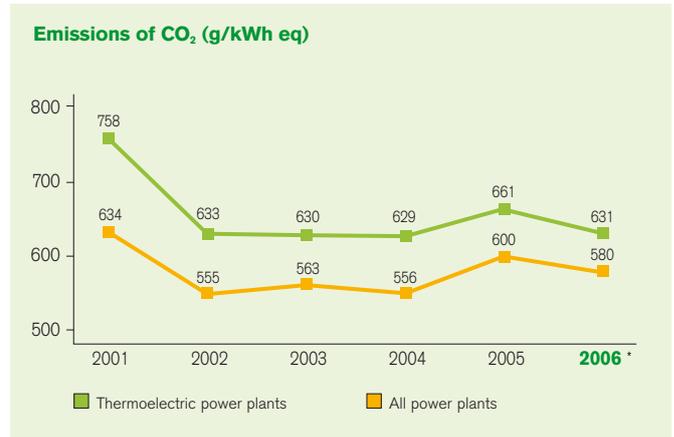
Edison's thermoelectric power plants are among the most modern, efficient and environmentally compatible facilities in Italy. Edison was the first company in Italy to use combined-cycle technology at facilities fired with natural gas, which combines a higher yield (for significant savings of primary energy) with extremely low emissions. Based on a same level of output, combined-cycle systems fired with natural gas eliminate emissions of particulate matter and sulfur oxides and drastically reduce emissions of CO₂ and nitrogen oxides compared with power plants that burn other fossil fuels, such as oil or coal.

In addition, a significant portion of Edison's generating capacity is provided by zero emission facilities: about 1,800 MW from hydroelectric power plants and about 260 MW from wind farms, slated to rise to 450 MW by the end of the 2007-2012 investment plan.

While the data for 2006 have not yet been certified, they show that the Group's total CO₂ emissions increased in absolute terms due to a sharp rise in production made possible by the commissioning of four new power plant during the last two years and to higher production by power plants that burn a mix of steel-mil gases. This technology, however, provides significant energy savings and environmental benefits, since unused steel-mill gases would be released directly into the atmosphere.

On a relative basis (i.e., per kilowatt-hour produced) CO₂ emissions show a further decrease compared with 2005. Perhaps and even better indicator of Edison's commitment to reduce the environmental impact of its facilities and of the effectiveness of its environmental management systems is the steady decrease in specific emissions of nitrogen oxides (NO_x).

On the other hand, emissions of sulfur oxides (SO₂) increased in 2006, due to increased production from conventional power plants in Taranto and Piombino.



* Preliminary data, not yet certified.

Outlays for Environmental Protection and Occupational Safety in 2006 (in thousands of euros)

Type of activity	Investments	Expenses	Total
Air and climate protection	832	341	1,173
Research and development	-	-	-
Water management	360	1,035	1,394
Waste management	31	1,638	1,669
Soil, subsoil and aquifer protection	5,816	4,922	10,738
Protection of natural habitats and landscapes and environmental remediation projects	17	68	85
Other environmental protection projects	614	2,777	3,391
Noise, vibration and electromagnetic field management	98	7	105
Health and safety	5,496	6,764	12,260
Environmental, health and safety training	n.a.	459*	459
Total	13,263	18,010	31,273

* In 2006, training costs reflect the training expenses actually incurred to provide training and not the labor cost equal to the hours of training attended by employees. Labor costs, which are provided for comparison purposes, were as follows: 846,000 euros in 2005 and 942,400 euros in 2006, for an increase of 11%.

NOTE: Starting in 2006, "Soil, subsoil and aquifer protection" includes the costs incurred for characterization, monitoring and remediation activities at decommissioned polluted sites, which amounted to 5.3 million euros.

Remediation of Industrial Sites

In 2006, work continued on projects for the characterization and/or remediation or safety assurance of industrial sites, in accordance with current laws. There are 13 sites involved in this process.

Most of these sites are located in industrial areas of significant interest that could have been polluted by activities carried out in the past. Porto Marghera (VE), Sesto San Giovanni (MI), Piombino (LI), Taranto and Torviscosa (UD) are located within areas that have been classified by law as "National Interest" areas. At these sites, the remediation and safety assurance work agreed upon with the public authorities is continuing.

