AEM Group 2006

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Consolidated financial statements

Consolidated financial statements pursuant to Consob resolution no. 15519 of July 27, 2006

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This is a translation of the Italian original "Bilancio consolidato 2006" and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original will be made available to interested readers upon written request to:

AEM S.p.A. - Investor relation
Corso di Porta Vittoria 4
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Consolidated financial statements

Balance sheet ([1])

Assets

millions of euro	Notes	Consolidated financial statements at 12.31.2006	%	Consolidated financial statements at 12.31.2005 Restated IFRIC 4	%
NON-CURRENT ASSETS	A)				
Property, plant and equipment	A1)	7,026		7,518	
Investment property	A2)	20		24	
Intangible assets	A3)	2,532		2,597	
Investments	A4)	61		115	
Other non-current financial assets	A5)	507		343	
Non-current derivatives	A6)	–		1	
Deferred tax assets	A7)	263		262	
Other non-current receivables	A8)	46		151	
Restricted or pledged deposits	A9)	2		5	
Other non-current assets	A10)	5		–	
Total non-current assets (A)		10,462	79.90	11,016	82.58
CURRENT ASSETS	B)				
Inventories	B1)	257		202	
Current financial assets	B2)	19		16	
Current derivatives	B3)	71		75	
Amounts due from tax authorities	B4)	54		63	
Trade and other receivables	B5)	1,849		1,704	
Cash and cash equivalents	B6)	253		242	
Other current assets	B7)	13		21	
Total current assets (B)		2,516	19.21	2,323	17.42
NON-CURRENT ASSETS HELD FOR SALE	C)	116	0.89		
TOTAL ASSETS (A + B + C)		13,094	100.00	13,339	100.00

(1) Related party transactions in the consolidated financial statements are analysed in Note 21, as required by CONSOB Resolution no. 15519 of July 27, 2006.
Significant non-recurring events and transactions in the consolidated financial statements are analysed in Note 22, as required by CONSOB Communication DEM/6064293 of July 28, 2006.

Shareholders' equity and liabilities

millions of euro	Notes	Consolidated financial statements at 12.31.2006	%	Consolidated financial statements at 12.31.2005 Restated IFRIC 4	%
SHAREHOLDERS' EQUITY	D)				
Share capital	D1)	936		936	
(Treasury shares)	D2)	(25)		(23)	
Legal reserve	D3)	94		85	
Other reserves	D4)	414		310	
Retained earnings	D5)	242		99	
Net profit for the year	D6)	302		242	
Equity pertaining to the Group		1,963	14.99	1,649	12.36
Minority interests	D7)	2,248		2,040	
Total shareholders' equity (D)		4,211	32.16	3,689	27.66
LIABILITIES	E)				
Non-current liabilities	E1)				
Medium/long-term financial liabilities	E1 - 1)	3,118		5,001	
Deferred tax liabilities	E1 - 2)	769		937	
Employees benefits	E1 - 3)	210		200	
Provisions for risks	E1 - 4)	618		618	
Other non-current liabilities	E1 - 5)	1		216	
Total non-current liabilities (E1)		4,716	36.02	6,972	52.27
Current liabilities	E2)				
Trade and other payables	E2 - 1)	1,840		1,445	
Tax liabilities	E2 - 2)	86		102	
Short-term financial liabilities	E2 - 3)	2,161		1,086	
Other liabilities	E2 - 4)	11		45	
Total current liabilities (E2)		4,098	31.30	2,678	20.08
Total liabilities (E)		8,814	67.31	9,650	72.34
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	F)	69	0.53		
TOTAL LIABILITIES AND EQUITY (D + E + F)		13,094	100.00	13,339	100.00

