



# SUSTAINABILITY REPORT

## 2007



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# SUSTAINABILITY REPORT

## 2007

# A LETTER TO OUR STAKEHOLDERS

*Corporate Responsibility is a strategic component of Edison's business model: the creation of value by a business is predicated upon its ability to reconcile the pursuit of its financial objectives with the expectations of all stakeholders, while developing innovative solutions to achieve a continuous reduction of its impact on the environment. Within this framework, the Sustainability Report is the communication tool by which Edison discloses each year its achievements in the responsible management of its business activities.*

*In 2007, climate change took center stage among critical issues requiring the full attention of the international community. Edison, having been convinced for some time of the pivotal importance of this development, has taken up the ambitious climate change challenge proposed by the European Union for 2020:*

- *Reduce CO<sub>2</sub> emissions by 20%;*
- *Achieve a 20% reduction in energy consumption by increasing energy efficiency;*
- *Use renewable sources for 20% of all energy produced.*

*Edison has already accomplished a great deal, but it plans to do more. Modernizing and repowering power plants, increasing imports and use of natural gas, conserving energy by promoting a culture of responsible and informed consumption, expand the use of renewable sources to generate electric power – these will be areas to which Edison will devote its greatest efforts in the immediate future.*

*It is worth noting that, for Edison, 2007 marked the successful completion of an ambitious plan that called for the Company to achieve the objective of bringing on stream 7,000 MW of new generating capacity over a period of ten years.*

*In 2007, as part of this effort, the Group developed new facilities for the production of electric power from renewable sources and now ranks among the top Italian operators in the area of renewable energy. This is particularly true in the field of wind power generation, thanks to Edison's 28 wind farms with a total installed capacity of more than 280 MW. The Company is planning a further increase in renewable source capacity by 2013, as part of its commitment to help Italy achieve its 17% target in this area.*

*Edison's programs involving renewable sources include the development of innovative photovoltaic systems, which it plans to test in 2008.*

*When fully operational in 2008, a project launched in 2007 at Candela, in the province of Foggia, will constitute one of the most remarkable examples at the international level of sustainable production of electric power and will constitute a true excellence "case history." More specifically, since November 2007, the gas turbines of Edison's 400-MW power plant have been burning natural gas drawn from the pipeline network mixed with a significant percentage of "lean gas" produced from local deposits, thereby utilizing a resource that otherwise would have been left*

*unused. Moreover, the power plant is being integrated with an adjoining floricultural production center: the first modules of a greenhouse complex scheduled for completion in 2008 are already up and running. When fully operational, the greenhouse will cover about 150 acres and create about 300 jobs, producing each year millions of roses and anthuriums for the international market. The greenhouses are heated with a closed-circuit system that uses hot water produced by condensing the steam released by the power plant, again making use of energy that otherwise would have been wasted.*

*In 2007, the Group used the dialog it carried out with its internal and external stakeholders to promote a "responsible and informed consumption" of energy. Projects carried out in this area included the "Sustainability Trophy," which encouraged all employees to participate in the internal development of initiatives in the area of sustainable development. Among several projects submitted by employees, the Company selected the "Enlightened Savings" project, which will result in the gradual transformation of the nineteenth century Foro Buonaparte palazzo – Edison's historic headquarters – into an environmentally sustainable building, with a 30% annual savings in energy consumption and the avoidance of 230 tons of CO<sub>2</sub> emissions. This project, which will be duplicated in other buildings, is the embodiment of the virtuous philosophy of sustainability: pay attention to the stakeholders, reduce the environmental impact and optimize energy consumption and financial efficiency. Edison's activities with its external stakeholders included the Kyoto Anch'io project, which it developed together with Legambiente to encourage the early development of a culture of energy conservation, starting in the school system. The same responsible approach is also used when dealing with customers, to whom the Company offers consulting support for energy conservation and educational programs about distributed power generation, compact renewable-source units in particular. Lastly, between the end of 2007 and the beginning of 2008, the Group developed and launched "Edison – Change the Music," which is the first initiative launched in Italy to develop a culture of sustainability and energy conservation in the music industry.*

*The focus of Edison's attention was not limited to the environment, encompassing also issues related to personal safety. More specifically, Edison has made substantial investments in the development of an occupational health and safety system that is among the most advanced in Europe and has enabled the Group to achieve accident indices (both for Company employees and employees of its contractors) that are among the lowest in its industry. Lastly, a "people care" program finalized at the end of 2007 will provide employees with new services designed to help them balance more effectively family and professional obligations, improve workplace quality and make the Group's support and recreational services more easily accessible.*



*Turning now to issues that are more germane to social responsibility, we would like to mention some initiatives that are particularly significant in characterizing the position of the Edison Group. In this area, because we are mindful of the public's expectations, we constantly strive to support our host communities by promoting cultural, social and sports initiatives and by encouraging the development of a culture of sustainability. Among these projects, the support provided to the Abruzzo National Park, which is located in a region where Edison is particularly active, deserves special mention. The collaboration with the Park included the implementation of a series of programs to protect the Marsican bear and its habitat.*

*In 2007, Edison completed the construction of five new schools in Banda Aceh, an area in Indonesia that was among the worst hit by the 2004 Tsunami, and contributed to the emergency fund created by the Greek government to address last summer's dramatic wildfire emergency. In Togo, Edipower contributed to the construction of a school cafeteria near the village of Todomè, which will help contain a worrisome increase in the student dropout rate.*

*Also in 2007, the Italian Rugby and Volleyball Teams earned growing support from the Italian public: not just for their achievements on the playing field, but also for their ability to project such values as team spirit, respect and integrity. These are the very values that are at the foundation of Edison's identity. The Edison Foundation continued its activity in support of cultural*

*and scientific research projects that encourage the study and foster a better understanding of socioeconomic, cultural and societal issues related to local manufacturing systems and industrial clusters in Italy.*

*For several years, Edison has been a supporter of the FAI (the Italian environmental fund), a prestigious foundation committed to protecting, safeguarding and conserving Italy's artistic and natural treasures. Lastly, among the initiatives that involved Edison's personnel more directly, the "Siticibo" project, in which many volunteers helped salvage surplus food from the Company cafeteria and deliver it to charitable institutions, is worthy of mention.*

*While the initiatives described above are only a few examples of the many programs that Edison Group companies pursue each year, we believe that they are the best suited to exemplify our commitment to the concrete implementation of our values and our vision: invest in the future and the responsible growth of our Group, while contributing to economic progress in harmony with the environment and the Community.*

  
**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 every aspect of the electric power and natural gas industries, from procurement to production and sales.

Edison's long history dates back to 1881, when the Committee to Promote the Use of Electric Power in Italy was founded in Milan. The establishment of Società Generale Italiana di Elettività Sistema Edison followed in 1884. Edison built the first power plant in Europe capable of continuous distribution of electric power (Milan Santa Redegonda in 1883) and developed the Bertini hydroelectric power plant Paderno d'Adda, which, at that time (1898), was the most powerful in Europe and second in the world only to Thomas Edison's Niagara power plant.

In 1992, Edison was the first company in Italy to adopt the combined-cycle technology for gas-fired power plants, which is the most efficient power generation technology and has the lowest impact on the environment. During the last 10 years, Edison completed a program of capital investments in energy production that has no match in Europe, bringing on stream about 7,000 MW of new production capacity.

The Group's production of electric power is provided by facilities with about 12,500 MW of installed capacity at the end of 2007. In the same year, Edison's net production of electric power totaled 53.4 Terawatt hours, equal to 17.7% of Italy's total production. The Group's available supply of natural gas was 13.3 billion cubic meters, which covered 15.8% of Italy's total needs.

As part of an effort to add to the 39.7 billion cubic meters in reserves that the Group already owns, Edison's hydrocarbons operations are aggressively engaged in the exploration for and production of natural

gas and crude oil, thanks to 59 concessions and permits in Italy and 23 concessions and permits abroad. In addition, Edison operates two storage centers in Italy and has been awarded the permits required to develop a third storage center.

## Electric Power – Sources (GWh)<sup>(1)</sup>

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

<sup>(1)</sup> One GWh is equal to one million kWh; in terms of physical volumes.

<sup>(2)</sup> Net of line losses.

## Natural Gas – Sources (in millions of m<sup>3</sup>)

	2007	2006	% change
<b>Total net production</b>	<b>928</b>	<b>1,068</b>	<b>(13.2)</b>
Production in Italy	674	712	(5.3)
Production outside Italy	254	356	(28.8)
<b>Pipeline imports</b>	<b>6,093</b>	<b>7,705</b>	<b>(20.9)</b>
<b>LNG imports</b>	<b>25</b>	<b>62</b>	<b>(59.8)</b>
<b>Domestic purchases and other sources<sup>(1)</sup></b>	<b>6,771</b>	<b>4,804</b>	<b>4.0</b>
<b>Total sources</b>	<b>13,817</b>	<b>13,639</b>	<b>1.3</b>

<sup>(1)</sup> Includes inventory changes and pipeline leaks.

## EDIPOWER

In 2002, in a transaction carried out as part of the deregulation of the electric power market, a group of companies led by Edison bought Eurogen, the largest of the generating companies that Enel was divesting, and renamed it Edipower. As of January 2008, Edipower was owned by: Edison Spa (50%), A2A Spa (20%), Atel Sa (20%) and Iride Spa (10%). Edipower operates nine production facilities located throughout Italy – six thermoelectric power plants and three hydroelectric hubs – with a total installed capacity of 6,800 MW, including 780 MW generated from renewable sources.

Edipower follows a clear strategic choice: separate the industrial risks entailed by production (borne by Edipower) from market risks (borne by its shareholders). The tools developed to implement this strategy are two contracts: the Tolling Agreement, for thermoelectric production, and the Power Purchase Agreement, for hydroelectric production. Under these agreements, each shareholder supplies its pro rata share of the fuel needed to operate the power plants, receiving in exchange electric power, which it sells directly.



## Shareholder Base

Edison is controlled by Transalpina di Energia (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. 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 A2A, a company created through the merger of AEM Milano and ASM Brescia. Delmi's other shareholders are: Enia Spa (15%), Società Elettrica Altoatesina-SEL Spa (10%),

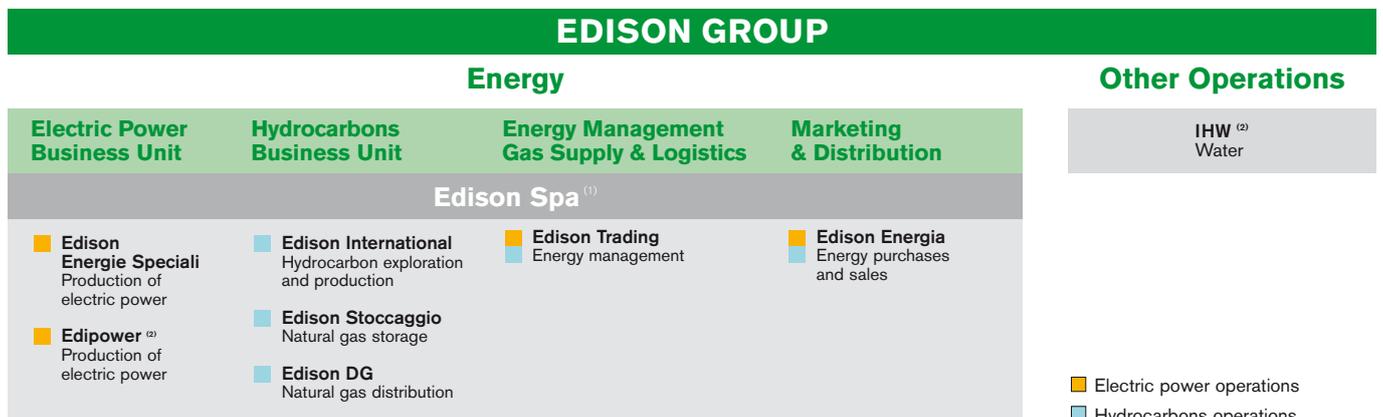
Dolomiti Energia Spa (10%), Mediobanca Spa (6%), Fondazione Cassa di Risparmio di Torino (5%), and Banca Popolare di Milano S.c.ar.l. (3%). None of these parties exercises oversight or coordinating authority over Edison.

## Shareholders with Significant Interests

As of February 12, 2008, the shareholders listed in the table below held directly or indirectly an equity interest equal to more than 2% of the voting stock:

Shareholder	Number of common shares held	Percentage of voting shares held	Percentage of share capital
Transalpina di Energia Srl	3,175,053,827	61.282	60.001
EDF	1,003,055,065	19.360	18.955
broken down as follows:			
held directly	15,210,131	0.294	0.287
held indirectly	987,844,934	19.066	18.668
Carlo Tassara Spa	519,415,677	10.025	9.816
broken down as follows:			
held directly	4,100,000	0.079	0.078
held indirectly	515,315,677	9.946	9.738

## Simplified Structure of the Group at December 31, 2007



<sup>(1)</sup> 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.

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



## Organizational Structure

Edison's structure enables it to operate in every segment of the electric power and natural gas businesses as it pursues the achievement of the Group's future goals.

The Electric Power Business Unit and the Hydrocarbons Business Unit are responsible, respectively, for operating the electric power production facilities and managing exploration activities and the production of natural gas and fuel oil in Italy and abroad.

The Renewable Sources Department specializes in the development of the Group's wind farms and coordinates the processes that govern the handling of CO<sub>2</sub> emissions rights and environmental securities and certificates.

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

The Energy Management Business Unit handles transactions involving electric power trading in the wholesale market and electric power sales on the Italian Power Exchange (IPEX). In addition, it is responsible for electric power planning and dispatching and for the overall optimization of these two activities.

The Gas Supply & Logistics Business Unit is responsible for supplying natural gas to the Group's thermoelectric power plants and for developing Edison's end markets, including the management of domestic and international supply contracts and of operational transmission and storage programs.

## Main Achievements of 2007

The year 2007 was another important year in terms of Edison's achievement and growth opportunities. An overview of the main events of the year is provided below:

### Electric power area:

- The Group's interest in Serene was sold to BG Italia, with a positive impact of about 117 million euros on the financial position of the Edison Group.

- Edison's Board of Directors approved an investment of about 250 million euros for the construction of a 400-MW combined-cycle, thermoelectric power plant at Thisvi, in central Greece. The project will be developed by a partnership (65% Edison) that includes Hellenic Energy & Development and Viohalco, two local energy development companies. In addition, as part of the Group's effort to develop its activities in Greece, Edison and Hellenic Petroleum, Greece's largest hydrocarbon company, signed a Memorandum of Agreement for the establishment of a 50-50 electric power joint venture that will pursue the objective of developing over 1,400 MW in generating capacity.

- Edison agreed to establish a joint venture with Dolomiti Energia that will operate in the hydroelectric area in the province of Trent and will strengthen the Group's relationship with the local communities. Three Edison hydroelectric power plants (Taio-Santa Giustina, Mezzocorona/Mollaro and Pozzologo) with a total installed capacity of about 180 MW will be conveyed to the new company. Dolomiti Energia will own 51% of the new company's share capital and Edison the remaining 49%.

- At the end of 2007, Edison agreed to sell to Cofatech Servizi, a company of the Cofatech Group, seven thermoelectric power plants with an aggregate installed capacity of about 540 MW. These facilities, which are located in Castelmassa (RO), Nera Montoro (TR), Pomigliano (NA), Settimo Torinese (TO), Spinetta Marengo (AL), Boffalora (MI) and Celano (AQ), are sited within compounds that house industrial facilities and operate under CIP 6/92 contracts. The total value of this transaction is more than 220 million euros.

### Hydrocarbons operations:

- A partnership that includes Edison International, an Edison Group subsidiary, and major international operators was awarded five new hydrocarbon exploration licenses in the Norwegian Continental Shelf, which had been put out for bids by the Norwegian Oil and Energy Ministry.

- As part of the Group's Senegal hydrocarbon exploration activities, Edison International, an Edison Group subsidiary, and Petrobras, Brazil's national hydrocarbon company, signed an agreement according to which Petrobras will join Edison in a project to explore the Rufisque Offshore Profond block, off the Senegal coast, acquiring a 40% interest in the project. Following this transaction, the interest held by Edison, the project's operator, decreased to 55%, with Petrosen, Senegal's national hydrocarbon company, owning the remaining 5%.
- A natural gas liquefaction train that will produce the LNG that will be regasified for Edison at the Adriatic LNG Terminal, a facility that is being built offshore Porto Levante (RO), in the Adriatic, was inaugurated in Qatar.

In addition, two important agreements that laid the foundation for the international expansion of the Group's businesses were signed in 2007. More specifically:

- 1) The Intergovernmental Agreement to develop a Turkey-Greece-Italy natural gas transmission corridor signed by Italy's Minister of Economic Development, Greece's Minister of Development and Turkey's Minister of Energy and Natural Resources. With this official document, the three governments recognized the strategic importance of this natural gas pipeline system, which will be used to import by way of Turkey and Greece natural gas from the Caspian Basin and the Middle East, where over 20% of the world's reserves (30,000 billion cubic meters) are located, and undertook to support the efforts of the industrial enterprises

involved in the construction of the required infrastructure (Edison in Italy, Depa and Desfa in Greece and Botas in Turkey) with the goal of shortening construction time and achieving completion by 2012. The first delivery of natural gas from the Caspian Sea Basin reached Greece in November, marking the inauguration of the Turkey-Greece natural gas pipeline. When fully operational, this 296-kilometer pipeline will have a transmission capacity of 11.5 billion cubic meters a year.

- 2) The Intergovernmental Agreement between Italy and Algeria for the development of the Galsi Pipeline that will connect Algeria to Italy by way of Sardinia, which was signed by the Algerian Minister of Energy and the Italian Minister of Economic Development. The Galsi project, in which Edison is the main Italian partner, is strategically important because it will increase the reliability of Italy's supply of natural gas. The two governments have agreed to support the efforts of the industrial parties involved in the development of this infrastructure, with the goal of shortening construction time and bringing the pipeline on stream by 2012.

In another significant development that occurred in July 2007, Edison Spa, as allowed by the agreements executed in 2002 and 2003, exercised its call option to purchase a 5% interest in Edipower's share capital held by the Edipower's financial shareholders. The transfer of the shares was completed on July 31, 2007. Subsequently, in January 2008, Edison purchased an additional 5% from Unicredit, thereby increasing its total interest in Edipower to 50%.