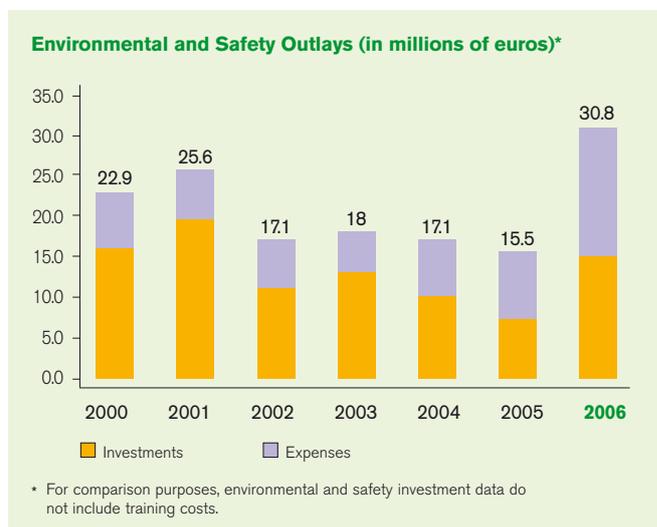
In 2006, the remediation process was completed successfully and remediation certifications were issued for three sites: Fombio (Lodi), Novate Milanese and via Grazioli in Milan.

In addition, working in cooperation with the relevant authorities, Edison has installed, at some locations, special water treatment equipment (Pump & Treat) with catalytic combustion of stripping gas by means of burners that operate at the temperature required to avoid the production of hazardous substances. The water extracted by this equipment is taken from barrier wells that were drilled to create safety barriers at locations where the aquifer is heavily contaminated.

As a result of the site remediation that it is conducting at its facilities, Edison is constantly working to identify the best technologies that are commercially available to achieve complete environmental remediation of the affected sites by removing and/or attacking the sources of pollution.

Expenses and Investments

The resources that are included in Edison's environmental accounting computations are only those used for projects devoted entirely to protecting the environment and the health and safety of Group employees. Accordingly, the data provided in the table above do not include resources used for scheduled maintenance or invested in technology development projects, even when they involve renewable sources, such as the construction of new wind farms.



Climate Change and Emissions Trading

Edison is sensitive to the problems of climate change and is actively engaged in this area. In recent years, in addition to steadily upgrading its conventional power plants, Edison has commissioned new facilities that are powered with renewable sources and plans to expand further in this area. Edison's commitment in this area is also demonstrated by its support for the Carbon Fund and the CDM (Clean Development Mechanism) projects, which were developed as part of the Kyoto protocol to encourage sponsors to finance important sustainable development initiatives in the developing countries in exchange for emissions reduction credits. As a result of this strategy, Edison has significantly reduced its spot market purchases of emissions credits, choosing instead to increase its support for environmentally and socially sustainable programs.

Energy Efficiency

Even though at this point Edison is not subject to meeting energy efficiency requirements (white certificates), the Company began to operate in this area of business in 2005 when it established Monsei, an energy service company that has already completed a major project in Melfi. Specifically, it uses a 3.5-kilometer district heating network to recover heat generated

from a neighboring thermoelectric power plant and uses it to heat 20 hectares of greenhouses, which, otherwise, would have required additional energy to be heated.

Development of Renewable Sources

Edison plans to devote major resources to develop new generating capacity from renewable sources. Specifically, the 2007-2012 Investment Plan allocates to this area 480 million euros, or about 30% of the total investments for the period. The main focus of these projects will be on upgrading the generating capacity of hydroelectric power plants and providing a significant contribution to the national plan for the expansion of wind-power generation. In this area, Edison plans to increase its capacity from the 273 MW currently installed to 450 MW. In addition, working through a subsidiary, it will develop a 25 MW co-generating power plant to meet the energy needs of Fiumicino Airport and will revamp a 5 MW power plant that burns wood biomasses in Castellavazza, in the province of Belluno. Lastly, it will follow with great care the development of new photovoltaic facilities, located mainly at Group-owned sites, and will conduct further studies on the use of biomasses as a means of increasing further its "green" energy generating capacity.