Income statement ([1])

millions of euro	Notes	Consolidated financial statements 01.01.2006/12.31.2006	%	Consolidated financial statements 01.01.2005/12.31.2005 Restated IFRIC 4	%
Revenues	1)				
Revenues from sales	1.1)	6,335	90.63	2,719	89.00
Revenues from services	1.2)	169	2.42	102	3.34
Revenues from long-term contracts	1.3)	23	0.33	(8)	(0.26)
Other operating income	1.4)	325	4.65	194	6.35
Total revenues		6,852	98.03	3,007	98.43
Other operating income	2)				
Other operating income	2.1)	138	1.97	48	1.57
Total other operating income		138	1.97	48	1.57
Total revenues and other operating income		6,990	100.00	3,055	100.00
Operating costs	3)				
Raw materials and consumables used	3.1)	4,004	57.28	1,621	53.06
Services used	3.2)	941	13.46	347	11.36
Changes in inventories of finished goods and work in progress	3.3)	(36)	(0.52)	64	2.09
Other operating costs	3.4)	404	5.78	118	3.86
Total operating costs		5,313	76.01	2,150	70.38
Labour costs	4)	277	3.96	187	6.12
Gross profit from operations	5)	1,400	20.03	718	23.50
Amortisation, depreciation, provisions and writedowns	6)	677	9.69	355	11.62
Net profit from operations	7)	723	10.34	363	11.88
Gains (losses) on revaluation of financial assets available for sale	8)	(1)	(0.01)	(2)	(0.07)
Other gains (losses) on derivatives	9)	4	0.06	6	0.20
Gains (losses) on disposal of financial assets available for sale	10)	7	0.10	50	1.64
Financial charges	11)	248	3.55	113	3.70
Income (losses) from financial assets	12)	52	0.74	30	0.98
Dividend income	12.1)	5	0.07	3	0.10
Income from receivables/securities included in non-current assets	12.2)	1	0.01	–	–
Income from receivables/securities included in current assets	12.3)	36	0.52	24	0.79
Exchange gains and losses	12.4)	10	0.14	3	0.10
Total financial costs	13)	(186)	(2.66)	(29)	(0.95)

(1) Related party transactions in the consolidated financial statements are analysed in Note 21, as required by CONSOB Resolution no. 15519 of July 27, 2006.
Significant non-recurring events and transactions in the consolidated financial statements are analysed in Note 22, as required by CONSOB Communication DEM/6064293 of July 28, 2006.

millions of euro	Notes	Consolidated financial statements 01.01.2006/12.31.2006	%	Consolidated financial statements 01.01.2005/12.31.2005 Restated IFRIC 4	%
Share of results of associates deriving from valuation according to the equity method	14)	1	0.01	1	0.03
Gains (losses) on disposal of property, plant and equipment	15)	(6)	(0.09)	(4)	(0.13)
Other non-operating profits	16)	58	0.83	10	0.33
Other non-operating costs	17)	(41)	(0.59)	(36)	(1.18)
Profit before tax		549	7.85	305	9.98
Income tax expense	18)	142	2.03	64	2.09
Net profit (loss) of ongoing operations net of tax		407	5.82	241	7.89
Net result from non-current assets sold or held for sale	19)	55	0.79	11	0.36
Net profit (loss)		462	6.61	252	8.25
Minority interests		(160)	(2.29)	(10)	(0.33)
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP	20)	302	4.32	242	7.92
Earnings per share (in euro):					
– basic		0.1684		0.1357	
– basic, from operating activities		0.1375		0.1294	
– diluted		0.1642		0.1357	
– diluted, from operating activities		0.1332		0.1294	

Cash flows statement (note G)

millions of euro	Notes	Consolidated financial statements 12.31.2006	Consolidated financial statements 12.31.2005 Restated IFRIC 4
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		242	220
Operating activities			
Net result for the year	D6)	302	242
Non-monetary flows:			
Depreciation of property, plant and equipment	6)	484	215
Amortisation of intangible assets	6)	67	26
Change in provisions for employee benefit provisions	E1 - 3)	10	38
Change in other risk provisions	E1 - 4)	–	536
Change in deferred tax liabilities	E1 - 2)	(168)	791
Change in working capital:			
Change in trade receivables and other short-term receivables		(84)	(1,401)
Change in inventories of materials	B1)	(55)	(127)
Change in trade payables and other short-term payables		129	1,076
Change in receivables from related parties (non consolidated line-by-line)		31	(8)
Change in payables to related parties (not consolidated line-by-line)		4	(3)
Change in assets held for sale		(107)	–
Change in liabilities associated with assets held for sale		37	–
Future net cash flows from operating activities		**650**	**1,385**
Investing activities			
Net capital expenditure		(494)	(4,677)
Sale of investment property	A2)	4	(24)
Capital expenditure, net in intangible assets		(22)	(2,466)
Property, plant and equipment sold		503	–
Intangible assets sold		20	–
Change in investments		(81)	(10)
Purchase/sale of treasury shares	D2)	(2)	12
Future net cash flows absorbed by investment activities		**(72)**	**(7,165)**
Free cash flow		**578**	**(5,780)**