# HIGHLIGHTS

## OUR SUSTAINABILITY IN FIGURES

Financial Responsibility <sup>(1)</sup> (in millions of euros)	2006	2007
Net revenues	8,523	8,276
EBITDA	1,536	1,605
EBIT	752	896
Financial expense	246	-
Profit before taxes	559	687
Group interest in net profit	654	497
Capital expenditures and investments in exploration	530	489
Net invested capital	11,146	10,838
Net borrowings	4,256	2,687
Shareholders' equity before minority interest	6,890	8,151
Debt/Equity ratio	0.62	0.33
Total dividend payout	233	268
<b>Social Responsibility<sup>(2)</sup></b>		
Number of Edison employees	2,280	2,360
Number of Edipower employees	1,280	1,200
Total number of training hours per employee	37	40
Number of safety training hours per employee	10	10
Number of Company employee accidents <sup>(3)</sup>	55	24
Accident frequency index for Company employees (No. of accidents per 1,000,000 hours worked)	8.8	3.9
Serious accident index for Company employees (No. of days lost per 1,000 hours worked)	0.10	0.16
Accidents of contractor employees <sup>(4)</sup>	38	29
Accident frequency index for contractor employees (No. of accidents per 1,000,000 hours worked)	6.6	6.3
Serious accident index for contractor employees (No. of days lost per 1,000 hours worked)	1.66	0.27
Occupational safety and health investments and costs (millions of euros)	13.6	13.6
Hours worked by contractor employees	5,713,650	4,596,355
Equivalent full-time contractor employees (1,600 hours a year)	3,571	2,872
Number of environmental and safety audits and reviews at new-construction jobsites	69	56
Number of customers with CRM access	174,000	185,000
Charitable contributions and sponsorships <sup>(5)</sup> (millions of euros)	2	2.7
<b>Environmental Responsibility<sup>(2)</sup></b>		
Level of coverage provided by certified environmental systems – Electric Power Operations – % of locations covered	98	100
CO <sub>2</sub> emissions <sup>(6)</sup> (g/kWh equiv.)	(thermoelectric power plant) 590 (all power plants) 542	(thermoelectric power plant) 578 (all power plants) 531
CO <sub>2</sub> emissions avoided thanks to the use of renewable sources <sup>(6)</sup> (millions of tons)	3.9	3.9
Environmental investments and costs (millions of euros)	35.7	44.5

<sup>(1)</sup> 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 (Edipower at 50%).

<sup>(2)</sup> The data relative to social and environmental issues are those of the Group's core businesses (electric power, natural gas and corporate activities). Unless otherwise specified, the data of Edipower are consolidated at 100%.

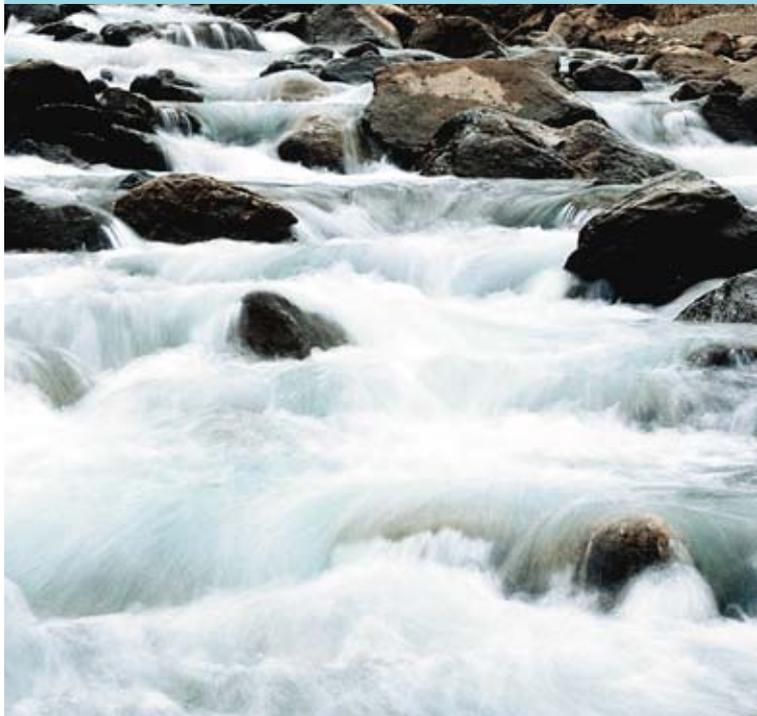
<sup>(3)</sup> More than 1 day lost, excluding in-transit accidents.

<sup>(4)</sup> More than 3 days lost.

<sup>(5)</sup> This amount, which is computed with Edipower consolidated at 100%, does not match the amount used in the Value Added section, which was computed with Edipower consolidated at 50%.

<sup>(6)</sup> Preliminary data.

# OUR RESPONSIBILITY



# OUR VALUES AND OUR CONDUCT

For over 120 years Edison has been working to ensure that Italy has access to the energy it requires and has always honored its commitments to its shareholders, employees, customers, partners and, more in general, its host communities.

Edison has joined the Global Compact and has adopted the GRI/G3 (2006 edition), which is acknowledged internationally as the best practice for dialoguing with stakeholders.

Edison declares that it is between level C+ and B+ compliant with the GRI (Global Reporting Initiative) standard and is aiming to achieve level B in 2008. Additional information is provided in the detailed GRI compliance table available in the Sustainability page of the [www.edison.it](http://www.edison.it) website.

Edison's Mission, Code of Ethics, Company Values and its new Environmental, Safety and Quality Policy are the other key elements that guide the Company's actions and ensure that they are fully consistent with the principles of Corporate Social Responsibility.

The full versions of these documents are available on the [www.edison.it](http://www.edison.it) website.

## 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 provide the foundation for our corporate culture and represent a standard of conduct that all Group employees are required to follow. They 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 improvement
- Confidentiality
- Absence of conflicts of interest
- Safety, occupational health and work conditions
- Equal opportunities
- Professional development

#### C. Commitment to Sustainable Development and Responsible Behavior Toward the Public

- Promotion of sustainable development
- Responsibility toward the public

### Our Values

Edison's values are rooted in the Code of Ethics and guide us in the way we conduct our businesses and interact with others.

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

### Environmental, Safety and Quality Policy

For many years, Edison has pursued excellence in the fields of quality, the environment and safety, striving to continuously improve its performance.

During the first quarter of 2008, the Company published a new Environmental, Safety and Quality Policy. The full text of this Policy has been included in this Report, on page 57.

### Edison and Its Stakeholders

A dialog with the parties with whom we interact for various reasons is something that we pursue on a daily basis using a number of different channels, some official and some more informal, such as a press release, a conference call with financial analysts or a simple telephone call between a Company representative and a customer. In this Report, which in itself is a yearly occasion for communication, we review some corporate developments that, in our opinion, are indicative of our desire to learn the views of our stakeholders and establish an open, ongoing and constructive dialog with them.

## Map of the Company's Stakeholders and Our Commitment 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 at investment banks 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 all 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:** Sales packages, 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 contract 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:** Purchasing

**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 the most sustainable technologies; evaluate in advance the actual and 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 Energy Sources

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

### Host Communities

**Commitments to host communities:** Ensure dialog and cooperation with external counterparts and host 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 B. U., Hydrocarbons B. U., Environmental Protection, Safety and Quality; Business 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 organization:** External Relations and Communications

**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 with those of the European Union; guarantee fairness and transparency.

**Company organization:** Institutional and Regulatory Affairs

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

## Support for the Global Compact

In 2005, by joining the Global Compact, Edison agreed to make specific commitments towards its stakeholders in the area of social responsibility.

The Global Compact, an initiative launched by the United Nations, asks major international companies to uphold and support ten universal principles that cover human rights, labor standards, environmental protection and anti-corruption.

Principles of the Global Compact	Edison's Practices as of 2007
<p><b>1. Businesses should support and respect human rights in the areas under their control.</b></p> <p><b>2. Businesses should make sure that they are not complicit, even indirectly, in human rights abuses.</b></p> <p><b>3. Businesses should uphold the freedom of association and recognize the right to collective bargaining.</b></p> <p><b>4. Businesses should ensure that they do not employ forced or compulsory labor.</b></p> <p><b>5. Businesses should abstain from the use of child labor.</b></p>	<p>Compliance with the laws of each of the countries in which Edison operates and with international conventions on human rights and labor standards. In activities outside Italy, adoption of the contractual conditions for the oil and gas industry that govern labor relations.</p> <p>"Zero risk" environment is the stated goal in the area of occupational health and safety. In Italy, adoption of a management system that complies with the OHSAS 18001 standard.</p> <p>In a pilot project in the Ivory Coast, adoption by the international operations of the "guidelines to define an integrated environmental and safety system" developed by the Hydrocarbons Business Unit.</p> <p>Adoption of procedures for foreign operations to ensure that: a) environmental risks and risks affecting employee health and safety are properly assessed; b) best international practices are followed in addition to complying with local laws; and c) suppliers comply with Company regulations in the area of safety, protection and environmental health.</p> <p>Diffusion of the Code of Ethics among employees working both in Italy and abroad, and among suppliers, sales agents and partners.</p> <p>Special projects: a) support for the Centre de Recherche et Formation sur l'État en Afrique in partnership with the UNDP (United Nations Development Program); b) financial support for 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.</p>
<p><b>6. Businesses should eliminate all forms of discrimination in its hiring and termination policies.</b></p>	<p>Adoption of internal procedures that, consistent with the principles of the Code of Ethics, protect individuals from discrimination of any kind in hiring and professional development. Transparent handling of the processes that apply to early retirement and long-term unemployment programs provided within the context of industrial relations.</p>
<p><b>7. Businesses should support a precautionary approach to environmental challenges.</b></p> <p><b>8. Businesses should undertake initiatives to promote greater environmental responsibility.</b></p> <p><b>9. Businesses should encourage the development and diffusion of environmentally friendly technologies.</b></p>	<p>Adoption in Italy of environmental management systems that comply with ISO 14001/EMAS Regulations at all production locations. In a pilot project in the Ivory Coast, adoption by the international operations of the "guidelines to define an integrated environmental and safety system" developed by the Hydrocarbons Business Unit. Inclusion of technical specifications that include environmental obligations for contractors in all contracts for the supply of technical services in areas of "critical" importance for the environment.</p> <p>Adoption of high-efficiency (combined cycle) technologies that use environmentally friendly natural gas. Supply of energy audit services to customers to reduce energy consumption. Availability of "ecodoc" energy, which is energy certified as being produced exclusively with renewable sources.</p> <p>Research and development projects focused on: technologies for energy generation from renewable sources (biomasses, photovoltaic and thermodynamic solar systems) that have minimum impact on the environment (fuel cells) and technologies for the efficient use of energy.</p> <p>Special projects: a) promotion of energy conservation in partnership with Legambiente; b) support for a program of the Abruzzo, Latium and Molise National Park to protect the Marsican bear and safeguard biodiversity.</p>
<p><b>10. Businesses should promote anti-corruption initiatives.</b></p>	<p>Adoption of the Code of Ethics and the 231 Organizational Model for the Group.</p>

## Tools for Listening to Our Stakeholders and Dialoging with Them

### Eurisko Survey

For the third consecutive year, Edison asked Eurisko, a market research organization, to conduct a new survey of its main reference stakeholders. The purpose of this survey was to assess the quality of its relationships with key counterparts and achieve steady improvement compared with the previous year.

The 2007 survey targeted five categories of key stakeholders: journalists, suppliers, political decision makers, customers and financial analysts. It involved 139 in-depth interviews that covered such topics as their overall opinion of Edison, quality of personal relationships, level of credibility, quality of service, and quantity and transparency of the information supplied by the Company through its various communication channels.

The stakeholders' opinion about the quality of their "personal" relationships with Company counterparts was again excellent at all levels. The same was true for the overall assessment of the services provided by Edison. Specifically, the assessment of the effectiveness in the delivery of services improved compared with previous years, with better ratings for "velocity" and "transparency." The areas that need improvement and to which the Company will devote special attention were identified primarily by customers. They include "credibility" of services and "helpfulness" in relationships. However, the Eurisko survey was conducted during the summer, immediately before the start of the 2007 sales campaign, which included the November launch of Eco3 Business, an innovative package for small and medium-size businesses that provides customers with fixed prices for three years and certified renewable energy.

Lastly, it is highly significant that the survey found that the stakeholders consider the environment and renewable energy sources the areas in which Edison can best distinguish itself from its competitors and where it should continue to focus its efforts in the future.

The findings of Eurisko's annual study were completed by a broader survey of the public at large (2,000 interviews of a representative sample of the adult Italian population), which in 2007 confirmed that name recognition of the Edison brand is continuing to increase. The Company's objective in the mass market is not just to increase its name recognition, but rather to give it a more specific connotation to improve the understanding of the businesses it operates. This is because the public still has a limited understanding of Edison's activities in the integrated range of businesses that comprise its electric power operations and of those that are engaged in hydrocarbon exploration and production. A final significant finding uncovered by these surveys is that the decision to change a supplier of energy is still largely motivated by the rates and the level of service

offered. However, interestingly enough, the third factor that consumers mention as the reason for their choices is the "green commitment" of the supplier, which outweighs by far other considerations that determine customer loyalty.

### Edison Live

In 2007, Edison added to its website new interactive services designed to help shareholders, financial analysts, journalists, customers and any other interested parties better understand Edison, its values and its businesses.

RSS (Really Simple Syndication) makes available to users a series of feeds that can deliver to their desktops press releases, information about events and news about the Company; Edison Widget is a software that supports the RSS feeds; and Podcast can be used to download to an iPod presentations and conference calls with the financial community. Lastly, Alert via SMS is designed to send in real time text-message alerts about significant website updates.

In addition, the interactive versions of financial reports that are available on the website have been improved and now include web versions of the Semiannual Report, the Quarterly Reports, the Sustainability Report and the Analysis of Environmental Performance. An optimized version of the website that enables cellular telephones and latest-generation mobile devices to access essential information about Edison is available online at [www.edisongroup.mobi](http://www.edisongroup.mobi).

Issues concerning sustainability, energy conservation and the environment are discussed online at [www.edison.it/blog](http://www.edison.it/blog), where all stakeholders can interact directly with the Company.

Lastly, [www.edisongroup.eu](http://www.edisongroup.eu), a new address that provides direct access to the English version of the website, serves as the Company's calling card in the "global village" and serves as a tool to explain Edison's strategy of steadily increasing its focus on international expansion.

### Edison's Employees and Sustainability

Involving employees in discussions about sustainability issues and listening to their opinions about our Company's future were important objectives that we achieved in 2007. The Sustainable Development Trophy, an internal contest organized in 2007, provided an opportunity to increase awareness of the importance of sustainability and energy conservation. It also helped promote virtuous behavior in daily habits, while at the same time rewarding the creativity and commitment of the Group's employees.

In another development that was a first for the Company and proved to be extremely valuable in terms of employee involvement, two conventions were held at the end of the year to share the Group's 2007 results with executives and middle managers and present to them the 2008-2013 Industrial Plan. "Many People, One Team: Our Energy." This was the spirit that characterized these events, which

also served as an effective venue for sharing the objectives and strategies for the future.

These conventions also provided an opportunity to assess internally Edison's image profile and the quality of its relationships by comparing the opinions of employees with those of other stakeholders collected in the Eurisko survey. The results were quite interesting: employees provided a harsher assessment of Edison's image profile than external stakeholders, but both internal and external respondents agreed on the importance of environmental issues. Clearly, concern for the environment, which Edison addresses with specific initiatives in the 2008-2013 Industrial Plan, is a priority that reflects the expectations of all of our principal stakeholders.

## Environmental and Social Reporting

Edison was one of the first companies in Italy to publish an environmental report. Since 1994, the report has steadily evolved from covering only environmental issues to providing information about occupational health and safety and, with the publication of the first Sustainability Report in 2004, to presenting the results achieved in every aspect of corporate social responsibility. Since the very beginning, these reports were audited by independent experts who were qualified to provide our stakeholders with an assurance that the information contained in the report was reliable.

The 2007 Sustainability Report was prepared in accordance with the reporting principles and the specific disclosures required by the GRI/G3 Guidelines, 2006 edition, which is a method recognized as a best international practice.

Edison has chosen to follow an incremental approach in adopting the GRI guidelines. When measured in terms of its compliance with GRI requirements, this Sustainability Report rates at an intermediate level between Level C+ and Level B+. More specifically, it provides more than 20 of the indicators listed in the Guidelines and at least one for each subject matter (economic, environment, human rights, labor laws, society and product responsibility indicators). See the Compliance Schedule on page 56.

Edison's Sustainability Report was prepared by the External Relations and Communications Department, working in close collaboration with the Protection, Environment, Safety and Quality Department and with the input of other Departments that contributed to the work of collecting data, contextualizing information and revising the articles.

A Sustainability Report is published every year. It is submitted to the Board of Directors when it reviews the annual financial statements (in February, this year). It is then distributed at the Shareholders' Meeting convened to approve the Annual Report (held in April this year). Shortly thereafter, it is made available to the public on the Company website.

In 2007, we included on our website an online questionnaire to

collect comments and suggestions that our stakeholders may have about the report. We did not receive a significant number of responses and decided to use a different approach. Starting with next year's edition, we will organize focus groups, which will include those stakeholders who have greater interaction with the Company, to discuss openly the strengths and weakness of the Sustainability Report, so that we may steadily improve it and make it increasingly responsive to the expectations of its readers. The 2007 edition reflects two important changes that occurred compared with the previous year: the scope of the Report has changed because it no longer includes some thermoelectric power plants due to the sale of Serene in mid-2007, but Edipower is fully included. The inclusion of Edipower is due to the fact that, in July 2007, Edison exercised the Edipower call options it held vis-à-vis Interbanca Spa and Albojo, two of Edipower's financial shareholders, thereby raising its interest in Edipower from 40% to 45%. Edison's interest in Edipower reached 50% in January 2008 when Unicredit Spa exercised its put option. In light of these developments, Edison believes that it should account fully for Edipower's environmental and social activities. While Edipower's economic and financial data were consolidated at 50%, as required by the accounting principles, its sustainability data and indicators were consolidated at 100% whenever possible.

Insofar as methodology is concerned, the following considerations should be taken into account:

- 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) and, for the sake of consistency with previous years, consolidate at 100% the data of Seledison and Edipower, presenting on a comparable basis the historical series provided in the Report. Edipower will continue to publish a separate Sustainability Report.
- For most quantitative environmental and social information, indicators were used deliberately instead of absolute values in order to show the trend of the performance rather than individual values, which would be of little use and meaning given the change in the scope of the Report.