METHODOLOGY
GLOSSARY
PROFESSIONAL OPINION



EDISON AND CSR. METHODS AND OBJECTIVES

Edison's 2006 Sustainability Report has been prepared by the External Relations Department, working in close collaboration with Edison's Environmental Protection, Safety and Quality Department and with the input of other Departments that contributed to the work of collecting data, contextualizing information and revising the copy. This document was prepared in accordance with the following methodological framework:

- The guidelines define by GBS – Social Balance Sheet Study Group, particularly with regard to the definition of value added;
- The reporting principles and the specific disclosures required by the GRI/G3 Guidelines, 2006 edition, following a step-by-step approach. Edison, while it has achieved a high degree of compliance with these guidelines, chose not to carry out the adjustments needed to achieve full compliance with the GRI/G3 Guidelines in 2007.

The Report is published every year. It is submitted to the Board of Directors when it reviews the Annual report, generally in February or March, and is distributed at the Shareholders' Meeting convened to approve the Annual Report, generally in March or April. Shortly thereafter, it is made available to the public on the Company website. This year's edition is the fourth published thus far. Its scope has not changed significantly compared with the previous report. More specifically:

- The economic and financial data are the consolidated data of the Edison Group, computed in accordance with the IAS/IFRS international accounting principles, and include Edipower at 50%;
- The data for social and environmental issues are those of Edison's core businesses (electric power operations, and hydrocarbons operations). Edipower is not included because it published its own Sustainability Report.
- The computation of value added is for Edison's core businesses and includes Edipower consolidated at 50%.

There have been no changes in the method used to process data, except for a few instances for which specific notes have been provided. The material contained in this Report is presented in an abridged format, according to which only the most significant issues and data are presented and frequent reference are made to more exhaustive material that has been or will be published on the www.edison.it website.

In order to improve the reporting process and provide assurances to our stakeholders as to the reliability of the information provided in this Report, an external independent expert was retained to perform an audit. At the conclusion of their work, the auditors issues a certificate of conformity, which is appended to this Report.

GLOSSARY

OF SUSTAINABLE ENERGY

Biomass: Agricultural waste or the product of specific crops that can be burned in facilities that produce thermal energy and electric power (cogeneration).

BSI OHSAS 18001: An international standard issued by the British Standards Institute that establishes the requirements of a safety management system and allows an organization to draw up a safety policy and establish objectives, taking into account legislative aspects and information on significant risks.

CDM: International cooperation mechanism created under the Kyoto Protocol to develop projects that reduce carbon dioxide emissions in developing countries and, at the same time, generate credits that can be used to achieve emission reduction objectives.

CO: Carbon monoxide, a toxic gas coming from incomplete combustion of the carbon present in fossil fuels.

CO₂: Carbon dioxide, a natural component of the atmosphere and a gas produced by the combustion of fossil fuels that contributes to the greenhouse effect.

Cogeneration: Simultaneous production of electrical and thermal energy (in the form of steam).

Combined cycle (CCGT, Combined-Cycle Gas Turbine): A facility for the production of electrical power consisting of a gas turbine whose hot exhaust is used to produce steam, which in turn drives a steam turbine.

Corporate governance: The Green Book defines corporate governance as “the complex of relationships that exist between managers, Directors, shareholders and other company stakeholders.”

Effect on the environment: A significant consequence having a (positive or negative) qualitative or quantitative impact on the environment (emission released or avoided, waste generation, etc.).

Electric Power and Gas Authority: An independent entity that regulates and controls services in the electric power and natural gas industries.

Electromagnetic fields: Non-ionizing radiation caused by the presence of electrical currents.

EMAS: European Union Regulation 761/2001 concerning voluntary compliance by industrial companies with an EU system of ecomanagement and auditing.

Emissions trading (ET): System developed by the European Union to allow trading of greenhouse gas emission allowances. This system is the first in a series of tools that will be used to achieve greenhouse gas reduction targets.

Environment: The context in which an organization operates, including the air, water, land, natural resources, plants, animals, people, and their interrelations.

Environmental consequence: The output of any activity that may have the effect of totally or partially changing the environment, with either negative or beneficial consequences.