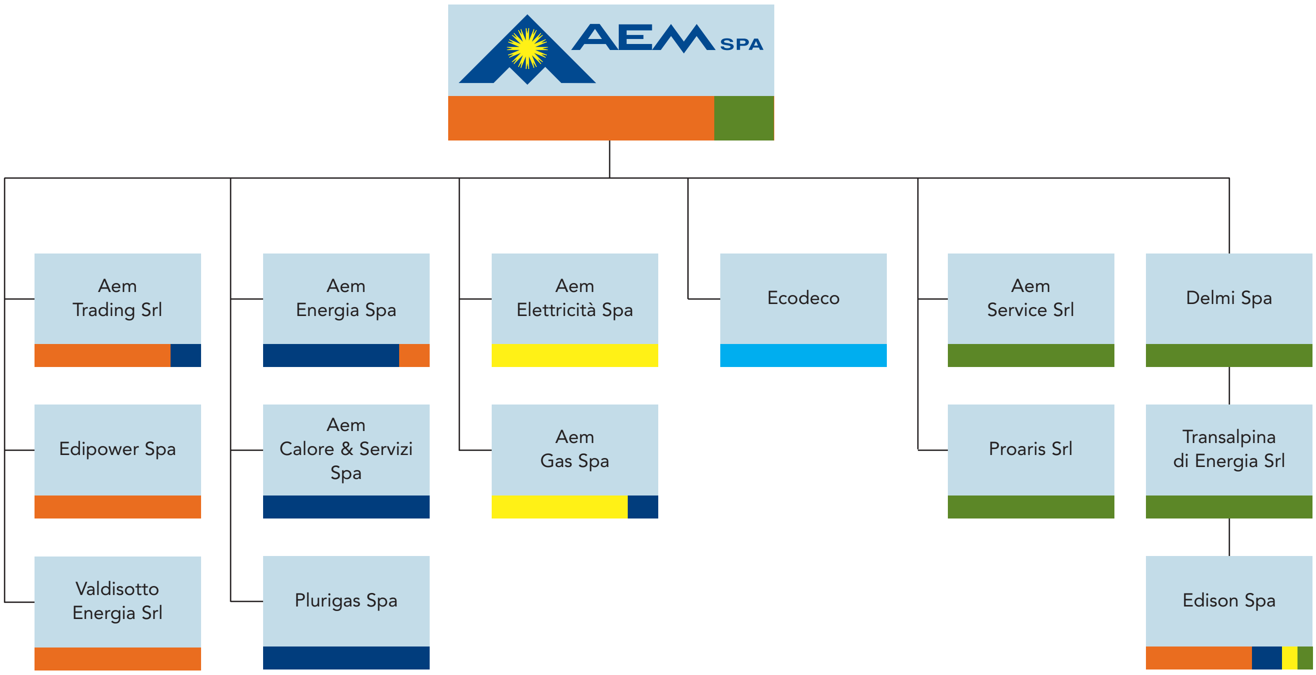
millions of euro	Notes	Consolidated financial statements 12.31.2006	Consolidated financial statements 12.31.2005 Restated IFRIC 4
Financing activities			
Due to banks		(672)	2,331
Financial receivables due from third parties		(20)	(31)
Financial receivables from associates		1	(1)
Assets for financial derivatives		10	(56)
Investments held for trading		9	(14)
Liabilities for financial derivatives		14	2
Due to other providers of finance		23	(11)
Bonds		(145)	1,526
Payables in current a/c to parent entity		(46)	(6)
Financial payables to companies held for sale		32	–
Payment of liabilities for finance leases		13	16
Change in equity pertaining to minority interests (including result for the year)	D7)	208	2,037
Changes in shareholders' equity		122	104
Dividends paid		(107)	(95)
Future net cash flows absorbed by financing activities		**(558)**	**5,802**
CHANGE IN CASH AND CASH EQUIVALENTS		**20**	**22**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**262**	**242**