There have been no significant changes in the method used to process data, except for a few parameters that were adjusted to take into account Edipower's peculiarities. Specific notes have been provided in such cases. The abridged format used to present the material contained in this Report is not intended to hinder transparency or access to additional information, which is provided in the more exhaustive material published on the [www.edison.it](http://www.edison.it) website.

# FINANCIAL RESPONSIBILITY



# FINANCIAL STRENGTH AND STRATEGIES

## The Wealth That We Create

The incremental wealth that Edison creates through its industrial activities is determined by computing the value added that it generates and its distribution among the various stakeholders.

The table that follows 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), taken from the consolidated financial statements. The Annual Report was prepared in consolidated form, in accordance with Consob Regulation No. 11971/99, as amended, applying the valuation criteria set forth in the IAS/IFRSs. The data in the pro forma 2006 and 2007 financial statements are homogeneous (Edipower was consolidated at 50% by the proportional method) and, consequently, are suitable for a year-over-year comparison.

In 2007, Edison retained just 26% of the net overall value added it generated, with the wealth distributed to the stakeholders accounting for the remaining 74%.

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 211.42 million euros (19% of the total).
- Public administration (income taxes), equal to 169.49 million euros (15% of the total). This amount was quite small in 2006.
- Lenders (remuneration of debt capital), equal to 212.52 million euros (19% of the total). The decrease from 2006 reflects a reduction of the Group's overall debt exposure.
- Return on venture capital (dividends), equal to 233 million euros (21% of the total). The amount distributed to shareholders was significantly higher than in the previous year.
- Remuneration of the Company, the amount decreased from 474.37 million euros to 283.22 million euros during the period.
- Host communities (noncommercial sponsorships, community initiatives with 1,86 million euros and charitable contributions with 2,53 million euros), equal to 2.53 million euros (about 0.23% of the total).

## Schedule for the Computation of Total Value Added (in millions of euros)

	2006	2007
<b>A) Production value</b>		
Sales and service revenues	8,489.34	8,246.83
Changes in inventory of work in progress, semifinished goods and finished goods	73.99	(60.19)
Change in contract work in process	(1.00)	0.00
Increase in Company-produced additions to fixed assets	14.44	8.24
Other revenues	775.36	582.57
Total operating revenues	9,532.54	8,777.45
Revenues from nonoperating production (internal building construction)	0.00	0.00
<b>Total production value</b>	<b>9,532.54</b>	<b>8,777.45</b>
<b>B) Intermediate cost of production</b>		
Raw materials and outside services used (P&L items B6 - B7 - B8 - B11 - B14)	7,560.61	6,907.64
Provisions for risks (12)	40.12	15.95
Other provisions (13)	1.98	6.61
<b>Intermediate cost of production</b>	<b>7,602.71</b>	<b>6,930.20</b>
<b>GROSS VALUE ADDED FROM OPERATIONS</b>	<b>1,749.83</b>	<b>1,847.25</b>
<b>C) Extraordinary items and incidentals</b>		
Financial income	0.00	0.00
Other income (expense), net	4.00	1.45
<b>Incidental revenues and expenses</b>	<b>0.00</b>	<b>0.00</b>
<b>Extraordinary income and expense (item E in P&amp;L)</b>	<b>166.27</b>	<b>7.62</b>
<b>TOTAL GROSS VALUE ADDED</b>	<b>1,920.10</b>	<b>1,856.32</b>
Depreciation, amortization and writedowns	803.33	744.15
<b>TOTAL NET VALUE ADDED</b>	<b>1,116.77</b>	<b>1,112.17</b>

## Allocation of Value Added (in millions of euros)

	2006	2007
<b>a) Personnel</b>	203.37	211.41
<b>b) Public Administration</b>	7.07	169.49
<b>c) Remuneration of debt capital (financial expense)</b>	246.31	212.52
<b>d) Remuneration of venture capital</b>	183.00	233.00
<b>e) Remuneration of the Company</b>	474.37	283.22
<b>f) External charitable contributions</b>	0.46	0.67
<b>g) Host communities</b>	2.19	1.86
<b>TOTAL NET VALUE ADDED</b>	<b>1,116.77</b>	<b>1,112.17</b>

## Growth Strategy

The 2008-2013 Industrial Plan calls for significantly faster growth for the Group's investments in renewable energy sources and a major expansion of its international operations, both in the hydrocarbons and electric power areas.

objectives, the Group is planning investments with an aggregate value of about 6.2 billion euros.

The **hydrocarbons** operations will devote special attention to exploration projects in North Africa and other high-potential areas. In the procurement area, Edison's goal is to attain full autonomy for



Over the Plan's period, the Edison Group will seek to strengthen its position as a leading operator in the electric power and hydrocarbon markets, equipping its Italian manufacturing system with flexible and efficient facilities and building infrastructures to import natural gas that will enable it to significantly increase its sales potential and achieve full autonomy in supplying its needs in this area.

The Group will ensure the ongoing growth of its operations by strengthening its activities in the area of renewable sources of energy, developing new electric power generating capacity outside Italy and, more importantly, expanding its hydrocarbon exploration and production businesses. To achieve these

its supply needs and a high degree of flexibility. During the Plan's period, the Group will help bring on line three major infrastructural facilities that will dramatically increase the reliability of Italy's supply sources by diversifying the range of import modalities to include both pipelines and LNG ships.

The Rovigo regasification terminal, the only one currently under construction, will be operational by the end of 2008. This facility, which will have a capacity 8 billion cubic meters of natural gas a year (6.4 billion cubic meters of which will be available to the Group), will be used to import natural gas from Qatar. In 2012, it will be followed by two pipelines (Galsi from Algeria and ITGI from Azerbaijan, by way of Turkey and Greece), each with an annual capacity of 8 billion cubic meters.

With regard to **electric power**, Edison is looking to grow in markets outside Italy and in the area of renewable energy sources. This strategy will help the Group diversify the geographic presence of its electric power assets and its mix of generating facilities.

Edison is currently assessing a number of international growth

opportunities in areas of strategic interest, such as Greece, the Balkans and Turkey. The Plan's projects include the startup of a joint venture with Hellenic Petroleum, to which the partners will contribute a functioning 390-MW power plant currently operated by T-Power, a project for a 420-MW combined-cycle facility in Thisvi and a project currently in the study phase for the construction of a 600-MW coal-fired power plant near Astakos. The Group's interest in expanding in the area of coal fired facilities reflects a desire to diversify its fuel supply portfolio and addresses the need to mitigate the impact of swings in the price of fuels that are indexed to crude oil. These are the same factors that are driving a global trend toward greater use of coal as fuel for electric power generation, particularly now that more efficient technologies

are available. A reduced impact on the environment is currently made possible by a more efficient use of fuel (efficiency of up to about 45%); the new Integrated Gasification Combined Cycle (IGCC) power plants, which burn synthetic gas produced from coal and "clean up" gas emissions; and the Carbon Capture and Storage (CCS) technology. These new developments will enable



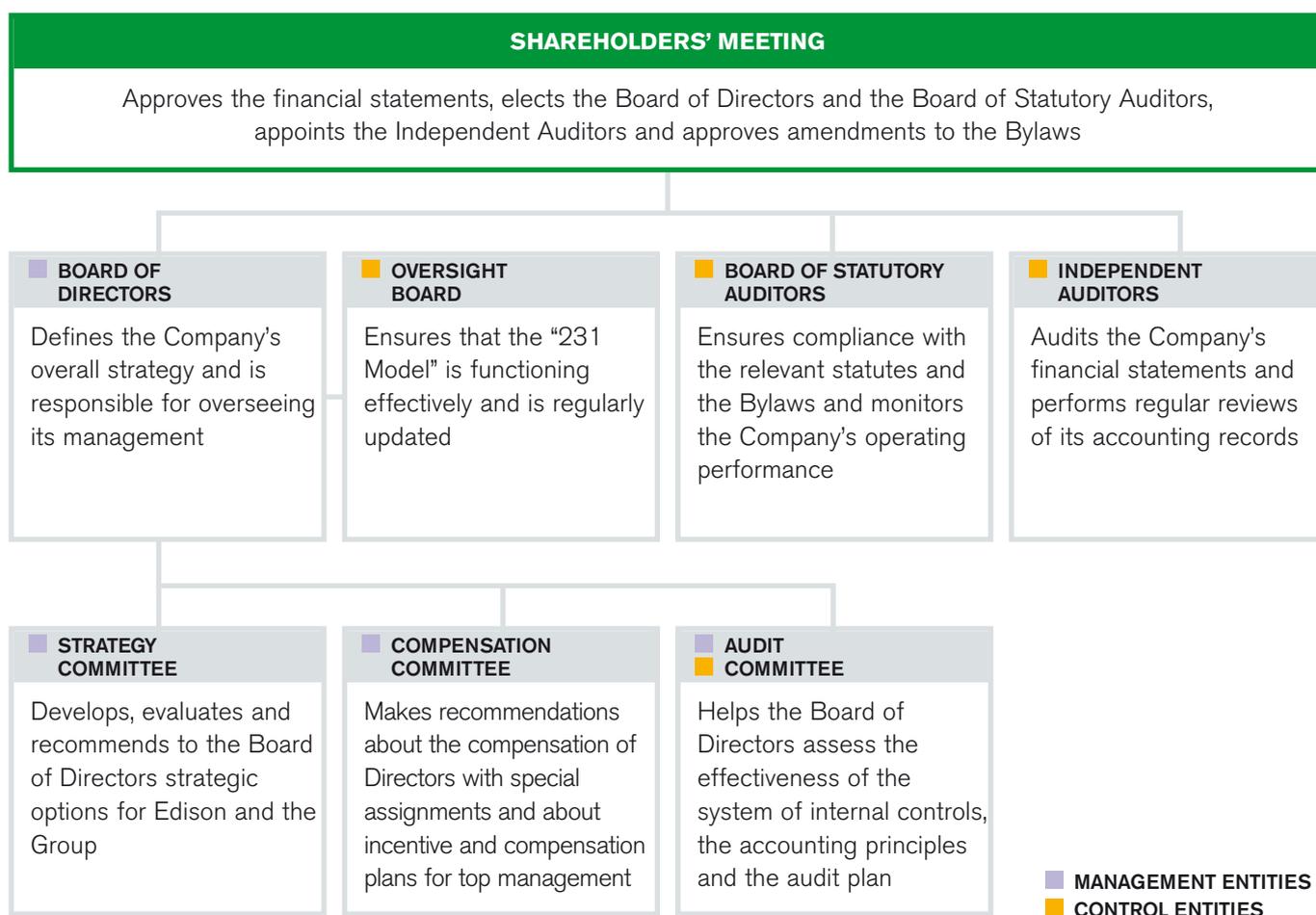
opportunities in areas of strategic interest, such as Greece, the Balkans and Turkey. The Plan's projects include the startup of a joint venture with Hellenic Petroleum, to which the partners will contribute a functioning 390-MW power plant currently operated by T-Power, a project for a 420-MW combined-cycle facility in Thisvi and a project currently in the study phase for the construction of a 600-MW coal-fired power plant near Astakos. The Group's interest in expanding in the area of coal fired facilities reflects a desire to diversify its fuel supply portfolio and addresses the need to mitigate the impact of swings in the price of fuels that are indexed to crude oil. These are the same factors that are driving a global trend toward greater use of coal as fuel for electric power generation, particularly now that more efficient technologies

Edison to achieve a high level of environmental performance and reconcile the use of coal with a sustainable level of emissions.

While no technology can provide by itself optimum solutions for minimizing the impact of climate change, the Group's strategy is to focus aggressively on the use of renewable energy sources. Edison intends to play a leading role in this area to which it has allocated capital investments of about 1 billion euros. More specifically, the installed capacity of the Group's wind farms will double and a major effort will be devoted to the development of photovoltaic and biomass power plants with a generating capacity of about 65 Megawatts. Overall, the installed capacity of Group facilities that use renewable energy sources will amount to about 2,700 Megawatts.

## System of Corporate Governance

### Corporate Governance Organization



Consistent with international practice, the corporate governance organization adopted by the Company complies with the principles and implementation criteria promoted by the Code of Conduct published by Borsa Italiana. Edison's corporate governance structure (see diagram above) includes the following: the Shareholders' Meeting, a Board of Directors supported by consulting committees (Audit Committee, Compensation Committee and Strategy Committee), a Board of statutory Auditors and the Independent Auditors. The Company's corporate governance structure also includes a system of internal controls, the Company's Code of Ethics and the procedures for allocating and delegating authority.

**Board of Directors:** In 2007, the Board of Directors met nine times. The average attendance of Directors at Board meetings

was 92.59%. The average attendance of Statutory Auditors at Board meetings was 85.19%. In 2007, the Board of Directors conducted for the first time a self assessment process, which was handled by the independent Directors with the support of the Secretary to the Board of Directors.

**Strategy Committee:** In 2007, the Committee met five times, focusing on studying strategic issues related to the planning cycle, reviewing and discussing the Budget and Business Plan and evaluating the Company's principal investments and strategic projects, the Group's international expansion strategy, projects to dispose of assets or transfer/reallocate equity investments and significant issues pertaining to the preparation of financial statements. The average attendance of Directors at Committee meetings was 95%.

**Compensation Committee:** In 2007, the Compensation Committee met five times. On those occasions, it defined the objectives the achievement of which will be tied to the variable portion of the compensation payable to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer in 2007 and verified whether the objectives set for 2006 had been achieved. In addition, it developed a proposal for a long-term bonus for the Chief Executive Officer, key executives and some high potential professionals who serve in important positions. In the case of senior managers, the long-term bonus would provide an alternative to the stock option plan used in the past. Both proposals were reviewed and approved by the Board of Directors. The average attendance of Directors at Committee meetings was 100%.

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

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

This Committee reported twice to the Board of Directors about the work it performed and the adequacy and functionality of the system of internal controls. The average attendance of Directors at Committee meetings was 95%.

### Elements of the Control Environment

- **Code of Ethics** – In September 2003, Edison approved a Code of Ethics that is consistent with best international practices. The Code, which defines the principles and values that are the foundation of corporate ethics and the rules of conduct that derive from them, is an integral part of the Organizational, Management and Control Model that has been implemented to shield the Company from administrative liability pursuant to Legislative Decree No. 231/2001.
- **Antitrust Code** – The Company has adopted an Antitrust Code.

- **Organizational Structure** – The Group's overall organizational structure is defined by a set of Organizational Memoranda issued by the Chief Executive Officer consistent with the corporate governance model. These Memoranda identify the managers who are responsible for the various departments and Business Units. In turn, the managers who are responsible for the various departments and Business Units develop similar Organizational Memoranda, which, once they are published following a review by the CEO, define the Group's organization at the operational level. The Board of Directors is informed on a regular basis of any organizational changes.
- **Delegations of Power and Authority** – Executive powers are conveyed to managers through general or special powers of attorney that convey powers commensurate with their management responsibilities.

**Disclosure of Accounting and Financial Information** – In 2006, following the enactment of Law 262/2005 on the protection of investments, Edison launched a project designed to revise, where necessary, the accounting procedures that the Group uses to prepare financial disclosures, define the governance rules of the accounting model it was adopting, establish the rules that would be applied on an ongoing basis for the purpose of assessing and certifying at regular intervals that the adopted model was adequate and operated effectively, and assign the respective responsibilities within its organization. Additional information is provided in the section of this Report entitled "Accounting Control System and Corporate Accounting Documents Officer."

**Insider Information** – In 2006, the procedures that govern the internal handling and external communication of insider information were updated to make them compliant with the new regulations set forth in the EU Directive on market abuse. This new procedure, is an integral part of the Organizational Model adopted pursuant to Legislative Decree No. 231/2001.

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

**Interests of Directors and Transactions with Related Parties** – Consistent with the recommendations of the Code of Conduct, the Board of Directors adopted a Group procedure,

revised in 2007, that governs transactions between Edison and all related parties and applies to the Chief Executive Officer as well. The abovementioned procedure defines the following: the criteria to identify transactions with significant parties and related parties; the general rules and the principles of conduct that apply to such transactions; the types of transactions that require the prior approval of the Board of Directors and the rules governing the approval of such transactions; and the obligations to report to the Board of Directors, providing information also on transactions that did not require the Board's prior approval. The abovementioned procedure regulates in detail the position of Directors who may have an interest, albeit potential or indirect, in a transaction with a related party submitted to the Board of Directors.

### Board of Statutory Auditors

In 2007, the Board of Statutory Auditors met eight times. The average attendance of the Statutory Auditors at these meetings was 87.50%. In addition, the Statutory Auditors joined meetings of the Board of Directors with an average attendance of 85.19%. A Statutory Auditor, usually the Chairman of the Board of Statutory Auditors, also attended meetings of the Compensation Committee and the Oversight Board.

The exchange of information between the Board of Statutory Auditors and the Audit Committee takes place through the regular attendance to Committee meetings by a Statutory Auditor. A representative of the Independent auditors is invited at meetings of the Board of Statutory Auditors to report on the findings of their audits.

## Structure of the Board of Directors and Board Committees

### Board of Directors

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

### Number of

**meetings held in 2007** Board of Directors: 9 Audit Committee: 5 Compensation Committee: 5 Strategy Committee: 5

### Quorum required to file minority slates for the election of one Director:

1% of the shares that convey the right to vote at the Ordinary Shareholders' Meeting.

\* An asterisk indicates whether a Director was designated through a slate filed by minority shareholders.

\*\* This column shows the attendance percentages of Directors at meetings of the Board of Directors and Committees, respectively.

\*\*\* This column shows the number of other companies with shares traded in regulated markets in Italy or abroad, as well as financial, banking or insurance companies or companies of significant size of which the party in question is a Director or Statutory Auditor. In the Corporate Governance Report, these positions are listed in detail.

\*\*\*\* An "X" marked in this column indicates that the listed Director is a member of the applicable Committee.

(a) Chief Financial Officer until November 8, 2007.

(b) Director who meets the independence requirements of Article 148, Section 3, of the Uniform Financial Code and Principle No. 3 of the Code of Conduct.



### Structure of the Board of Statutory Auditors

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

**Number of meetings held in 2007: 8**

#### Quorum required to file minority slates for the election of one Statutory Auditor:

1% of the shares conveying the right to vote at Regular Shareholders' Meetings

\* An asterisk indicates whether a Statutory Auditor was designated through a slate filed by minority shareholders.

\*\* This column shows the number of other companies with shares traded in regulated markets in Italy or abroad, as well as financial, banking or insurance companies or companies of significant size, of which the party in question is a Director or Statutory Auditor. In the Corporate Governance Report, these positions are listed in detail.