Environmental policy: A statement made by an organization indicating its intentions and principles in connection with its overall environmental, safety and quality performance. It provides a reference for the activity being done and for defining goals and targets with regard to the environment, safety and quality.

Environmental, safety and quality management system (SGA, SGS, SGO): The portion of the general management system that includes the organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing and maintaining a stated environmental, safety and/or quality policy.

Environmental, safety or quality audit: A systematic and documented verification process for determining and assessing, based on objective evidence, whether the environmental, safety or quality management system implemented by an organization complies with its stated environmental, safety or quality policy.

Fuel cells: Electrochemical devices that convert energy produced by a chemical reaction directly into electric power.

Fuel oil: A mixture of products from the distillation of petroleum used as a fuel for the production of heat, categorized as HSC (high sulfur content > 2.5%), MSC (medium sulfur content > 1.3% and < 2.5%), LSC (low sulfur content > 0.5% and < 1.3%), and VLSC (very low sulfur content < 0.5%).

Gigawatt (GW): Unit of measure equal to one billion watts (one million kilowatts).

Gigawatt-hour (GWh): Unit of measure equal to one million kilowatt-hours.

Green energy: Electric power produced from renewable sources (water; geothermal, solar and wind energy, and biomass).

Greenhouse effect: A phenomenon by which the Earth's temperature is raised due to the excessive presence of certain gases (CO₂, CH₄, N₂O, HCFS, PCFS, SF₆) that prevent radiation from escaping the Earth.

Joint implementation: International cooperation mechanism created under the Kyoto Protocol for the development of joint projects that reduce carbon dioxide emissions in countries the economies of which are in a transition phase, thereby generating credits that can be transferred to or acquired by a company to help it achieve its emission reduction targets.

Kilowatt-hour (kWh): Unit of measure of electric power, equal to 1,000 Watts per hour.

Legislative Decree: It has the full force of a normal law since its inception because it is enacted by the executive branch by virtue of a specific authorization from Parliament. Since it is issued under the authority of the legislative branch, it need not be converted into a law.

Megawatt (MW): Unit of measure equal to one million watts.

Megawatt-hour (MWh): Unit of measure equal to 1,000 kilowatt-hours.

Microgeneration: Generation of electric power with systems that are small and flexible enough for widespread use in the field.

Ministry Decree: Each Minister, within the jurisdiction of his/her Ministry, may issue regulatory decrees without legislative authority, provided they do not conflict with national laws. They serve only regulatory purposes.

Natural gas: A gaseous fossil fuel consisting of methane and small traces of other hydrocarbons.

Nm³: Normal cubic meter, a volume of gas at 0 °C and 0.1 MPa.

NO_x: Nitrogen oxides (primarily NO and NO₂) gases produced by the combustion of fossil fuels. They contribute to the formation of ozone in the lower atmosphere and acid rain.

One million m³ of gas equivalents: One million cubic meters of gas equivalents, corresponding to 830 TOE.

Particulate matter: In the case of emissions into the atmosphere coming from a combustion process, all the solid microscopic particles dissipated in the exhaust.

Power: Work performed in a unit of time or energy produced in a unit of time, generally stated in watts (W) or multiples thereof, such as kilowatts (kW), equal to 1,000 watts, or megawatts (MW), equal to 1,000 kilowatts.

Prime Minister's Decree: This measure, which serves guidance purposes, is issued by the Prime Minister on exceptional occasions, with the contribution of his/her cabinet, or only some of the Ministers, for the purpose of providing solutions to problems already covered by the existing laws.

Risk management: Processes and tools used to prevent or manage nonrecurring and unforeseeable events that could have an impact of varying type and intensity on a company.

Sm³: Standard cubic meter, a volume of gas at 15.6°C and 0.1 MPa.

SO_x: Sulfur oxides, gases produced by the combustion of fossil fuels containing sulfur. They contribute to the formation of acid rain.

Stakeholders: All clearly identifiable individuals or groups who can have an impact on the success of an enterprise or who have an interest in the decisions of an enterprise: shareholders, employees, customers, suppliers, public institutions, local communities, media, interest groups and even competitors.