Statement of changes in Group shareholders' equity

Description millions of euro	Share Capital Note D1	Treasury Shares Note D2	Legal Reserve Note D3	Other Reserves Note D4
Shareholders' equity at December 31, 2004	**936**	**(35)**	**77**	**130**
Changes in 2005:				
Legal reserve			8	
Dividends distributed to shareholders				
Other reserves				74
Treasury shares		12		
Adjustments deriving from the application of IAS 39				109
Reserves from cash flow hedges - Consolidation of the Delmi Group				(3)
Retained earnings				
Retained earnings - Consolidation of the Delmi Group				
Net profit for the year pertaining to the Group				
Minority interests				
Shareholders' equity at December 31, 2005 Restated IFRIC 4	**936**	**(23)**	**85**	**310**
Changes during the year:				
Legal reserve			9	
Dividends distributed to shareholders				
Other reserves				(31)
Treasury shares		(2)		
Adjustments deriving from the application of IAS 39				124
Reserves from cash flow hedges - Consolidation of the Delmi Group				11
Retained earnings				
Retained earnings - Consolidation of the Delmi Group				
Net profit for the year pertaining to the Group				
Minority interests				
Shareholders' equity at December 31, 2006	**936**	**(25)**	**94**	**414**

	Retained Earnings Note D5	Net profit for the year of the Group Note D6	Total Shareholders' equity of the Group	Minority interests Note D7	Total Shareholders' equity
	64	**210**	**1,382**	**3**	**1,385**
		(8)			
		(95)	(95)		(95)
		(52)	22		22
			12		12
			109		109
			(3)		(3)
	55	(55)			
	(20)		(20)		(20)
		242	242		242
				2,037	2,037
	99	**242**	**1,649**	**2,040**	**3,689**
		(9)			
		(107)	(107)		(107)
		(47)	(78)		(78)
			(2)		(2)
			124		124
			11		11
	133	(69)	64		64
	10	(10)			
		302	302		302
				208	208
	242	**302**	**1,963**	**2,248**	**4,211**

AEM Group – Areas of activity



Areas of activity

- Electricity
- Gas & Heat
- Networks & Regulated Markets
- Services
- Waste & Power

In order to provide better disclosure on the business segments in which the AEM Group operates, which are represented according to the "chain" to which they belong. 2006 figures include the results of the Ecodeco Group from April 1, 2006.

Electricity

This includes the production and sale of electricity on the free market, as well as the activities involved in the wholesale trading of power.

Gas and Heat

This refers to the production and purchase of gas and those related to its subsequent sale on the market or its use in the Group's thermoelectric power stations. The sector also includes the production and sale of heat in the form of district heating and heat management services.

Networks and Regulated Markets

This includes electricity distribution, the sale of electricity to the captive market, and the gas storage and distribution activities.

Waste & Power

This includes the activities relating to the building, running and transfer to other territorial operators of integrated systems for the disposal of waste by valorising material and energy.

Services

In addition to the previous areas of business, there is also the Corporate sector, which includes the activities of strategy, governance and control of the industrial operations and the centralised services provided to the operating units.

Lastly, the Other Activities area includes the Water Distribution and Treatment activity carried on by the Edison Group through its joint venture IWH.

Results sector by sector

millions of euro	Electricity		Gas and Heat		Networks and Regulated Markets		
	01.01.2006 12.31.2006	01.01.2005 12.31.2005	01.01.2006 12.31.2006	01.01.2005 12.31.2005	01.01.2006 12.31.2006	01.01.2005 12.31.2005	
Revenues from sales	**4,622**	**1,601**	**2,742**	**1,162**	**751**	**728**	
– of which interdivisional	*17*	*11*	*1,287*	*360*	*115*	*125*	
Gross profit from operations	**991**	**457**	**250**	**113**	**166**	**172**	
% of revenues	*21.4%*	*28.5%*	*9.1%*	*9.7%*	*22.1%*	*23.6%*	
Amortisation, depreciation and provisions	(453)	(205)	(106)	(31)	(80)	(88)	
Net profit from operations	**538**	**252**	**144**	**82**	**86**	**84**	
% of revenues	*11.6%*	*15.7%*	*5.3%*	*7.1%*	*11.5%*	*11.5%*	
Net charges from financial management							
Share of results of companies carried at equity							
Non operating income/charges and Losses on disposals							
Income before taxes							
Income tax expense							
Net result							
Minority interests							
Net result from non-current assets held for sale							
Net profit for the year pertaining to the group							
Capital expenditure	253	211	86	37	92	57	
Total assets	**8,346**	**8,306**	**1,956**	**1,984**	**2,160**	**2,724**	
Total non-current liabilities	**660**	**2,011**	**316**	**254**	**418**	**453**	