### 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 and safeguard the value of its assets from any impairment that may result from the impact of risks inherent in its business activities.

More specifically, the risk entailed by fluctuations in the price of energy commodities is managed at the headquarters level by means of a netting process applied to the Group's total portfolio exposure, which is monitored against a risk ceiling, stated in terms of economic capital, which is approved annually by the Board of Directors taking into account the expected level of profitability.

The Risk Committee meets at least once a month to review the Group's overall level of exposure compared with the approved risk ceiling and decides which corrective action should be taken whenever the ceiling is exceeded, consistent with the Energy Risk Policy. This document has been designed to help the Group

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.

In addition, the Board of Directors reviews the map of non-market risks, as identified through the Enterprise Risk Management process in relation to the achievement of the Plan's objectives, and considers possible hedging actions.

### Financial Position

Even though the Group continued to implement significant capital investment programs, it reduced its indebtedness almost in half in 2007, cutting it from 4,256 million euros at December 31, 2006 to 2,687 million euros at the end of 2007.

The debt/equity ratio, which improved from 0.62 at the end of 2006 to a very comfortable 0.33 at December 31, 2007, is one of the best among international energy companies.

Currently, the Group's debt structure includes two bond issues totaling 1,200 million euros, of which 700 million euros are due in

2010 and 500 million euros are due in 2011. Indebtedness owed to banks and other lenders totaled 1,822 million euros at December 31, 2007. Cash and cash equivalent assets, which consist exclusively of short-term bank deposits, amounted to 437 million euros.

### **Transparency and Timeliness in Financial Communications**

The principles that guide Edison's investor relations activity include maintaining an ongoing dialog with the financial community and providing transparent, prompt and equal access to information, in compliance with the rules and regulations that govern the handling of insider and confidential information.

Direct communication activities followed their established calendar for the presentation of financial results and the strategic plan: four conference calls with the financial community to announce year-end, semiannual and quarterly results, plus a fifth conference call at the end of the year to discuss the 2008-2013 Industrial Plan. Edison also held large-scale meetings, attended utility industry conferences organized by brokers to present companies to

institutional investors and continued to schedule one-on-one meetings with top management. In addition, early in 2007, the Group presented its Industrial Plan at road shows held in Milan, Zurich, London, Paris and Geneva.

In addition, Edison maintains an ongoing dialog with the main rating agencies, offering specific information in connection with special events that could have a material impact on the Group's financial position.

Lastly, the annual Management Review, provided an opportunity for the rating agencies to meet with Edison's top managements and reassess the Company's credit rating.

All relevant documents are published on the [www.edison.it](http://www.edison.it) website, which was enhanced in 2007 and now provides access to interactive versions of financial reports (Annual Report, Semiannual Report and Quarterly Reports) and services that deliver material Company information directly to desktops or cellular telephones of interested users or make them available for downloading to iPods.

The documents available on the website also include an overview of the main legal and tax disputes to which the Company is a



party, which are listed in detail in the notes to the consolidated financial statements.

Hallvarsson&Hallvarsson, a Swedish company with a leadership position in the area of financial communications that assesses each year the financial information that companies provide on the Internet, certified that there was a significant improvement in Edison's website, to which it assigned a score that, in absolute terms, was better than in 2006. Nevertheless, while still achieving a "podium finish," Edison slipped from second to third place among Italian companies ranked for the management of financial information and the provision of related services on the Internet.

### Rating

		2005	2006	2007
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	Positive
Moody's	Rating	Baa2	Baa2	Baa2
	Medium/Long-term outlook	Stable	Stable	Stable

### Assessment by the Rating Agencies

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

Moody's Investors Services has not changed the previous year's rating because it has not yet published a final report with the conclusions of its review.



# ENVIRONMENTAL RESPONSIBILITY



# FOCUS ON THE ENVIRONMENT

## Environmental Performance

Since its inception, Edison has sought to continuously improve its environmental performance, by researching and using materials and technologies that have a limited impact on the environment and by interacting and cooperating with other parties.

There have been many achievements over the years: we were the first in Italy to use a technology that delivers the highest level of efficiency with the lowest impact on the environment, building combined-cycle power plants fired with natural gas; one of our facilities, the CET 3 unit in Taranto, was the first power plant in the world to use on an industrial scale a combined-cycle system fired with recycled gas recovered from an adjacent steel mill; and in 1996 we commissioned our first wind farm at Casone Romano, a location in the municipality of Castelnuovo della Daunia, in the province of Foggia.

But there is more: the Bussi power plant was the first in Italy to receive environmental certification in accordance with the UNI EN ISO 14001 standard, the Sarmato facility was the first power plant to earn an EMAS environmental registration and Edison Energie Speciali (wind energy generation) was the first organization to be awarded an EMAS multi-site registration. The adoption of environmental management systems provided the tools for the practical implementation of Edison's environmental policy and paved the way for a voluntary improvement of the Company's performance beyond mere compliance with regulatory requirements. After securing certification for virtually all of its locations, the Group proceeded to structure integrated management systems that address issues related to the environment (UNI EN ISO 14001 Standard and EMAS Regulation No. 761/2001), health and safety (BSI OHSAS 18001) and quality (UNI EN ISO 9001 Standard) for entire key corporate organizations. We are convinced that this approach has enabled us to make significant progress in integrating environmental and safety considerations in how we manage our operations and make our decisions. The way we communicate our environmental performance is guided by the same continuous improvement approach. The documents we have been publishing since 1994 – the Environmental and Safety Report, forerunner of the current Sustainability Report, and the web page with the Analysis of Environmental Performance – provide detailed information about our performance. Production units that have received EMAS registration disclose information by publishing Environmental Statements that list all key environmental data, information about the management systems they use, their improvement objectives and the results produced by the programs they implemented.

## Management Systems

Today, Edison represents the standard of excellence in Italy, having achieved 100% certification coverage for the Environmental and Safety Management Systems used at the locations operated by its Electric Power Business Unit.

This objective was achieved in 2007, when the Acerra power plant, which is part of Thermoelectric Division 2, was certified pursuant to the UNI EN ISO 14001 standard. In addition, EMAS registration was extended to the entire Hydroelectric Division, which already held registrations for its individual hubs, and the Staff and Technical Services Departments, which were already certified in accordance with the ISO 9001 quality standard, received environmental and safety certification pursuant to the UNI EN ISO 14001 and BSI OHSAS 18001 standards.

Edipower's hydroelectric hubs in Mese and Tusciano received environmental certification in accordance with EMAS Regulations, and the EMAS Committee continued its review of the paperwork filed to obtain EMAS registration for the Udine hydroelectric hub.

Within the Hydrocarbons Business Unit, the oil and gas operations completed the development of Health, Safety & Environment (HSE) guidelines for the definition of an integrated environmental and safety system that can be used in projects both in Italy and abroad. Within this project, the environmental impact of well drilling received special attention. In the summer of 2007, an initial pilot implementation was carried out in connection with exploration projects in the Ivory Coast. In addition, the multi-site, integrated environmental and safety certification currently held by the Sambuceto Operating District was extended to the S. Stefano location.

After the intense schedule that characterized 2006 due to the enactment of the Uniform Environmental Code, training provided on environmental issues totaled more than 4,000 hours in 2007, a level consistent with the average for previous years.

## The Audit Process

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. The role of the audit process within Edison's management systems is of fundamental importance for the continuous improvement of environmental performance and management practices. This development has helped reduce the number of audits while permitting more detailed analyses. The audit process is completed by reviews carried out by certification agencies, which in 2007 performed 25 such audits.

## Audits of Environmental and Safety Management Systems

	2006	2007
Total audits	173	167
Internal audits		
Level 1 audits	98	92
Level 2 audits	75	75

### Extraordinary Events That Had an Environmental Impact

Four unintended events that had an environmental impact occurred in 2007. However, these events had a modest environmental impact and did not affect employee health. They affected mainly facilities of the electric power operations: At the Taranto facility, the maximum threshold of CO<sub>2</sub> concentration was temporarily exceeded due to a leak from the adjacent ILVA steel mill; at Simeri Crichi, two small fires, which were immediately put out, caused limited damage to materials and structures; at the Piombino power plant, an incorrect maneuver while unloading chemicals caused a tank containing peroxide water to break. In response to this “avoided environmental accident,” the Company implemented all of the actions that were necessary to prevent the recurrence of such events, which included revising the existing procedures and planning special training courses. The only event that affected the hydrocarbons operations occurred at the Garguso natural gas production and treatment facility, where some of the process fluid was accidentally spilled on the ground. Soil tests of the area, which was promptly sealed off, showed that none of the statutory limits were exceeded.

### Key Environmental Issues

Atmospheric emissions, waste generation and usage of resources are the most significant environmental issues that affect the group’s operations.

In this section of the Report, we provide preliminary data and indicators for the main parameters that show how the Group’s environmental performance has been steadily trending upward, based on a series of historical data for the last five years.

Once they are certified, the official data for 2007 will be available together with additional information in the Analysis of

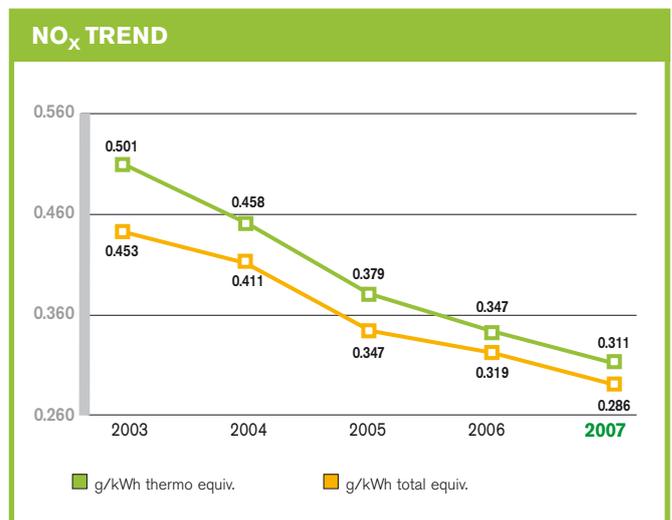
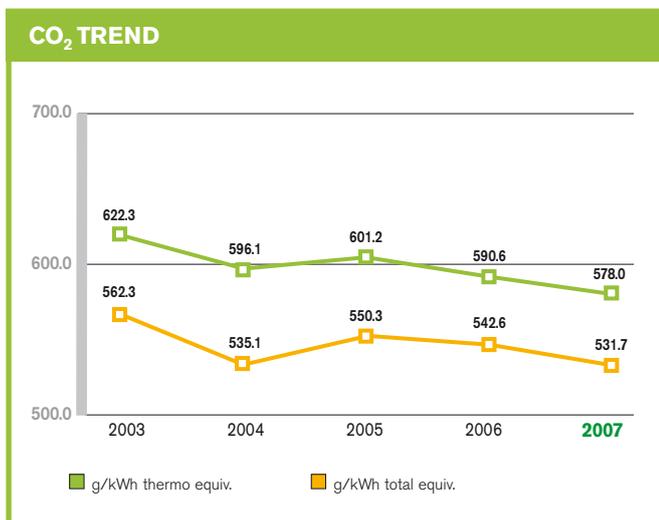
Environmental Performance that will be published in the Sustainability section of the [www.edison.it](http://www.edison.it) website.

### Atmospheric Emissions

Combined-cycle technology has a higher yield (greater than 56%, compared with 37% for conventional power plants). Because it uses natural gas, it produces negligible emissions of particulate matter and sulfur oxides, and emissions of nitrogen oxides can be drastically reduced by using DLN (Dry Low NO<sub>x</sub>) combustion systems. In addition, the use of natural gas instead of other fossil fuels helps cut CO<sub>2</sub> emissions by a significant amount.

Following the acquisition of six power plants from Enel in 2002, Edipower carried out a massive program to convert its thermoelectric facilities to combined-cycle technology and to natural gas as fuel, while improving their environmental performance through the installation of emissions reduction equipment.

In 2007, even though Edison significantly increased production, total CO<sub>2</sub> emissions decreased. This achievement was made possible by the combined effect of commissioning new, latest-generation facilities, while selling low efficiency power plants. This new configuration of the Company’s thermoelectric power plants, coupled with an effective maintenance program, contributed to the improvement of the CO<sub>2</sub> emissions indicator. It is worth noting that this indicator is affected to a significant extent by the high CO<sub>2</sub> content of the recycled steel-mill gases used by Edison power plants in Piombino and Taranto. However, the use of this fuel produces significant energy savings and, consequently, an environmental benefit because steel mill gases that are not used to produce electric power would be released directly into the atmosphere.



Between 2003 and 2007, the trend of the indicators that measure emissions of nitrogen oxides (NO<sub>x</sub>) and sulfur oxides (SO<sub>x</sub>) released into the atmosphere by the Group's thermoelectric power plants declined steadily thanks to the completion of scheduled programs to improve their environmental performance and the regular use of the best emission reduction technologies available.

In the area of natural gas distribution through medium and low pressure pipelines, the data show that while the mileage of distribution pipelines increased, as did the number of inspections, there were fewer leaks than in 2006. Despite this, the total cubic meters of natural gas released into the atmosphere was higher than the previous year because there were more leaks in the medium pressure pipelines.

	2007	2006
Leaks (10 <sup>6</sup> m <sup>3</sup> )	1,684	1,179
Number of leaks	1,902	2,050
Pipelines inspected (km)	1,924	1,686
Total pipelines (km)	3,363	3,221

### Avoided CO<sub>2</sub> Emissions

Edison's unwavering commitment to reducing the environmental impact of its facilities produced positive results in terms of specific atmospheric emissions, which are emissions per kilowatt hour produced.

Most importantly, by using renewable source of energy (hydroelectric and wind power) to produce slightly more than 8% of the electric power it produces, the Group avoided more than 3.9 million tons of CO<sub>2</sub> emissions in 2007. Avoided emissions

data can vary widely from one year to the next due to the strong impact that changes in weather and climate conditions can have on hydroelectric and wind power production.

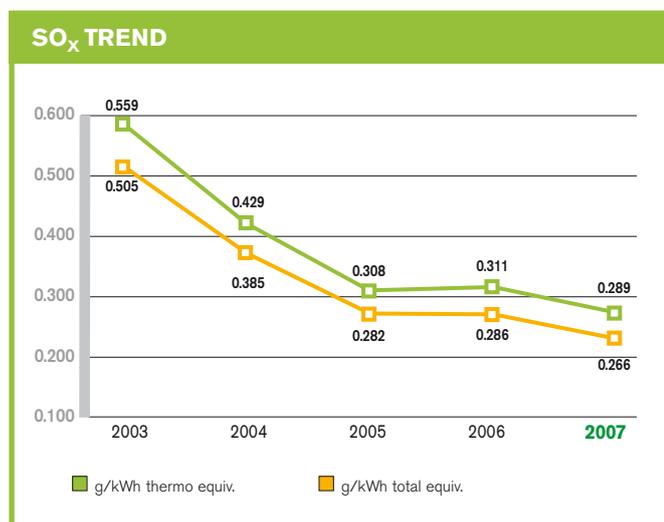
### Waste

The waste generated by the Group's facilities is managed in accordance with special internal procedures that comply with current regulations and are consistent with best industry practices. Effective management and constant attention to this issue have enabled the Group to maintain its recovery percentage at 78% during the 2002-2006 five-year period, when waste generation averaged 151,000 tons a year.

### Environmental Investments and Costs

Environmental outlays have been increasing steadily over the last three years, rising to more than 44 million euros in 2007. The resources that are included in the Group's environmental accounting are only those used for projects devoted to protecting the environment. Accordingly, the data provided in the corresponding table do not include resources used for projects that, while beneficial for the environment, are designed primarily to address other needs, such as increasing the efficiency of production facilities or reducing the use of natural resources. Excluded expenses also include fees paid for licenses to divert water flows to hydroelectric power plants and to draw water from wells and canals, and similar charges, which totaled about 9 million euros in 2007.

The main capital investments of 2007 included water management projects carried out at the Rospo Mare offshore location (Edison's hydrocarbons operations), where skids for the





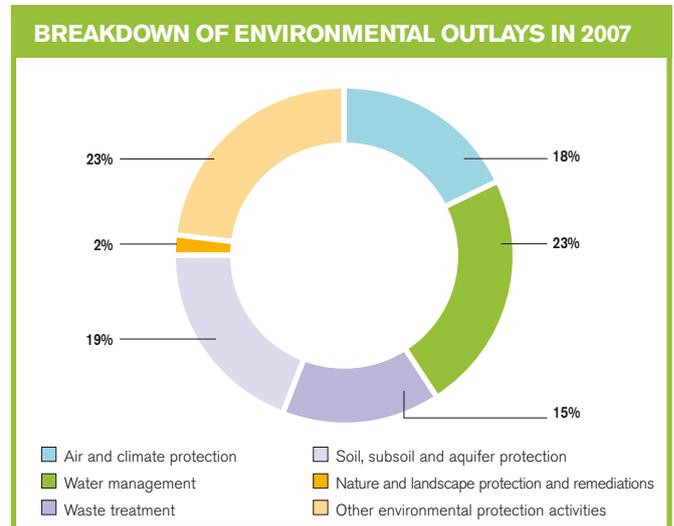
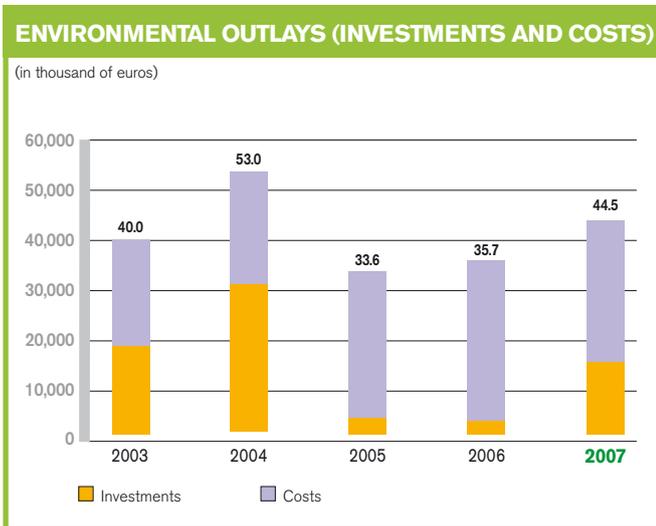
collection on the platform of drainage and oil were installed, and at the Turbigo thermoelectric power plant (Edipower's electric power operations), where the entire sewer system was overhauled. Other projects involved upgrading Edison's thermoelectric power plants to make them compliant with the air and water protection requirements of Law No. 152/06. The costs incurred for the remediation of industrial sites account for the lion's share of the soil, subsoil and aquifer protection budget. One of the most significant projects completed in 2007 in this area focused on environmental remediation and asbestos removal at the Marghera site. Also in 2007, work on the characterization, remediation and safety assurance of nine industrial sites continued concurrently with the filing of the required paperwork with the relevant public authorities. Other projects completed in 2007 included remediation work at the Piombino (CET1) and Porto Empedocle locations and on a section of the Massa site.