Steel-mill gases: Gases generated in steel mills by coke ovens and blast furnaces as byproducts of the production of cast iron, coke coal and steel. These gases are used as fuel in certain thermoelectric plants for the production of electrical power.

Sustainability: The ultimate goal of socially responsible behavior, which is to provide a form of development that meets today's needs without compromising those of future generations.

Sustainability Index: Stock market index that reflects trading in shares of companies selected on the basis of their ability to meet certain financial, environmental and social responsibility requirements.

TOE: Ton oil equivalent, a conventional unit of energy equivalent to 10 million kcal, used to quantify any source of energy in terms of its thermal value.

Triple bottom line: A three-dimensional approach that measures the overall performance of an enterprise on the basis of an integrated reporting of its financial, social and environmental performance.

UNI EN ISO 14001 Standard: An international standard setting the requirements for an environmental management system that allows an organization to draw up an environmental policy and establish objectives, taking into account legislative aspects and information on significant environmental impacts.

UNI EN ISO 9001 Standard: An international standard that establishes the criteria that a system must follow in providing services and products in order to ensure the satisfaction of the customer's requirements and expectations.

Volt: Unit of measurement of electromotive force.

Watt: Unit of measurement of electric power.



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AUDITORS' REPORT
(Translation from the original Italian text)

To the Board of Directors
of EDISON S.p.A.

1. We have carried out the compliance procedures and analyses on the Sustainability Report of Edison S.p.A. as of December 31, 2006, described in paragraph 2 of this report.

The procedures were carried out to evaluate the Board of Directors' statements, included in paragraph "Edison and CSR – Methods and Objectives" of the Sustainability Report of Edison S.p.A. as of December 31, 2006, which describe the guidelines adopted for the preparation of the Sustainability Report. The preparation of the Sustainability Report is the responsibility of Edison S.p.A.'s management.

2. In order to evaluate the Board of Directors' statements mentioned in paragraph 1, we have performed certain procedures as recommended by the GBS Research Document which are summarized as follows:
 - verified that the financial data and information are consistent with those included in the Group's consolidated financial statements as of and for the year ended December 31, 2006, approved by the Board of Directors. The responsibility of the audit performed on the consolidated financial statements as of December 31, 2006 is of other auditors who issued their opinion on March 8, 2007;
 - analyzed the operation of the processes underlying the generation, recording and management of quantitative data. In particular, we have performed the following procedures:
 - interviews and discussions with management and personnel, to obtain an overview of the activity of Edison S.p.A., to gather information on the information technology, accounting and reporting systems used in preparing the Sustainability Report, and to document the processes and procedures used to gather, combine, process and transmit data and information of the Group's operating units and departments to the function responsible for preparing the Sustainability Report;

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- sample-based analysis of supporting documentation used in preparing the Sustainability Report to confirm the reliability of the interview-derived information, the effectiveness of processes and their adequacy in relation to business objectives, and the operation of the internal control system in managing the data and information;
 - analyzed the completeness and consistency of the qualitative information included in the Sustainability Report. This activity was carried out in line with the above-mentioned guidelines;
 - verified the process of stakeholders' involvement, in terms of the methods used, completeness of the stakeholders and analysis of data of significant findings in this respect, compared to the information reported in the Sustainability Report.
3. The Sustainability Report presents the prior year's unaudited data and information for comparative purposes, with respect to which we have not performed any audit procedures and, therefore, we do not issue an opinion.
 4. Based on the procedures performed, we believe that the Sustainability Report of Edion as of December 31, 2006 complies with the guidelines and principles which form the basis of preparation and which are described in the paragraph "Introduction" of the Sustainability Report. Moreover, the financial data included in the Sustainability Report is consistent with the data and information included in the Group's consolidated financial statements and the other data and information are coherent with the documentation and meet the content requirements established by the guidelines and principles governing the preparation of the Sustainability Report.

We draw your attention to the improvement actions put in place by Edison S.p.A. during the year aimed to implement an information reporting system better implemented with its internal processes.

Milan, March 16, 2007

Reconta Ernst & Young S.p.A.
Signed by: Felice Persico
Partner

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