Waste & Power		Services		Water		Eliminations		Total AEM Group	
04.01.2006 12.31.2006	01.01.2005 12.31.2005	01.01.2006 12.31.2006	01.01.2005 12.31.2005	01.01.2006 12.31.2006	01.01.2005 12.31.2005	01.01.2006 12.31.2006	01.01.2005 12.31.2005	01.01.2006 12.31.2006	01.01.2005 12.31.2005 Restated IFRIC 4
130		128	109	17		(1,538)	(593)	6,852	3,007
2		*117*	*97*			*(1,538)*	*(593)*		
47		(59)	(28)	6	4	(1)	–	1,400	718
36.2%								*20.4%*	*23.9%*
(22)		(27)	(50)	(2)	(1)	13	20	(677)	(355)
25		(86)	(78)	4	3	12	20	723	363
19.2%								*10.6%*	*12.1%*
								(186)	(29)
								1	1
								11	(30)
								549	305
								(142)	(64)
								407	241
								(160)	(10)
								55	11
								302	242
13		19	13	4	3			467	321
327		5,033	5,738	22	20	(4,750)	(5,433)	13,094	13,339
95		3,269	4,675	8	3	(50)	(424)	4,716	6,972

Consolidated financial statements

pursuant to Consob resolution no. 15519 of July 27, 2006

Balance sheet pursuant to CONSOB Resolution no. 15519 of July 27, 2006

Assets

millions of euro	Notes	Consolidated financial statements at 12.31.2006	of which Related Parties (note no. 21)	Consolidated financial statements at 12.31.2005 Restated IFRIC 4	of which Related Parties (note no. 21)
NON-CURRENT ASSETS	A)				
Property, plant and equipment	A1)	7,026		7,518	
Investment property	A2)	20		24	
Intangible assets	A3)	2,532		2,597	
Investments	A4)	61	61	115	115
Other non-current financial assets	A5)	507	2	343	3
Non-current derivatives	A6)	–		1	
Deferred tax assets	A7)	263		262	
Other non-current receivables	A8)	46		151	
Restricted or pledged deposits	A9)	2		5	
Other non-current assets	A10)	5		–	
Total non-current assets (A)		10,462		11,016	
CURRENT ASSETS	B)				
Inventories	B1)	257		202	
Current financial assets	B2)	19		16	1
Current derivatives	B3)	71		75	
Amounts due from tax authorities	B4)	54		63	
Trade and other receivables	B5)	1,849	65	1,704	96
Cash and cash equivalents	B6)	253		242	
Other current assets	B7)	13		21	
Total current assets (B)		2,516		2,323	
NON-CURRENT ASSETS HELD FOR SALE	C)	116	116	–	
TOTAL ASSETS (A + B + C)		13,094		13,339	

Shareholders' equity and liabilities

millions of euro	Notes	Consolidated financial statements at 12.31.2006	of which Related Parties (note no. 21)	Consolidated financial statements at 12.31.2005 Restated IFRIC 4	of which Related Parties (note no. 21)
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Share capital	D1)	936		936	
(Treasury shares)	D2)	(25)		(23)	
Legal reserve	D3)	94		85	
Other reserves	D4)	414		310	
Retained earnings	D5)	242		99	
Net profit for the year	D6)	302		242	
Equity pertaining to the Group		1,963		1,649	
Minority interests	D7)	2,248		2,040	
Total shareholders' equity (D)		4,211		3,689	
LIABILITIES	E)				
Non-current liabilities	E1)				
Medium/long-term financial liabilities	E1 - 1)	3,118		5,001	
Deferred tax liabilities	E1 - 2)	769		937	
Employees benefits	E1 - 3)	210		200	
Provisions for risks	E1 - 4)	618		618	
Other non-current liabilities	E1 - 5)	1		216	
Total non-current liabilities (E1)		4,716		6,972	
CURRENT LIABILITIES	E2)				
Trade and other payables	E2 - 1)	1,840	10	1,445	5
Tax liabilities	E2 - 2)	86		102	
Short-term financial liabilities	E2 - 3)	2,161	25	1,086	70
Other liabilities	E2 - 4)	11		45	
Total current liabilities (E2)		4,098		2,678	
Total liabilities (E)		8,814		9,650	
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	F)	69	69	–	
TOTAL LIABILITIES AND EQUITY (D + E + F)		**13,094**		**13,339**	