### Climate Change and Emissions Trading

Climate change is one of the most difficult challenges that we will be facing in the coming years and companies in the energy industry are being asked to make a special effort. The Group has agreed to purchase CO<sub>2</sub> reduction credits from projects that involve mainly renewable sources in developing countries or countries with transitional economies and has invested in the EDF Carbon Fund.

Using the flexible mechanisms of the Kyoto Protocol – Clean Development Mechanism (CDM) and Joint Implementation (JI) – Edison supports the financial viability of projects that reduce CO<sub>2</sub> emissions globally in compliance with strict internal guidelines also with regard to social issues.

Moreover, this strategy can be used to optimize the purchases portfolio for compliance purposes, taking into account the limit on the use of Certified Emission Reduction/Emission Reduction





Units (CERs/ERUs) versus the EU Allowance Unit (EUA), while helping increase the development of sustainability projects.

## Renewable Energy Sources

The Group, which has been involved in hydroelectric power generation since 1898, has an installed capacity in excess of 1,800 MW. Its 28 wind farms have an aggregate generating capacity of more than 270 MW, an amount currently equal to Italy's total installed capacity.

In the near future, the Group will continue to be a leading player in the production of energy from such renewable sources as water, the sun, the wind and biomasses. More specifically, the Industrial Plan calls for investments of about 1 billion euros in this area with the goal of achieving by Plan's end a renewable-source based installed capacity of about 2,700 MW at facilities in Italy and abroad.

In the wind power area, installed capacity will rise to 620 MW. Two new wind farms with a total capacity of 80 MW, which are currently being built at Lucito, in the Molise region, and at Melissa Strongoli, in the Calabria region, will be commissioned in late 2008 or early 2009. Also in 2007, the Services Conference gave final approval for the construction of a new wind farm at Mistretta, in Sicily, allowing the expansion into new regions of Italy to continue in accordance with the Industrial Plan. In addition, the Group is exploring new opportunities for greenfield development in Romania.

The Industrial Plan also calls for a major effort to develop photovoltaic and biomass facilities, setting a target of 65 MW. A 3.3 MW photovoltaic system is currently being built next to an existing thermoelectric power plant at Altomonte, in the Calabria region, and should be completed in the fall of 2008. The Plan also includes a renewed commitment to complete in 2008 and 2009 the repowering of the Castellavazzo (BL) wood biomass facility. Projects in the hydroelectric area will focus on increasing the capacity of the existing facilities, which will result in the production of additional green certificates.

## Projections of Edison Installed Capacity from Renewable Sources in 2013

Type of production	Planned installed capacity (MW)
Wind power	620
Hydroelectric	2,015
Biomass	50
Solar photovoltaic	15

## Special Projects Rated "Excellent" for Energy Efficiency

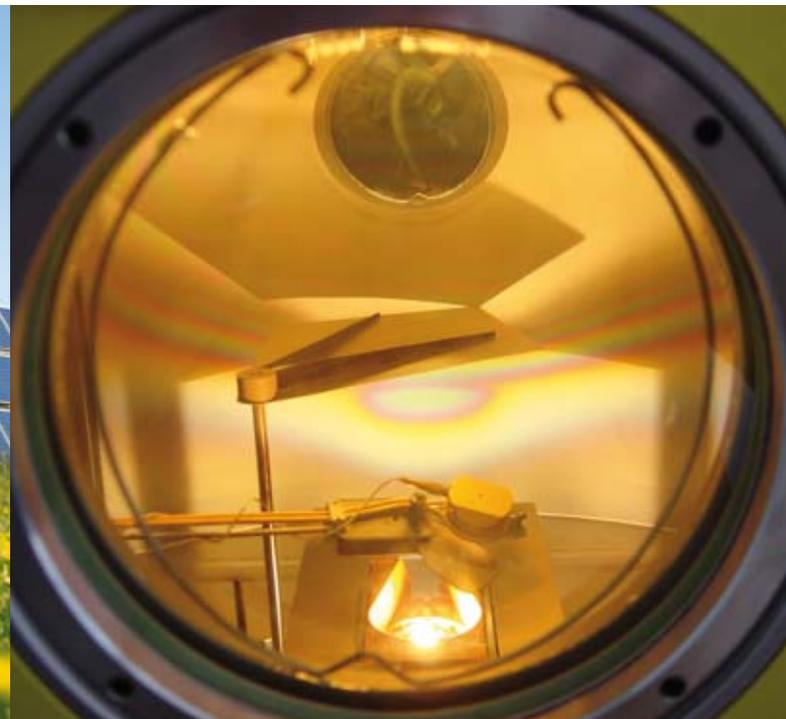
In the area of energy efficiency, some of the Group's facilities provide new instances of excellence, alongside other Edison achievements in improving the yield of its generating facilities and in providing customers with consumption optimization services. The heat generated by Edison's 400-MW Candela power plant is used to control the temperature of greenhouses covering about 150 acres built by a major floricultural producer with whom Edison signed a special agreement. As a result, the system's efficiency is increased to more than 70%. Thanks to cogeneration technology, there is no need to produce thermal energy, thereby avoiding the emission of 165,000 tons of CO<sub>2</sub> a year, and the flowers are expected to absorb 30,000 tons of CO<sub>2</sub> a year as they grow.

For a number of years, cogenerating power plants in Sesto San Giovanni and Cologno, in the province of Milan, have supplied district heating systems in these two cities in Lombardy. Heating residential buildings with hot water generated by the power plant increases the system's overall efficiency and eliminates the need to burn additional fuel, thereby removing about 42,000 tons of CO<sub>2</sub> a year from the national emissions total. In addition, the Sistemi di Energia Spa affiliate is building a 25 MW cogenerating power plant combined with a district heating system that will supply electric power and heat to Rome's Fiumicino Airport. The avoided CO<sub>2</sub> emissions attributable to these facilities will help reduce Italy's total CO<sub>2</sub> emissions by about 22,000 tons a year.

## Research and Innovation for the Environment

It is universally acknowledged that research and innovation are indispensable tools to achieve the goal of combining economic development with respect for the environment. This is particularly true in the energy business, which, over a relatively short time, has witnessed a radical change in the reference technology

The Research Department contributes to the Group's innovation efforts by working synergistically with other Edison organizations in a wide spectrum of activities that range from providing monitoring services, conducting feasibility studies, building pilot plants and developing proprietary technologies. Research and development focused on the following areas in 2007:



scenario, driven in part by a growing and increasingly widespread concern for the environment that has resulted, both at the EU and national level, in the adoption of extremely challenging standards and goals.

Edison uses the best and most innovative technologies in all of its activities, not just in the generation and distribution of energy, but also by encouraging its customers to adopt technological solutions that, by making an efficient use of energy, contribute to the achievement of common environmental goals.

To develop its research projects and provide technological support to its most highly innovative activities, Edison uses a dedicated Research and Development Department that uses as its main operational facility the Trofarello (TO) Research Center, which was inaugurated in 1993.

- Generation technologies based on renewable sources, such as biomasses and solar energy, including both photovoltaic and thermodynamic solar systems;
- Generation technologies with extremely low environmental impact, such as solid oxide fuel cells that use natural gas;
- Technologies for an efficient use of energy, including software to analyze consumption and options in high-efficiency distributed generation systems.

**Hydrogen and Fuel Cells** – Research on fuel cells is handled by a dedicated laboratory at the Edison Research Center. This work, which also involves EU projects, is carried out in cooperation with EDF's research organization, the EIFER Institute in Karlsruhe (Germany), the Chemistry and Energetics Departments of Turin's Politecnico University and the Industrial Chemistry Department of Milan's Politecnico University.

A first set of tests of a 5-kW fuel-cell generator developed in the United States by Acumentrics that is fueled directly with natural gas was completed in 2007.

Because they are extremely efficient, small and operate quietly, these cogenerating systems could make it possible to bring distributed power generation to homes and offices, with obvious benefits for the environment thanks to a reduced need for

efficiency that could not be reached with conventional materials. Also in this area, Edison is collaborating with ENEA, an institution based in Frascati, on a feasibility study of an engine/generator based on components manufactured with Edison technology.

**Energy Storage** – New research carried out on the efficient use of energy included monitoring and testing innovative, large-scale



transmission and distribution infrastructures and lower consumption of primary energy.

**Solar Power** – Edison's Research Department is working on the development of advanced photovoltaic systems with third-generation cells, which can achieve an efficiency rating greater than 30%. A project for a pilot module has already been developed and tests have been scheduled for 2008.

**Innovative Materials** – Issues related to materials science affect all energy innovation projects. In this area, the work carried out by Edison's Research Department on superconductors, focusing in particular on technologies for the production of magnesium diboride superconductors, is highly significant. The use of superconducting materials in electrical systems could provide major benefits for the environment by making it possible to achieve levels of energy

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

Other projects carried out in 2007 included studies on the capture and sequestration of carbon dioxide generated by power plants, energy efficiency by end users and biomasses. Biomass research was carried out with the support of Milan's University (Agricultural Engineering Department) and the National Academy of Forestry Science. Lastly, collaboration with EDF's research organization continued in 2007 with the goal of developing technological synergies that leverage the respective research competencies.

# SOCIAL RESPONSIBILITY



# SAFETY

## Maximum Commitment to Safety

Occupational health and safety have always been core concerns for everyone at the Edison Group because of the fundamental role they play in guaranteeing the respect and protection of all workers, whether they are Company employees or work for contractors. The goal of the prevention and protection measures adopted by the Group is a “zero risk” environment, which is achieved by going beyond merely maintaining compliance with statutory requirements and promoting continuous improvement and a culture of safety at all levels within the Group.

In this area, Edison has always relied on its ability to involve the entire corporate organization, making sure that all employees participate in the effort to attain the goal of zero accidents, an objective that, while statistically difficult to achieve, represents a moral imperative that must never be far from our mind. A commitment to personal and shared responsibility is emphasized every year at the annual convention on “Environment, Safety and Quality”. On this occasion, Edison’s top management and representative of all of the departments directly involved in managing health and safety programs (Personnel, Engineering, Purchasing, Hydrocarbons Business Unit, Electric Power Business Unit, Renewable Sources, etc.) discuss openly and in depth the results achieved and set targets for the future.

At these meetings, which are attended by a large number of employees, awards are handed out to the winners of the “Target: Zero Risk” contest, which has been held for 11 years and encourages the involvement of employees and their families in areas related to occupational health and safety.

## The Health and Safety of Our Employees

In 2007, occupational safety data for Group employees show that the accident frequency index improved significantly compared with 2006: accidents with more than one day lost totaled 11 at Edison (down from 19 in 2006) and 13 at Edipower. In 2006,

the high accident frequency index was due to an accidental leak of chlorine gas that temporarily affected 24 employees at Edipower’s power plant in S. Filippo del Mela.

An analysis of the seriousness of the accidents suffered by Group employees shows a slight deterioration in the trend compared with 2006, which is the result of a serious accident that affected an employee in the Valtellina Region of Edison’s Hydroelectric Division.

## Occupational Accidents for Company Employees in 2007

	2006	2007
Number of accidents*	55	24
Number of days lost	611	960
Number of hours worked	6,247,541	6,160,516
Accident frequency index (Fi)	8.8	3.9
Serious accident index (SAi)	0.10	0.16

\* >1 day lost, excluding in-transit accidents.

## Occupational Accidents for Contractor Employees in 2007

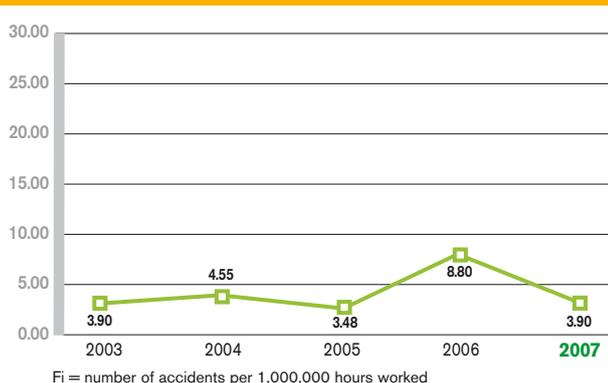
Occupational safety improved for contractor employees as well, compared with the previous year, in terms both of accident frequency and accident seriousness, confirming the effectiveness of the measures implemented to prevent accidents.

	2006	2007
Number of accidents*	38	29
Number of days lost	9,505	1,221
Number of hours worked	5,713,650	4,596,355
Accident frequency index (Fi)	6.65	6.31
Serious accident index (SAi)	1.66	0.27

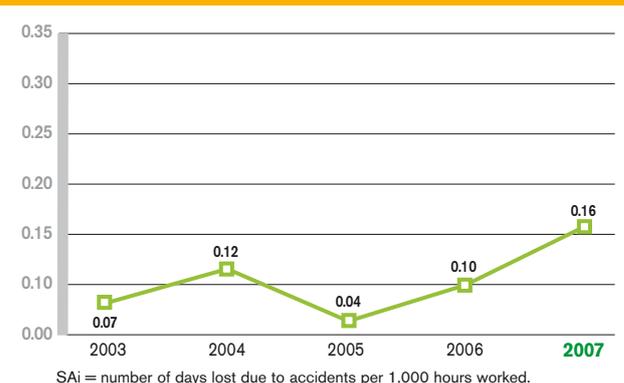
\* >3 days lost.

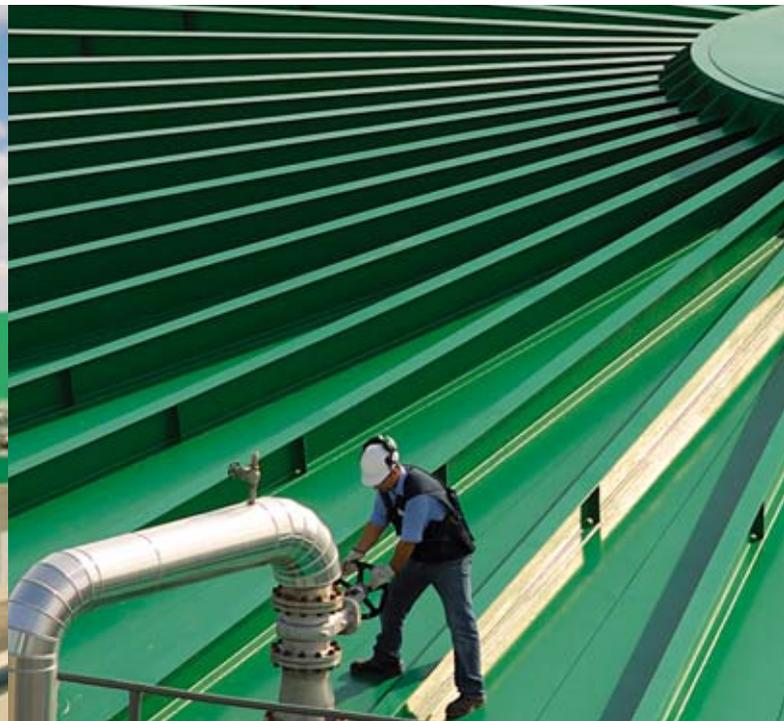
There were no deadly accidents involving Group employees in 2007.

### ACCIDENT FREQUENCY INDEX (Fi)



### SERIOUS ACCIDENT INDEX (SAi)





### Safety Training

Safety training provided in 2007 amounted to more than 35,000 hours, accounting for 34% of total training hours, about the same as in 2006. Over the past five years, an average of 10 training hours on safety were provided to each employee.

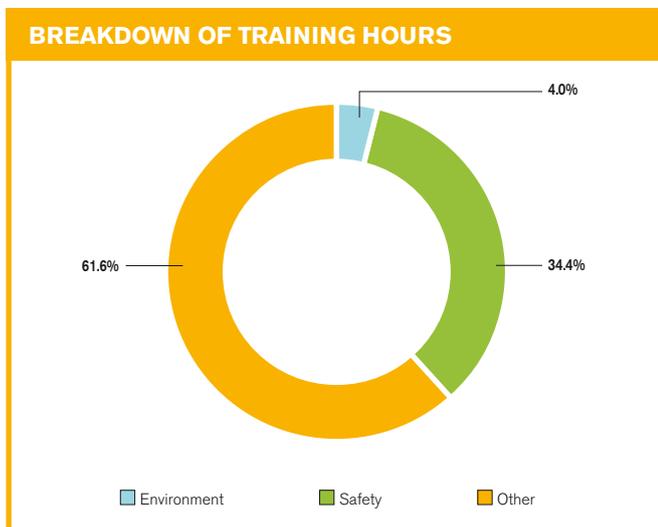
### Safety Programs at Construction Sites

Construction sites used to build large new facilities and make existing power plants compliant with environmental regulations or repower them are areas to which the Group devoted significant resources over the years. In these projects, the presence of multiple contractors working simultaneously greatly increases potential risks. Audits and other coordination and control measures that the Group has been implementing for a number of years have helped produce excellent results, as demonstrated by the reduction of accidents suffered by contractor employees.

Of the 167 internal audits completed in 2007, as many as 56 were performed at construction sites.

Also in 2007, Edipower defined a program to improve safety for contractors who provide maintenance services and at repowering construction sites. This program includes detailed documents that can be used to identify risks, adopt preventive measures and train employees.

In addition, Edipower carried out a major effort to increase safety awareness among those who work at construction sites that included large posters carrying the effective slogan “if you care about your life, use your head”, the distribution of a practical manual and the promotion of a “safety award” program, which is being repeated on an ongoing basis to reward those contractors who can meet the goal of the awareness campaign: zero accidents for 60 consecutive days.





## Certified Sites

The Group's goal is to gradually consolidate its safety management systems, integrating them into those that cover environmental and quality issues, in order to:

- ensure compliance with statutory requirements;
- involve employees in the achievement of improvement objectives;
- share with contractors operational management principles, strategies and methods;
- analyze the causes of unexpected events and identify corrective and preventive measures.

At the end of 2007, 95% of Edison's sites were certified in accordance with the BSI OHSAS 18001 standard. More specifically, the certification currently held by Edison DG's Pomezia operating unit was extended to the Selvazzano and

Taglio di Po operating units. In addition, the multi-site, integrated environmental and safety certification currently held by the Sambuceto Operating District was extended to the S. Stefano location.

None of Edipower's sites have yet been certified, but the safety management system currently in use, which is consistent with best practices in this area, is designed to improve the prevention of accidents and occupational illnesses.

In 2007, Edison completed a project to develop Health, Safety & Environment (HSE) guidelines for the definition of an integrated environmental and safety system that can be used by the Hydrocarbons Business Unit in oil and gas projects both in Italy and abroad.

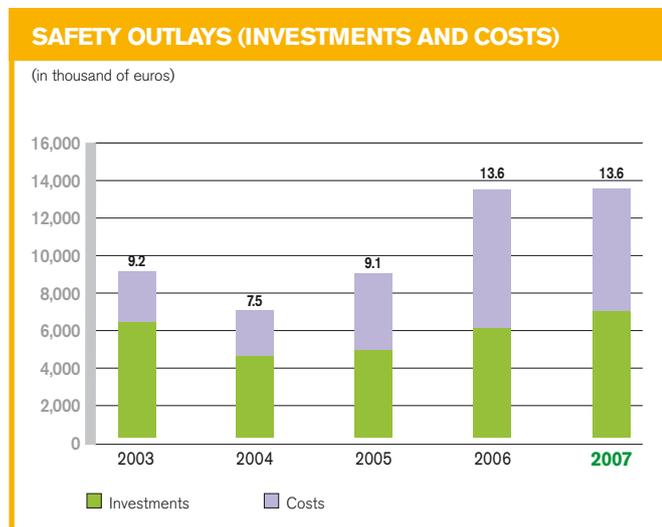
## Safety Investments and Costs

Outlays devoted to safety programs have been held steadily above the 13-million-euro mark, demonstrating the significant attention that the Group devotes to these issues.

## Noteworthy Safety Projects

In 2007, the Group developed for a site in each Division (Thermoelectric, Hydroelectric, Wind Power, etc.) a Risk Assessment Document, which is based on a computerized assessment method. Edison has chosen to use this tool to improve its ability to plan and manage safety programs. As required by Law No. 123/07, which amended Legislative Decree No. 626/94, the Group published guidelines to govern the coordination of risk assessment processes in business activities.

Lastly, Edison launched a service to provide support in achieving compliance with safety and environmental regulations. This new service can be used to analyze relevant regulatory requirements and develop implementation plans.



# OUR CUSTOMERS

## Our Market

Edison's mission is to supply its customers with energy and high-quality services delivered through innovative sales packages designed to match the consumption profiles and individual needs of its customers.

As part of its effort to provide customers with quality services, Edison has strived to develop contracts that are configured to meet

Customers in the Microbusiness segment are handled by an extensive network of 50 sales agencies that are present throughout Italy and, more recently, were reached with new alternative tools, such as teleselling and vertical channels.

In the residential market for natural gas, Edison Energia, which in 2007 absorbed Edison per Voi (the company that originally



specific customer needs, make it easier for customers to establish and manage a supply relationship, carefully monitor the degree of customer satisfaction and offer products that allow users to purchase energy generated exclusively with renewable sources.

With 2007 sales of 63,773 GWh of electric power and 13,817 million cubic meters of natural gas (including intra-Group sales to thermoelectric power plants), Edison is one of the leading players in Italy's energy market.

In 2007, Edison Energia sold a total of 21.8 TWh to more than 2,200 industrial customers in the Business segment (annual consumption of more than 1 GWh).

In the Microbusiness segment, which includes 12,657 customers with annual consumption of less than 1 GWh, total sales amounted to 1.9 TWh.

served this market segment), sold a total of 252.5 million standard cubic meters to 171,452 customers.

Edison has also established partnerships with sales organizations in the energy industry, which currently include the following joint ventures: Enìa Energia in the Emilia region, Eta3 in Tuscany and the province of Perugia, Prometeo in the Marche region, ENECO Energia and UTILITÀ throughout Italy.

## Services for Intelligent Energy Consumption

One of Edison's primary goals is to help its customers achieve a reduction in the energy they use, which it pursues through the delivery of sophisticated services with a high value added. For example, electric power and natural gas customers used our data management and consumption control services at 1,100 manufacturing locations in 2007.

Between 2005 and 2007, Edison provided Energy Check and Simplified Energy Check services at 150 customer locations. These services perform a rigorous review of consumption patterns and evaluate the equipment used by customers and its energy usage. The resulting assessment can be used to plan the actions that may be necessary to reduce and optimize energy usage, with the goal of decreasing consumption and reducing costs.

which is a product through which customers can purchase green energy (i.e., energy produced with renewable sources) at a fixed price that cannot change for three years. As a form of additional customer protection, these products are covered by the RECS International certification system, under which the origin of electric power produced from renewable sources is certified by an independent third party licensed at the EU level.



In 2007, as part of the services it provides to lower consumption and increase energy efficiency, Edison Energia, working in co-branding mode with technical partners, installed cogeneration and micro-cogeneration systems at 15 manufacturing locations operated by its customers.

Other agreements signed with top technical partners involved the development of photovoltaic systems, energy certification of buildings and power factor correction and power quality for transformer rooms.

### **Sustainable Supply**

Edison has chosen to go beyond mere compliance with statutory requirements concerning mandatory quotas of electric power generated from renewable sources, pursuing instead the production and promotion of incremental quantities of green energy.

Consistent with this approach, the Group developed Eco3business,

The green energy sold in 2007 totaled about 16 GWh. Both of these products provide a guaranteed price at which electric power can be purchased, thereby shielding customers from fluctuations in market prices, consistent with Edison's commitment to maximum transparency and fairness in dealing with its customers.

In 2007, we developed two innovative electric power sales packages: INEDISON, reserved for Edison employees, and 6UNAMICO, for friends of Edison employees.

The programs organized by Edison in 2007 to provide training on and increase awareness of energy issues focused on market deregulation and energy conservation. The seminars offered to end customers to promote energy efficiency services and explain the structure of the energy market and its transparency rules were particularly successful.

The largest of these seminars were organized for members of manufacturers' associations in Arezzo, Frosinone, Siena and La Spezia.

At the end of 2007, in a program that was also used to support its sales campaign, Edison launched an advertising initiative based on illustrations by Altan, a well-known Italian cartoonist, that used

## Customer Satisfaction and Service Quality

Edison operates a Customer Relationship Management (CRM) system that uses a broad array of channels to communicate with customers. In January 2007, the new CRM project was completed and activated for electric power customers in the Microbusiness market segment.



irony effectively to highlight the double advantage – financial and environmental – provided by the Eco3business sales package.

To increase consumer awareness, in addition to conventional media, such as print, radio and billboards, Edison carried out guerilla marketing projects in which young promoters dressed in green from head to toe and took over the downtown districts of some Italian cities. Working under an energy conservation banner, the promoters attracted people's attention by helping them save energy in such daily chores as carrying shopping bags home, unloading merchandise and cleaning stores.

Lastly, in 2007 Edison Energia began to publish a quarterly magazine with information about the world of energy, which it sent to all of its customers. A staff of independent journalists provides the content and graphics for the magazine, which is called SWITCH. Each issue provides relevant information about energy, energy conservation and alternative energy sources.

In 2007, a total of 2,700 customers, including one large customer (Wind), were activated, for a total of 11,500 locations served. Additional work completed in 2007 included developing the support needed to handle the market segment of electric power residential customers, starting with servicing Edison employees and building up to providing support to vertical sales channels, with market launch scheduled in the first half of 2008.

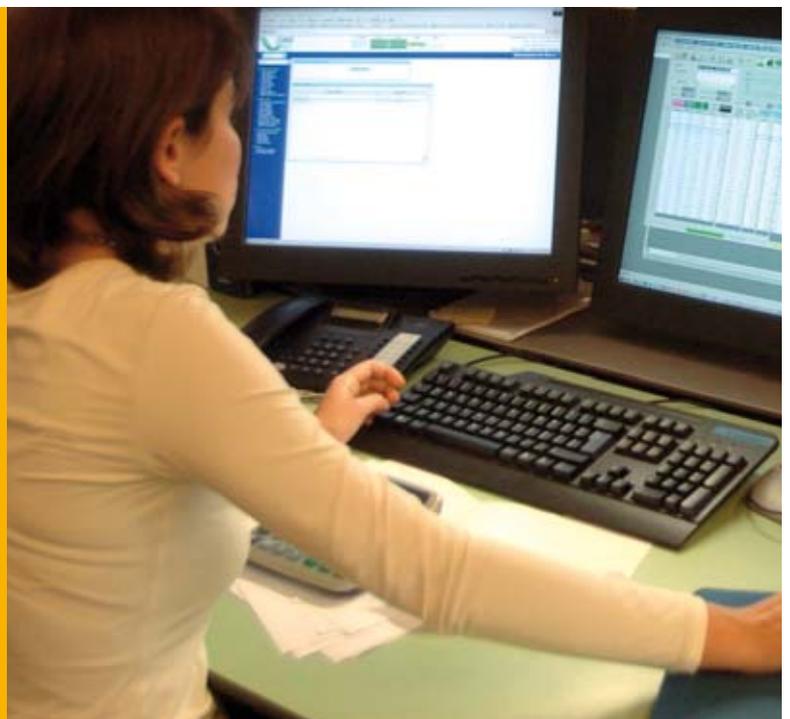
In 2007, the existing CRM system (both old and new) served about 20,000 electric power customers in the Top, Large, SME and Microbusiness segments, for a total of 40,000 supply locations, and 165,000 supply locations for residential natural gas customers of Edison Energia. The Contact Center fielded a total of 159,125 incoming calls, providing a level of service of 84.4% (calls answered within 30 seconds) for the Microbusiness segment and 81.5% for the Residential segment. The Center also placed 275,000 outgoing

calls, which were made mainly in connection with Teleselling programs and other sales solicitations.

For the second consecutive year, we carried out a customer satisfaction analysis for the Microbusiness and Business segments and a separate analysis for customers in the TOP segment with the goal of determining the level of customer satisfaction and identifying areas where service could be improved. The main areas

and recording all complaints and written information requests we receive from our customers.

In addition to ensuring easy retrieval of incoming documents, this process "obligates" Edison Energia to provide comprehensive explanations to its customers within predetermined deadlines. Thanks to this process, customers can see that their queries are



identified as needing improvement include customer management, complaints handling and billing.

In order to enhance the quality of our operating procedures and guarantee the continuous improvement of service quality, with an attendant increase in customer satisfaction, Edison's Marketing and Distribution Business Unit adopted a management system that is consistent with the ISO 9001:2000 standards. The goal of this project is to obtain from an accredited entity the certification of the system used by Edison Energia Spa and Edison Spa to sell electric power, natural gas and related services to end customers in the deregulated energy market.

With the same goal of improving services, we comply with the requirements of AEEG Resolution No. 04/04 concerning Commercial Quality in the electric power market (as is already being done in the natural gas market), which involves collecting

being addressed and answered by the Company and, at the same time, issues raised by customers are discussed and resolved by all of the relevant departments of the Marketing and Distribution Business Unit and by such Group departments as Accounting and Credit. In addition, the Commercial Quality process can be used to create files for individual customers and keep track of their histories. Lastly, the teleselling services became operational in 2007, enabling Edison's customers and potential customers to access our services with a simple telephone call.

The first half of the year was devoted to fine tuning and consolidating the process of telephone selling, building on what we learned with a project carried out in 2006. This included carrying out tests at two additional call centers to verify results and the process that has been implemented. Based on the findings obtained, we added a customer profiling phase that precedes the selling process and increases the efficiency of the service delivery process.

# OUR EMPLOYEES

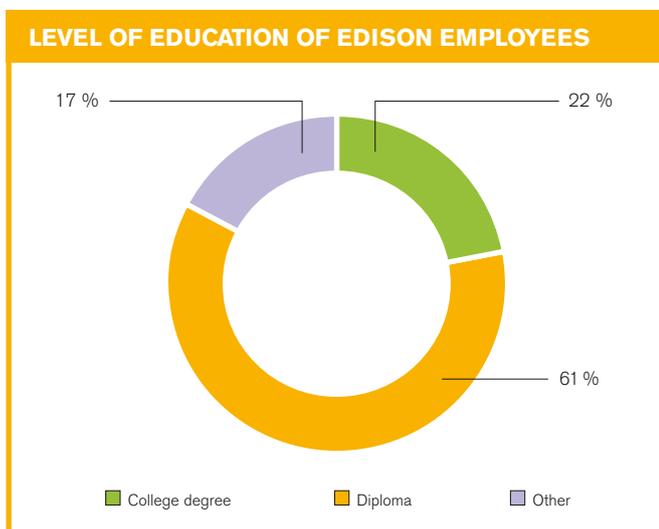
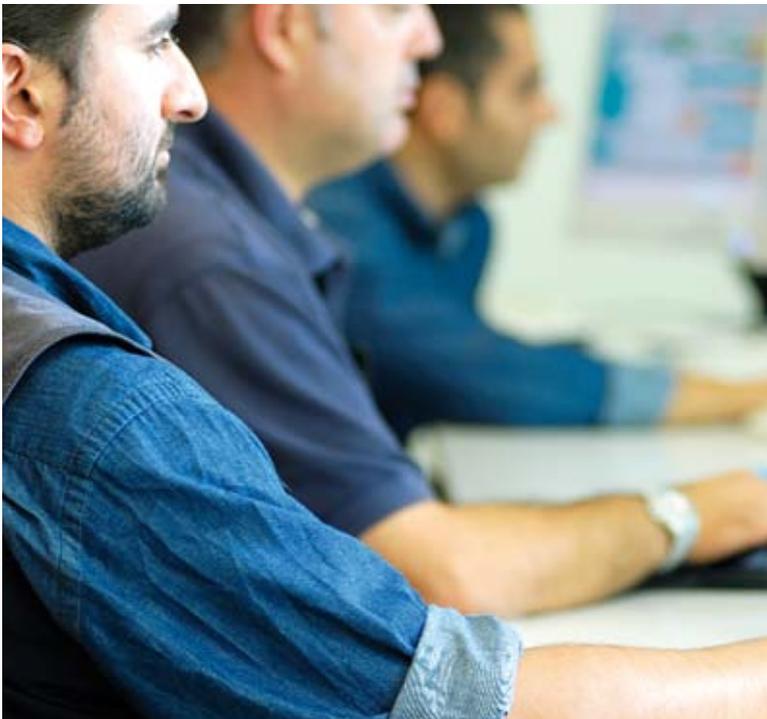
## Profile of the Group's Staff

In 2007, Edison's core businesses and Edipower had a total staff of 3,560 employees (2,360 and 1,200, respectively), 99.7% of whom were permanent employees.

In terms of the level of education, a large percentage of employees received higher education, with 83% of the staff holding either a diploma or a college degree.

In 2007, staff turnover (number of employees removed from the payroll over the average annual staff) was 2%, unchanged from 2006. The absenteeism rate was 5.2%, including about 2% related to events that had Company approval or were related to maternity issues.

The percentage of the total staff represented by female employees continued to increase (+4%) compared with 2006 (Edison data).



## Staff Profile in 2007

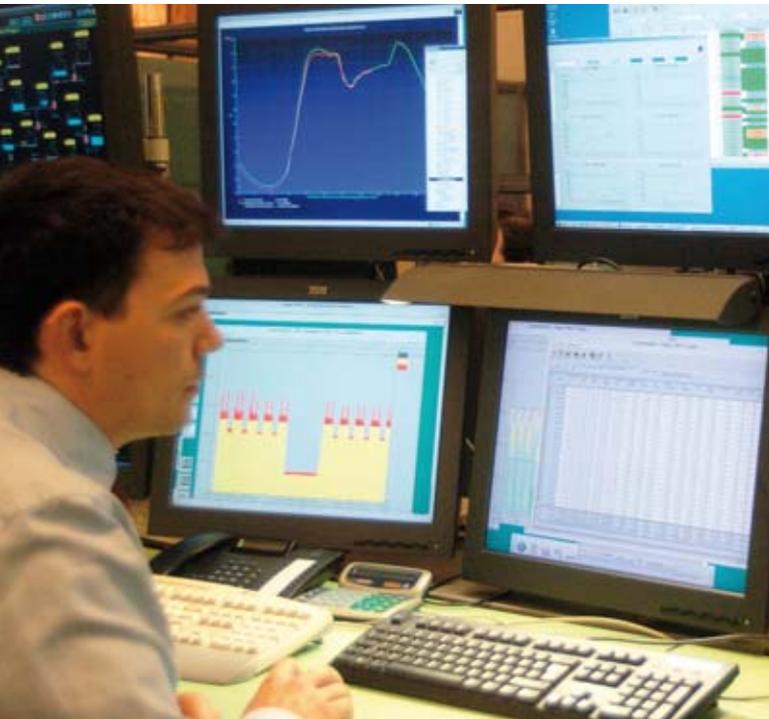
	Men	Women
Executives	91%	9%
Middle managers	77%	23%
Office staff	79%	21%
Production staff	99%	1%
<b>Total</b>	<b>84%</b>	<b>16%</b>

## Personnel Development Policies

Edison uses its *Performance Evaluation Process* – which in 2007 was applied to more than 700 employees, including executives, middle managers and office staff with a college degree – to promote and reward the achievement of its business objectives and implement a merit-based policy of personnel development and management within the framework of a transparent and objective

dialog between managers and associates. In addition, Edison bases its development policies on an internally developed *Management Model*, which it uses to identify, orient and develop the management skills that Company executives must have to support the Group's long-term objectives, and on the *Professional Competencies* of employees, which represent the technical and discipline-specific knowledge that characterizes

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



the occupational profile of professionals and managers. These are the three pillars that provide a foundation for the Group's compensation policies and the development of individual career and internal and international mobility paths, consistent with annual and projected organizational needs. Edison is especially mindful of the needs of employees who are recent college graduates, for whom it has developed a special development, training and compensation policy for the first three years of their employment.

### 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 achievements and managerial potential, and takes into account external market conditions.

Company and individual employees. In addition, the compensation system that applies to all employees, other than executives, is supplemented by collective incentive packages (results bonus) 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 employees in the pursuit of targeted Company results. Edison has been increasingly interested in developing long-term incentive systems that stimulate and encourage the achievement of multi-year performance objectives, while developing relationships based on employee loyalty and on a commitment to create value for the Company that is shared by management and the shareholders. In this area, the Company defined a new Long-term Management Incentive Program in 2007. This program is structured into three-year cycles and is based on the achievement of targets and company performance indicators (EBITDA), compared against a panel of Italian and European utilities.