Income statement pursuant to CONSOB Resolution no. 15519 of July 27, 2006

millions of euro	Notes	Consolidated financial statements 01.01.2006/12.31.2006	of which Related Parties (note no. 21)	Consolidated financial statements 01.01.2005/12.31.2005 Restated IFRIC 4	of which Related Parties (note no. 21)
Revenues	1)				
Revenues from sales	1.1)	6,335		2,719	
Revenues from services	1.2)	169	26	102	26
Revenues from long-term contracts	1.3)	23		(8)	
Other operating income	1.4)	325	1	194	1
Total revenues		6,852		3,007	
Other operating income	2)				
Other operating income	2.1)	138		48	
Total other operating income		138		48	
Total revenues and other operating income		6,990		3,055	
Operating costs	3)				
Raw materials and consumables used	3.1)	4,004		1,621	
Services used	3.2)	941	14	347	14
Changes in inventories of finished goods and work in progress	3.3)	(36)		64	
Other operating costs	3.4)	404	2	118	2
Total operating costs		5,313		2,150	
Labour costs	4)	277		187	
Gross profit from operations	5)	1,400		718	
Amortisation, depreciation, provisions and writedowns	6)	677		355	
Net profit from operations	7)	723		363	
Gains (losses) on revaluation of financial assets available for sale	8)	(1)		(2)	
Gains (losses) on financial instruments	9)	4		6	
Other gains (losses) on derivatives gains (losses) on disposal of financial assets available for sale	10)	7		50	
Financial charges	11)	248	2	113	2
Income (losses) from financial assets	12)	52		30	
Dividend income	12.1)	5		3	
Income from receivables/securities included in non-current assets	12.2)	1		–	
Income from receivables/securities included in current assets	12.3)	36		24	
Exchange gains and losses	12.4)	10		3	
Total financial costs	13)	(186)		(29)	

millions of euro	Notes	Consolidated financial statements 01.01.2006/12.31.2006	of which Related Parties (note no. 21)	Consolidated financial statements 01.01.2005/12.31.2005 Restated IFRIC 4	of which Related Parties (note no. 21)
Share of results of associates deriving from valuation according to the equity method	14)	1	1	1	1
Gains (losses) on disposal of property, plant and equipment	15)	(6)		(4)	
Other non-operating profits	16)	58		10	
Other non-operating costs	17)	(41)		(36)	
Profit before tax		549		305	
Income tax expense	18)	142		64	
Net profit (loss) of ongoing operations net of tax		407		241	
Net result from non-current assets sold or held for sale held for sale	19)	55		11	
Net profit (loss)		462		252	
Minority interests		(160)		(10)	
NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP	20)	302		242	

Notes to the consolidated financial statements

General information

AEM S.p.A. is a company incorporated under Italian law. AEM S.p.A. and its subsidiaries ("Group") operate principally in Italy.
The Group is principally involved in the production, sale and distribution of electricity, in the production, sale and distribution of gas, as well as in the design and laying of fibre optic networks.
The Group's registered office is in Corso di Porta Vittoria 4, Milan, Italy.
The consolidated financial statements of the AEM Group are expressed in euros, which is also the currency of the economies in which the Group operates.
The consolidated financial statements of the AEM Group at December 31, 2006, consists of the balance sheet, income statement, cash flow statement, statement of changes in equity and explanatory notes. The AEM Group has been applying International Financial Reporting Standards (IFRS) from 2005, following the introduction of EU Regulation no. 1606 of July 19, 2002. The transition date was January 1, 2004 except for IAS 32 and IAS 39, which were adopted from January 1, 2005.
These consolidated financial statements for the period January 1, 2006-December 31, 2006 have been prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Union, as well as with the provisions issued in application of art. 8 of D.Lgs. 38/2005; they have been prepared on the basis of the same recognition and measurement criteria used in preparing the consolidated financial statements at December 31, 2005 apart from the matters indicated in the paragraph below entitled "Changes in international accounting standards.