## Personnel Training and Development

During 2007, more than 90% of the Group's staff were involved in training activities, with employees receiving more than 17,600 man days, equal to about 141,500 hours, or 40 hours per employee, at an instructional cost of more than 3 million euros. Within Edison, 2007 was characterized by a growing effort in the area of management training that included training all managers on handling feedback from employees and providing individual coaching sessions to top executives.

In the area of institutional training programs, the training path developed for recent college graduates was expanded to include language instruction provided with a multimedia module. Other programs carried out in 2007 included an advanced development path for professionals focused on teamwork, cross-functional integration and a more in-depth understanding of financial issues that are relevant to corporate processes, such as the assessment of investment projects. The issue of team leadership was the subject of an outdoor training event for Edison's senior managers.

Following the approval of the Code of Ethics in 2003, the Group intensified its training activities in this area, requiring the participation of all employees with management positions both in Italy and in operating units abroad. Newly hired managers are provided with training focused specifically on issues related to anti-corruption requirements, the 231 organizational model and the correct interpretation and implementation of the principles of the Code of Ethics and the Antitrust Code.

There was also a significant increase in the training provided to individual professional families (in 2007, important programs targeted the electric power operations and the Sales Department) with the goal of increasing professional skills and the understanding of the Company's business. This training is being increasingly provided by Company instructors. Training on issues related to corporate compliance requirements was also the focus of increased attention in 2007. Training was provided through internally developed cross-functional seminars that covered issues related to the Company Antitrust Code and Law No. 262/05 on the protection of investments and regulations governing the financial markets.

The training activity carried out by Edipower consisted mainly of programs of the continuing education type and covered such topics as occupational safety and hygiene and the environment. Professional development programs focused on systemic vision, strategy, employee management, problem solving and cross-functional cooperation. Focused development programs, which were part of projects involving innovation, provided training to technical employees both at the operational and staff level.

## Industrial Relations

The Group 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.

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 consultation among the parties at all levels;
- Define clear and functional contractual provisions;
- Seek an adequate level of employee involvement in the development of Group strategies;
- Prevent individual or collective conflict.

In recent years, there were virtually no strikes specifically directed at the Company.

The main developments affecting Edison's core businesses that occurred in 2007 included the following:

- Renewal of the compensation portion of the national collective bargaining agreement for electrical industry employees (applicable to about 75% of Group employees), which for the first time provides that a portion of the increases in compensation will come in the benefits area (supplemental retirement benefits in particular);
- Renewal of the compensation portion of the national collective bargaining agreement for energy and oil industry employees, which applies to about 250 Group employees.
- Renewal of the benefit portion and compensation portion of the national collective bargaining agreement for water industry employees, which applies to about 5% of Group employees.

Virtually all of Edison's employees have access to health insurance benefits that supplement those of the National Health Service. In 2007, these benefits became fully available to all employees covered by the collective bargaining agreement for electrical industry employees, at a cost to the Company of about 400 euros per person.

## 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, the

Group supports the use of part-time employment. At the end of 2007, about 2% of the Group's staff, mostly women with newborn children, worked on a part-time basis.

Insofar as "protected categories" (Law No. 68/99) are concerned, Edison complies with the provisions of current laws 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 2007, the Company had 98 "protected" employees in Italy.

In 2007, Edison carried out a study, called People Care, on how to improve the quality of life of its employees as it relates to the relationship between work commitments and private life.

This study used a series of employee focus groups and a detailed questionnaire to analyze issues related to employee happiness on the job. The main topics covered included individual needs in reconciling private life and work obligations, quality of life on the job and which tools and/or solutions the Company could deploy to help employees meet their needs. The findings produced by this study will be used to determine if there is a need for additional services in this area. In addition, the Company developed a special contract for the supply of electric power to employees at discounted rates that will be fully operational in 2008.

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 2007. 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 automobile 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, 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 with an annual contribution of 93,000 euros.

## Volunteer Work

The employees of the Edison Group participate as volunteers in a number of programs. Among the initiatives undertaken in 2007, a project carried out by two employees of the Porto Viro power plant, deserves mention. In September 2007, Renzo and Sandro, used their vacation time and their savings to travel to Kenya. The purpose of their trip was to provide help to the Saint Mark Mission in Ol Moran, located about 260 km North of Nairobi, in the Rift Valley. The Mission serves an area of about 120 km<sup>2</sup> in the Laikipia District, on a plateau about 2,000 meters above sea level. The Missions carries our development projects, funded both by the local community and by donors, encouraging the local community to feel invested in these projects with the goal of making it independent of external aid and breaking the bond of dependency that sometimes arises between the local clergy and those helped by them. During their month-long stay in Kenya, these Edison colleagues worked mainly on the maintenance of electrical systems and the installation of photovoltaic cell units.

## Employees Outside Italy

At the end of 2007, the Group's core businesses employed 59 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 already 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.

### How We Communicate with Each Other

In 2007, internal communication tools used to strengthen a homogeneous corporate culture included programs designed to engender support for shared Company values and objectives, empower employees and encourage them to play a leading role within the Company.

A major internal communication event was the 2007 launch of **Edison+**, a Company intranet portal that provides employees with a valuable tool to find useful work-related information and always be up to date on facts, events and projects that characterize corporate life. A survey taken six months after the portal's "go live" date has shown that it has become an effective and quick means of sharing information and knowhow useful to the Company's operations. The portal, which is a tool that all employees can easily access and use in their daily work, is updated daily to provide the information about Company developments. The creation of the intranet was accompanied by the launch of EdisoNews, a news broadcast that presents the Company's leaders and its projects, and Newsletter Edison+, which brings each month fresh information in the mailboxes of all employees.

In addition MondoEdison, a quarterly distributed to all employees, and internal posters were revamped to support the new brand identity.

The **Sustainable Development Trophy** was another major event that characterized 2007. The Trophy provided an opportunity to increase awareness of the importance of sustainability and energy conservation. It also helped promote virtuous behavior in daily habits, while at the same time rewarding the creativity and commitment of the Group's employees. In addition, the Trophy encouraged social interaction and teamwork. At the award ceremony in September, the three winning groups received directly from the Chief Executive Officer their prizes, which consisted of innovative vouchers to experience an exciting event. The winning project, which calls for a series of technical improvements to the historical Foro Buonaparte building to reduce CO<sub>2</sub> emissions, will be implemented in 2008 to emphasize the importance of the Company's commitment to sustainability.

In order to foster and strengthen employee cohesion, the Company provided several regularly scheduled meeting opportunities and organized corporate, cultural, sports and team-building events. These events included: the **Working Parents Day**, which enabled the children of employees to see for one day their mothers and fathers at work and served to underscore the importance of reconciling private life and work obligations; the **Safety Day**, which served to emphasize that protecting the environment and the health and safety of people must be a daily commitment; the **Summer Feast**, which was held at the conclusion of the Tenth Company Tournament of Arena Soccer; the first **Middle Managers Convention**, an event that saw the active involvement of all middle managers, who were able to share and discuss in detail with senior managers the Company's objectives and strategies; the **Christmas Party**, a year-end event that provides an occasion to celebrate the



year's achievements and share future projects and objectives. The Christmas party also provided a venue for the **Edison Group Award 2007**: 41 Edison Group employees were honored for outstanding performance in their work and for contributing to the successful completion of the most ambitious capital investment program carried out in Europe in the past 10 years, which enabled Edison to increase its generating capacity by 7,000 MW.

### Edipower's Euclid Program

In 2007, Edipower began the process of implementing its continuous improvement project called Euclid Program. Continuous improvement is a method that uses problem solving techniques to achieve optimum performance one small step at the time. The goal is to continuously seek ideas and solutions to improve company's results and performance by empowering all of its employees. The 180 continuous improvement "development groups" that were established in 2007 at Edipower's various departments achieved important objectives and produced a benefit estimated at more than 6 million euros. A total of 400 employees, including virtually the entire staff of the Sesto San Giovanni headquarters and a portion of the power plant employees, received institutional training provided as part of the Euclid Program.

### 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 and Observatory for Integrated Environmental Management Systems in particular.

As part of its ongoing relationship with the Milan Politecnico University, which has deep roots, the Company support second level specialization courses that innovatively approach the target subjects (RIDEF Master – Energy for Kyoto and Advanced Training in Energy Finance and Commodity Trading) and provides constructive support for the Professional Apprenticeship Program promoted by Assolombarda and the MIP Business School, of which Edison is a partner.

The collaborative relationship with the University of Pavia is particularly strong. In 2007, it included the funding of two graduation prizes and a doctoral program 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 Italian universities during which it makes presentations and its managers speak on specific subjects. In addition, some Company representatives teach 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. The over 40 internships provided in 2007 are expected to result in a position with the Group in 70% of the cases.

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 to the best students from universities in Milan an innovative developmental path to supplement the information provided by university courses.

# OUR SUPPLIERS

## Purchasing and Supplier Relationships

Edison's Code of Ethics sets forth the basic principles for building and maintaining stable and quality relationships with our suppliers. We believe that cooperation, transparency, lack of discrimination and compliance with contract terms are prerequisites for dealing fairly with suppliers and protecting the Group's interests. Because we view the contribution of our suppliers as fundamental to our overall competitiveness, our performance qualification and control procedures require the involvement of all relevant Company departments. Suppliers are checked for compliance with environmental, quality and safety requirements not only by Purchasing, but also by Environmental Protection, Safety and Quality, Accounting, Engineering and Production.

More specifically, the Engineering Department, as required by the procedures of its quality management system, performs quality, environmental and safety audits at construction sites for new projects. When work is completed and before the facility is

delivered to the internal customer, a safety review is performed to determine whether the project meets safety requirements.

In the case of critical supply contracts, contractual documents explicitly require acceptance and compliance with the Code of Ethics and, for activities at the Group's production sites, with the Company's environmental and occupational health and safety procedures. Our purchasing management system was assessed within the context of the project for Sustainability and Integrity in Supplier Relations promoted by the Procurement Executive Circle. Edison contributed to this project, which was launched in 2006, by helping define guidelines that are consistent with best practices and international corporate social responsibility criteria. A comparison with our operational policies and practices with the guidelines, while it helped identify some areas where improvement is needed, strengthened our conviction that, over time, we develop a supplier relations system with very high quality standards.



In 2007, the Group's total outlays for purchases of goods and for construction contracts, including Edipower, totaled 746 million euros. Italian suppliers accounted for 80% of total purchases and 20% went to companies in other countries, reflecting the progress made in completing scheduled investment programs. The fact that 61% of Edison's suppliers received orders both in 2006 and 2007, a slightly higher percentage than the previous year, shows that we are building stable and long-lasting relationships with our suppliers, thereby achieving greater efficiency but not at the expense of considering innovative offers. In the case of Edipower, the corresponding percentage is 56%, not significantly different from that of Edison.

In 2007, invoices representing 61% of purchases were paid within 60 days of the invoice date (54% in 2006 and 44% in 2005), and invoices representing 97% of purchases were paid within 90 days (91% in 2006 and 2005). Edipower paid over 90% of its invoices within 90 days.

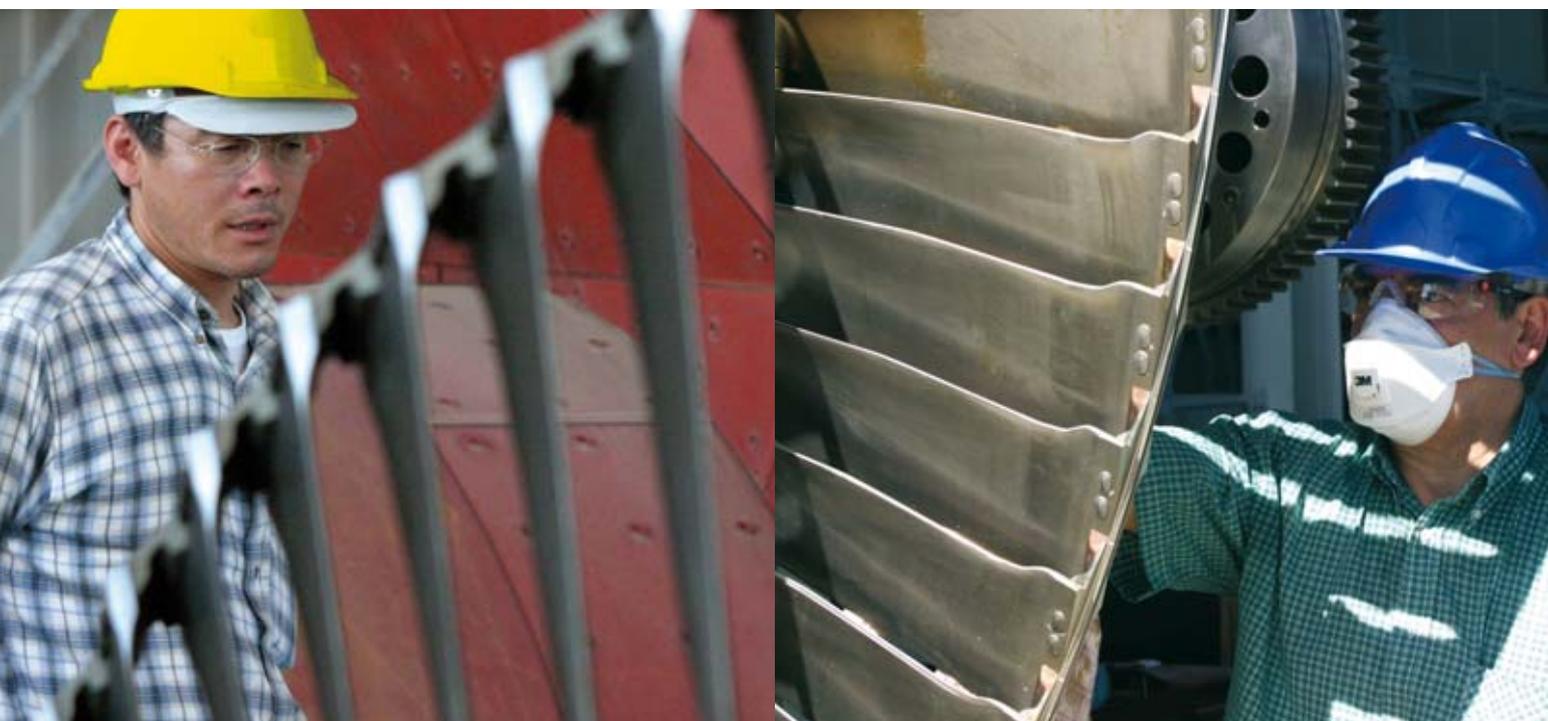
In past years, the number of disputed items was always very low, and there were no disputes in 2006 and 2007.

### **Communications with Suppliers**

A separate portal handles business-to-business (B2B) transactions and communications with Edison suppliers. It provides all of the information required for the qualification process and for bidding purposes. In addition, it provides access to contractual, technical and administrative documents, and suppliers can enter the implementation progress of their projects.

### **Efficient Purchasing Processes**

In the case of repetitive purchases of non-strategic items, the Company is steadily increasing the practice of placing orders from online catalogs via dedicated software through the B2B system (active agreements increased from 37 to 55 in 2007), instead of forwarding orders issued directly by users, which are managed with the SAP/R3 operating system (8 are currently active).



# OUR 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.

Since its founding, the Edison Group has pursued the objective of contributing to community life by supporting socially and culturally relevant programs.

The work carried out to provide information to local communities is equally important. Edison's and Edipower'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.



## Relationships 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 activities that involve the continuous 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.

## A Commitment to Sports Programs

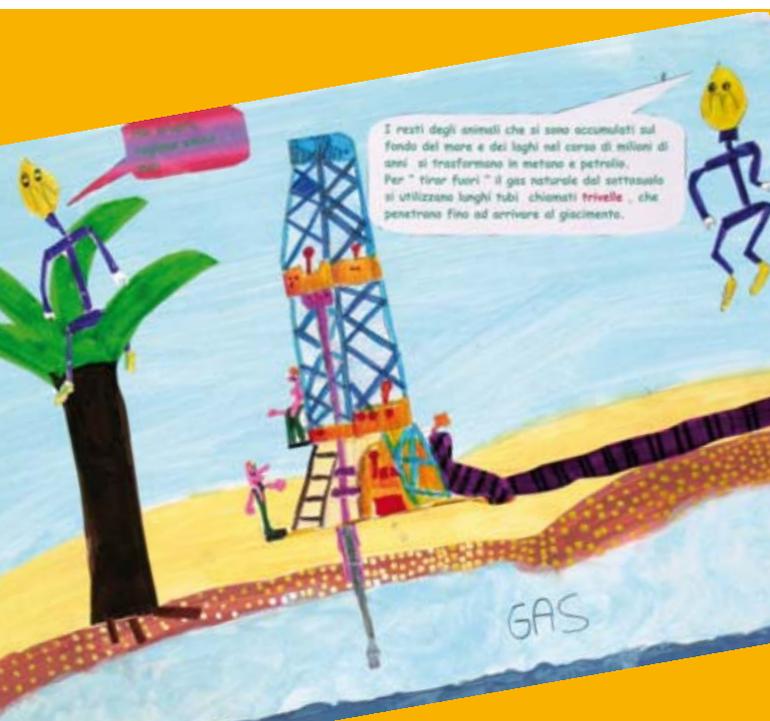
The Group has always viewed support for amateur, youth or other less glamorous sports programs, which nevertheless are followed closely at the local level, as one of the main tools with which it interacts with its host communities.

More recently, Edison has sponsored sports activities at the national level to increase name recognition in a manner consistent with its "positive energy" vision and the choice to position itself as a challenger in the energy market, as well as to provide concrete visibility for some of its corporate values: team spirit, respect (which in sports terms is the same as fair play), speed and excellence.

As part of this process, Edison sponsored the Italian Track and Field Championships, which were held in Padua in the summer of 2007. It also continued its partnership as the second sponsor of the National Italian Rugby Team, which played extraordinarily well in the 6 Nations Tournament in the spring of 2007 and came just

short of achieving a historical success at the World Cup in France in the fall. Lastly, Edison became a sponsor of the Women's National Volleyball Team, with the right to place its logo on all team jerseys. Following the Extraordinary achievement of the women's team at the European Championship (a string of 12 consecutive victories and qualification for the Beijing Olympics), Edison prolonged its partnership with the Italian Volleyball

has its facilities. This project has three main goals: contribute to the development of local communities with initiatives that are socially significant, convey to the new generations accurate information about the production of electric power and improve relations with the host communities. It is addressed to elementary, middle school and high school students and can be used for guided tours of production facilities or to book class



Federation to the end of the 2007/2008 season and broadened its sponsorship to cover national teams, including senior, junior, women's and men's teams. These three programs were extensively covered in the media, significantly enhancing the Group's image and providing an attractive return on the investment made.