Publication of the consolidated financial statements at December 31, 2006 was authorized by the Board of Directors on March 19, 2007.

Financial statements

The AEM Group presents its income statement by nature, a format that is considered more representative than the so-called "presentation by destination". This is the same format as the one used by AEM's major competitors, which is in line with international practice.
For the balance sheet, the Group has adopted a format which separates current and non-current assets and liabilities, according to para. 51 *et seq.* of IAS 1.
The statement of cash flows is prepared according to the indirect method.

Basis of preparation

The consolidated financial statements at December 31, 2006 has been prepared on the basis of historical cost, except for financial derivative instruments, financial assets available for sale and intangible rights such as excess emission rights and excess green certificates, which are shown at fair value. The book value of assets and liabilities subject to fair value hedges, which would otherwise be shown at cost, are adjusted to take account of any changes in fair value attributable to the risks being hedged.

Changes in international accounting standards

The accounting policies applied in 2006 are the same as those of the previous year, except as regards the adoption of new or revised standards considered obligatory from 2006.

The changes in accounting policy are the result of adopting the following new or revised accounting standards:

- IFRS 6 Exploration for and Evaluation of Mineral Resources – The AEM Group applies IFRS 6 through consolidation of the Delmi Group; it was adopted by the Delmi Group also in 2005;
- IFRIC 7 Guidance on restatement of financial statements in accordance with IAS 29 (Financial reporting in hyperinflationary economies) and IFRIC 8 Objective of IFRS 2 (the interpretation clarifies certain aspects of share-based payments) which do not have any effect on the figures shown in the Group report;
- IAS 39 Financial instruments: Recognition and Measurement – Amendment relating to financial guarantee contracts. The impact was immaterial for the AEM Group;
- IAS 39 – Amendment relating to the hedging of intercompany transactions. Not applicable to the AEM Group.
- IFRIC 4 – An entity can conclude an agreement, which includes a transaction or a series of related transactions, that transmit a right to use an asset (such as an element of property, plant and equipment) in exchange for a payment or a series of payments, without this necessarily being considered leasing in terms of legal formalities. Examples of agreements in which an entity (the supplier) can transmit such a right to use an asset to another entity (the buyer), often together with related services, include: outsourcing agreements (e.g. outsourcing an entity's IT functions); agreements in the telecommunications industry, in which suppliers of network capacity sign contracts to provide buyers rights to that capacity; "take or pay" and similar contracts in which the buyers have to make specific payments whether or not they accept the products or services offered under the agreement (for example, a "take or pay" contract to buy practically all of the output of a supplier's power generator). In the case of the AEM Group, IFRIC 4 is applicable to the Ibiritermo thermoelectric plant which is consolidated through the Delmi Group;
- IAS 21, which introduces and modifies certain paragraphs on investments in foreign operations, does not affect the Group.

Interpretations of IFRS and IFRIC not yet in force

The AEM Group has not applied the IFRS that have been published but not yet come into effect:

IFRS 7 Financial instruments: disclosures

It governs the additional disclosures that have to made on financial instruments in financial statements.

IFRIC 9 Reassessment of embedded derivatives

It specifies that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. This interpretation is applicable from January 1, 2007; the Group is of the opinion that adopting it will not have a material impact.

Amendments

In December 2004, the IASB issued an amendment to IAS 19 – Employee Benefits, giving companies the option to recognise actuarial gains and losses immediately during the period in which they arise, not through the income statement, but in a specific equity caption. This option can be applied from January 1, 2006. The AEM Group has not applied this amendment in this report.

Scope of consolidation

The consolidated financial statements of the AEM Group at December 31, 2005 include the financial statements of the parent company AEM S.p.A. and of the Italian and foreign companies in which AEM S.p.A., directly or indirectly, holds a majority of the voting rights that can be exercised at ordinary shareholders' meetings. The companies on which the parent company has joint control with other shareholders have been consolidated on a proportional basis.