### A Commitment to Education

The Edison Group 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, recreation and family life.

For several years, Edipower has provided support for an information project called "Edipower per la scuola," which is currently offered in four of the nine areas where the Company

lectures by experts, enter prize contests or compete for the awards of scholarships to pursue higher education. Edison has been working with Legambiente to carry out jointly environmental education programs at the local school level with the goal of contributing to the development of a more knowledgeable and responsible society. For a number of years Edison has helped Legambiente develop projects in the areas of environmental education and energy conservation. In 2005, this shared commitment produced the **Kyoto anch'io – la scuola amica del clima** ([www.legambiente.com](http://www.legambiente.com)) campaign. This project is addressed to Italian schools of all levels to make students aware of the importance of energy conservation and includes a nationwide contest. In November 2007, Edison and Legambiente presented prizes to the schools that had been named winners of the third edition of the contest, in which about 250 schools, more than 900 classes and 30,000 students competed.



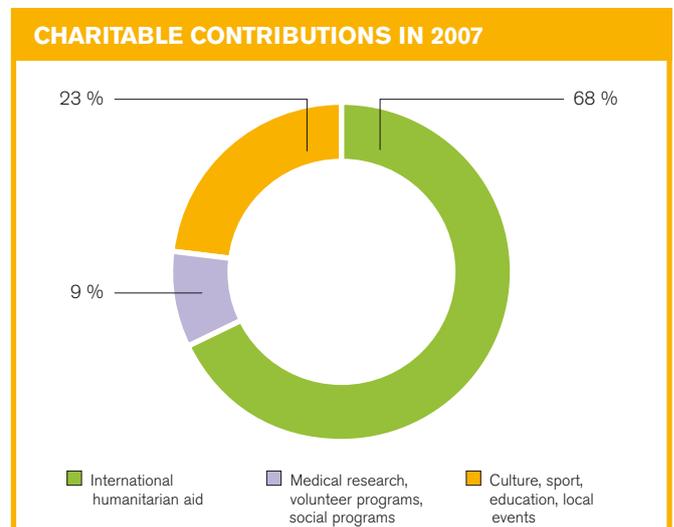
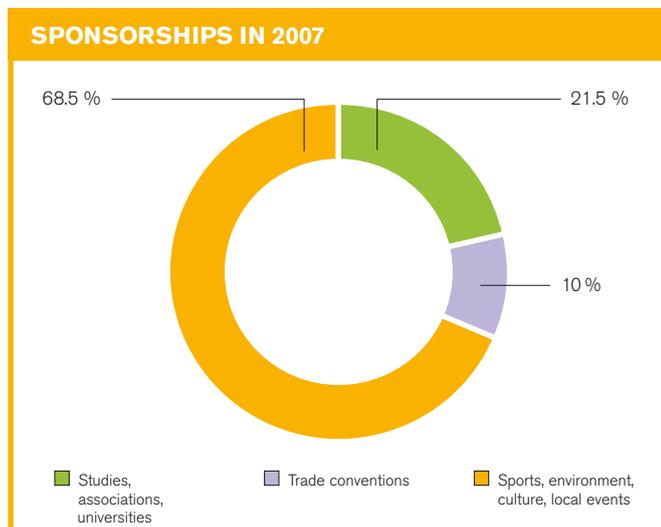
Planning for the fourth edition, which will include a nationwide survey on real estate construction and energy conservation in school building, was already under way at the end of 2007.

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 reconstruction of the school system in Banda Aceh, the province of Indonesia that was worst hit by the tsunami. Construction of the last two of the five schools built thanks to Edison’s contribution was completed in 2007. All five schools, four in Pidie and one in Lhokseumawe, are up and running and serve 876 children.

In 2007, Edison and the Milan Rugby Sports Association, an organization with proven experience in the area of rugby school programs, launched the first phase of **Project Psychomotricity**. Edison and the Milan Rugby Sports Association share the same

highly educational objective for under-15 athletes: sports practiced and taught as a conduit for ethical, emotional and physical development. Rugby is a team and contact sport that provides an excellent vehicle to instill both personal values, such as knowledge of and confidence in one’s values and oneself, courage and endurance, and shared values, such as team spirit, mutual support, loyalty, respect for the rules and fair play. Project Psychomotricity will also help expand the services provided by the Milan school systems with the inclusion of a program to assess psychomotor skills and provide educational support.

Lastly, Edison joined forces with **Sodalitas** to launch a sophisticated and innovative project against **bullying** in the Milan school system. The program trains teachers on how to respond promptly to the growing social emergency created by youth violence and prevent this problem from reaching in Italy the alarming proportion to which it has grown in other countries.





## 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.

One of the most distinctive initiatives launched by the Group is a project to transform a portion of Edipower's old **Emilia power plant in Piacenza**, now closed, into a museum hub that will host art exhibits on an ongoing basis using works of art that Italy's major museums are unable to display due to lack of space.

This project will stimulate the recovery and revitalization of one of Piacenza's historic district along the banks of the Po River, while creating a cultural hub that will attract visitors from a much larger pool of people that Piacenza alone could supply, with obvious benefits to the urban environment and to related tourist and commercial businesses.

The project is now past its pre-feasibility phase and more in-depth studies of the structural issues involved in renovating the selected portion of the facility are under way.

Edison and Edipower provided joint support for the **"Picasso & Dinguín – An Artful Friendship" art show** in Sondrio. Two great companies that have a significant presence in the province of Sondrio as producers of clean energy joined forces for the first time to sponsor a high-level art show and demonstrate their support for culture and the development of the Valtellina district.

## The Edison Foundation

The purpose of the Edison Foundation 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 clusters, including problems related to training, research and innovation.

Special attention is paid to relationships between small/medium-size businesses and large enterprises and between communities and local development, as well as to issues relating to the infrastructure and services offered by a civil society, particularly in light of the globalization process. These issues are of fundamental importance in Italy because of their impact on industrial competitiveness, employment levels and the trade balance, to which small and medium-size businesses provide a vital contribution. The Foundation promotes studies, surveys, publications and events both on its own and in cooperation with research entities and institutes, other foundations, associations, businesses and individuals, and by sponsoring projects that are consistent with the purposes stated in its Bylaws.

Recent important initiatives and publications in which the Foundation was involved included the promotion of a national convention entitled "Foundations and Associations for Innovation and the Economy. Europe and Italy," which was held in June 2007; preparations together with Accademia dei Lincei for a new symposium entitled "Foreign Investments and International Commerce. The Geo-economics of Development," which will be held in Rome in March 2008; in cooperation with Il Mulino, publication of two new volumes in the Foundation's institutional series entitled, respectively, "A Larger European Union: the Eastern Countries and Italy. Policies, the Economy and Businesses" and "Maximizing the Benefits of a Strong Economy. Italy and the Role of Subsidiary Development;" publication of several additional studies and research works; and launch of a periodical newsletter about the Foundation's activities.

## Initiatives for Sustainable Development

The **Siticibo** project, in which a large number of volunteers at the Foro Buonaparte headquarters have been authorized by the Company to help during business hours in the collection of surplus food from the Edison cafeteria for donation to soup kitchens in Milan, is continuing with great success. The project's activities also included purchasing refrigerated food storage

equipment and a special delivery van and the donation of a sum of money together with the Company's Christmas card.

In 2007, the collaborative relationship that Edison established in 2006 with the Abruzzo, Latium and Molise National Park grew into the implementation of a series of projects to **protect the Marsican Bear** and its habitat. With Edison's contribution, the Park purchased satellite-linked radiocollars that were needed to learn the distribution of this mammal throughout the Park. This basic information is essential to develop any future strategy for the preservation of the Marsican Bear and its habitat because it can be used to analyze and manage proactively environmental factors that are crucial for the bear's survival. Another project carried out together with the University of Rome focused on planning an educational campaign to increase public awareness of issues related to the Park's three main mammals: the bear, the wolf and the chamois.

Edison is a charter member of the **European Institute of Oncology** (<http://www.ieo.it>), in which it has a 4.365% equity interest.

The Milan European Institute of Oncology was established as the embodiment of an innovative model of medical treatment and advanced research in the field of international oncology. Conceived by Umberto Veronesi and inaugurated in May 1994, the Institute was officially recognized as a Scientifically Oriented Institute for Inpatient Treatment by a Ministry Decree in January 1996. It is a nonprofit institution governed by private law that also provides services under contracts with the National Health Service.

In line with the standards of the most advanced international oncology centers, the Institute has developed internally a complete integration of all of the activities involved in the fight against cancer: prevention and diagnosis, medical education and training, research and treatment.

In addition to its Via Ripamonti headquarters, where all clinical, research and training activities are carried out, the Institute operates the IEO CENTER, located at 8 Via San Luca. This facility, which was inaugurated in 2002, is the first integrated oncology center for women.

In another initiative carried out in 2007 that, while less ambitious in scope, was equally significant in terms of its high quality involved, Edison and Edipower helped finance a book published by the **Sant'Egidio Community** entitled "Better Living for Seniors." The book is an effective manual that provides useful and practical advice for one of the more defenseless segments of the population.

## **Sponsorships and Charitable Contributions**

In 2007, Edison and Edipower invested a total of 2,075,974 euros in sponsorships and 677,126 euros in charitable contributions. Sponsorships have already been discussed earlier in this Report. As was the case in previous years, a large portion of the charitable contributions was used for projects involving humanitarian aid in foreign countries: 200,000 euros were contributed to the emergency fund established by the Greek government in response to the emergency created by last summer's wildfires, which caused devastation, fatalities and refugees in large areas of the country; and 250,000 euros were used to build five schools in Banda Aceh, the province of Indonesia that was worst hit by the December 2004 tsunami.

In 2007, Edipower contributed to a project carried out by NAAA Onlus to reduce the school dropout rate in a village in Togo. The project, which is called "A School Cafeteria for the Children of Todomè" involves building a school cafeteria in the village of Todomè on the assumption that, since eating a meal a day means a lot in Togo, it will also provide an excellent reason for going to school instead of working in the fields. Besides, a right to education is essential for the development of any country.

# PUBLIC INSTITUTIONS

In its dealings with national and local institutions and with institutions of the European Union, Edison always maintains a collaborative and consistent approach and bases relationships on the principles of **ethics in managing** its business and **corporate activities** that include integrity, loyalty, transparency and respect for human dignity.

## Interaction with Public Administrations

Edison's activities make it necessary to interact on an ongoing basis with the public administration in order to monitor and manage the process of securing authorizations, permits, concessions and public grants and financing. The Company interacts with the public administration in accordance with specific internal procedures and internal controls, which it reinforces by effectively implementing, complying with and updating the Organization Model required under Legislative Decree No. 231/01, which is designed to shield the Company from 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, local governments and trade associations. In a spirit of constructive cooperation, Edison's 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, using when appropriate the help of service providers, 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 Business Units with comprehensive and timely information about legislative measures that could be relevant to their operations.

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. The Department also coordinates and prepares position papers that are filed in connection with investigations and inquiries carried out by the antitrust authorities. In addition, the Institutional Relations Department coordinates relations with regional, provincial and municipal administrations in areas of general interest.

At the EU level, 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. Lastly, the Regulatory Affairs Department is actively involved with industry associations (Confindustria, Assoelettrica, Assomineraria, Federestrattiva, Eurelectric, Unice etc.), to which it provides support, through its ongoing and constructive participation in work groups, in the development of association positions. It also supports activities and initiatives promoted by associations, movements and interest groups (environmental associations, trade associations, consumer associations etc.) that are respectful of the role of a civil society.

# GRI COMPLIANCE SCHEDULE

Compliance Matrix GRI/G3 Contents and Indicators	Indicator	Reference to Chapters in Sustainability Report
Strategy and Analysis	1,1 - 1,2	A LETTER TO OUR STAKEHOLDERS
Organization's Profile	2,1-2,8 e 2,10 2,9	Inside front cover: WHO WE ARE/Edison Today OUR RESPONSIBILITY
Report Profile	3,1-3,11 3,12 3,13	OUR ESPONSIBILITY GRI COMPLIANCE MATRIX COMPLIANCE LETTER
Governance, Commitments and Involvement by Stakeholders	4,1-4,3 e 4,6 4,4-4,5 e 4,7 4,8-4,12 4,13 4,14 - 4,17	FINANCIAL RESPONSIBILITY Indicators not included in the Report OUR RESPONSIBILITY SOCIAL RESPONSIBILITY/Public Institutions OUR RESPONSIBILITY
Financial Performance Indicators	EC1-EC2 e EC9 EC3, EC5, EC7 EC4 EC6 EC8	FINANCIAL RESPONSIBILITY SOCIAL RESPONSIBILITY/Our Employees Indicator not included in the Report SOCIAL RESPONSIBILITY/Our suppliers SOCIAL RESPONSIBILITY/Our Community
Environmental Performance Indicators	EN1-EN5, EN8-EN10 EN6-EN7 EN16-EN18, EN20, EN22-EN23 EN24, EN27 EN26, EN28, EN30 EN11-EN15, EN19, EN21, EN25, EN29	More details in the Environmental Statement on the website SOCIAL RESPONSIBILITY/Our Customers ENVIRONMENTAL RESPONSIBILITY Indicators not applicable ENVIRONMENTAL RESPONSIBILITY Indicators not included in the Report
Human Rights Performance Indicators	HR1-HR8 HR3, HR9	OUR RESPONSIBILITY SOCIAL RESPONSIBILITY/Our Employees
Social Performance Indicators: Adequate Work Practices and Work Conditions	LA1-LA6, LA10-LA13 LA7, LA9 LA8, LA 14	SOCIAL RESPONSIBILITY/Our Employees SOCIAL RESPONSIBILITY/Safety Indicators not included in the Report
Social Performance Indicators: Product Responsibility	PR1-PR2 PR3-PR5, PR8 PR6-PR7 PR9	Indicators not applicable SOCIAL RESPONSIBILITY/Our Customers OUR RESPONSIBILITY FINANCIAL RESPONSIBILITY
Social Performance Indicators: Company	SO1 SO2, SO6 SO3 SO4 SO5, SO7-SO8	SOCIAL RESPONSIBILITY/Our Community Indicators not included in the Report SOCIAL RESPONSIBILITY/Our Employees Indicator not applicable FINANCIAL RESPONSIBILITY

# ENVIRONMENTAL, SAFETY AND QUALITY POLICY

Edison's mission is to provide its customers with high quality energy and services, working in partnership with its suppliers on the development and deployment of the technologies that are the most efficient, environmentally friendly and compatible with occupational safety requirements.

## Principles:

The principles adopted by Edison with regard to environmental, quality and safety issues concern the following areas:

- Respect of current laws concerning quality, safety and the environment;
- Development and communication of implementation guidelines for environmental protection, occupational safety and quality that all Group companies are required to follow;
- Promotion of employee involvement in the process of preventing risks, respecting the environment and protecting health and safety for their own benefit and for the benefit of colleagues and outsiders;
- Satisfaction of the expectations of stakeholders as a prerequisite for the creation of value and the promotion of sustainable development.

## Commitments:

Edison is committed to translating these principles into action by:

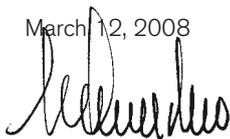
- Promoting the implementation of integrated "Quality, Environmental and Safety" **Management Systems** and seeking EMAS registrations, in line with European and international standards;
- Providing **continuous training** on quality, safety and environmental topics to its manager and to all other employees, and increasing their awareness of these issues;
- Relying on **suppliers** who have been **prequalified** with regard to quality, safety and environmental requirements and making them sensitive to the importance of environmental and occupational health and safety issues within the context of a continuous improvement process;
- Building a relationship of mutual trust with **customers** by offering them services with a high value added and guaranteeing the reliability of their supply of energy;
- Maintaining a dialog with the **authorities and the host communities** and cooperating with **public institutions**, guaranteeing the utmost fairness and transparency in all exchanges and providing complete, reliable and clear information;
- Optimizing the resources used, adopting the **best technologies available** and promoting the use of renewable sources to **minimize the environmental impact**, particularly with regard to emissions of gases that are harmful to human health and the environment;
- Adopting **accident analysis** tools to identify the structural causes of accidents and prevent their recurrence;
- Protecting the health of its employees and of outsiders who access its facilities by providing **healthy work environments** and using **low risk products**.

## Reporting

- Publication on a regular basis of results and performance indicators concerning the environment, occupational health and safety, and quality;
- Disclosure of analyses of accidents with an impact on the environment and on occupational health and safety;
- Communication of the findings of audits performed.

All Edison employees, including in particular executives and middle managers for the areas under their jurisdiction, are required to ensure and monitor on a regular basis compliance with principles listed above.

March 12, 2008



Umberto Quadrino  
Chief Executive Officer



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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, 2007, described in paragraph 2 of this report.

The procedures were carried out to evaluate the Board of Directors' statements, included in paragraph "Our values and our conduct - Environmental and Social Reporting" of the Sustainability Report of Edison S.p.A. as of December 31, 2007, that such report has been prepared in compliance with the "Sustainability Reporting Guidelines" established in 2006 by GRI – Global Reporting Initiative. 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 n. 1 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, 2007, approved by the Board of Directors. The responsibility of the audit performed on the consolidated financial statements as of December 31, 2007 is of other auditors who issued their opinion on February 29, 2008;
- 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;
  - 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;

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- 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.
  - obtained the representation letter signed by the legal representative of Edison S.p.A. on the compliance of the social corporate responsibility report with the guidelines indicated in paragraph 1. and on the reliability and completeness of the information and data contained therein.
3. For comparative purposes, the Sustainability Report presents prior year's data and information on which we have performed certain procedures for the purposes of issuing this report.
  4. Based on the procedures performed, we believe that the Sustainability Report of Edison as of December 31, 2007 complies with the guidelines and principles which form the basis of preparation and which are described in the paragraph "*Our values and our conduct - Environmental and Social Reporting*" of the Sustainability Report. Moreover, the financial data included in the Sustainability Report are 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.
  5. We draw your attention to the paragraph "*Our values and our conduct - Environmental and Social Reporting*" which describes the inclusion of the subsidiary Edipower S.p.A. in the scope of consolidation of the Edison Group.

Milan, March 14, 2008

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

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**THE STRENGTH OF A TEAM**  
**THE POWER OF A GREAT**



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