Changes in the scope of consolidation

Changes in the scope of consolidation of the Delmi Group

The main changes to the Group's scope of consolidation during the period, which derive from changes in the scope of consolidation of the Edison Group, concern:

- deconsolidation of the IWH Group, International Water (Tunari) S.a.r.l. (proportionally consolidated) and its subsidiary Aquas del Tunari S.A.; both were sold in January 2006;
- consolidation of 100% of Edison Treasury Services following exercise of the call option on April 21, for the purchase of 100% of the investment;
- deconsolidation of STEL S.p.A., previously fully consolidated, as it has been put into liquidation;
- in October 2006 Edison S.p.A. acquired 100% of EDF Energia Italia S.r.l., which has been consolidated from October 1, 2006. In December the company was merged in Edison Energia S.p.A.;
- in November 2006 Edison Rete S.p.A. was sold to RTL S.p.A., a wholly-owned subsidiary of Terna S.p.A., and has therefore been excluded from the consolidation from November 1, 2006. The net result from January 1, 2006 to October 31, 2006 and the net gain on sale have been booked in the income statement to "Net result from non-current assets sold or held for sale";
- in November 2006 Edison S.p.A. acquired 70% of Eneco Energia S.p.A. for approximately 4 million euro. Eneco Energia S.p.A. has been fully consolidated from November 1, 2006 , as the put and call options for the purchase of the residual 30% by Edison S.p.A., exercisable from July 1, 2007 to July 31, 2008, were taken into account;
- on December 14, 2006 Edison S.p.A. signed an agreement to sell BG Italia S.p.A. its 66.32% stake in Serene S.p.A. (BG Italia already held the other 33.68%). As regards the terms of the deal, reference should be made to the next chapter entitled "Information on non-current assets held for sale and discontinued operations (IFRS 5)." Moreover, even if they do not represent a business segment, in accordance with IFRS 5, the assets and liabilities of Serene

S.p.A. at December 31, 2006 have been reclassified to “Non-current assets held for sale” and “Liabilities directly associated with non-current assets held for sale” of the balance sheet, while the costs and revenues for 2006 are shown line by line in the consolidated income statement;

- as the result of a non-proportional spin-off, Estgas became a 100% subsidiary from October 1, 2006 and, therefore, fully consolidated from this data. Subsequently it was merged into Edison Energia S.p.A.. For the first nine months of the year, the company Estgas was carried at equity;
- in December Edison per Voi S.p.A. was merged into Edison Energia S.p.A.;
- following new agreements and amendments to the articles of association in December 2006, Galsi S.p.A. was deconsolidated from December 31, 2006. The financial statements therefore include proportional consolidation (18%) of the income statement for the whole of 2006, whereas it excludes the balance sheet.

Changes in the scope of consolidation of the AEM Group

Considering the fact that AEM S.p.A. has potential voting rights in Ecodeco S.r.l. of 70%, in addition to the 30% of the voting rights that it already holds, the Ecodeco Group has been fully consolidated in the interim financial statements at June 30, 2006, starting on April 1, 2006. Previously, the Ecodeco Group was consolidated under the equity method. This means that in these financial statements, the consolidated balance sheet of the AEM Group includes all of the asset and liability balances of the Ecodeco Group at December 31, 2006, whereas the consolidated income statement of the AEM Group includes 30% of the Ecodeco Group’s results for the period from January 1, 2006 to March 31, 2006 in line item 15 (“Gains and losses on valuation of investments at equity”) and 100% of its results on a line-by-line basis from April 1, 2006 to December 31, 2006.
Details are given in paragraph “Consolidation procedures”.

On September 22, AEM S.p.A. acquired 100% of Valdisotto Energia S.r.l., which is fully consolidated as from this date.

From the fourth quarter of 2006, the following companies were deconsolidated following their sale: AEM Trasmissione S.p.A. (November 24, 2006) Serenissima Gas S.p.A. (October 30, 2006), Serenissima Energia S.r.l. (October 30, 2006) and Metroweb S.p.A. (October 19, 2006).
Please note that Mestni Plinovodi d.o.o. (held by the parent company AEM S.p.A.) is also being disposed of. As foreseen by IFRS 5, the assets and liabilities of this

company have been reclassified to the balance sheet items “Non-current assets held for sale”.
The net result of these activities at December 31, 2006 has been classified in the caption “Net result from non-current assets sold or held for sale”.
On October 30, 2006 AEM S.p.A. acquired 20% of ACSM S.p.A., which is valued at equity The paragraph entitled “Consolidation procedures” provides details of this operation.

Consolidation policies

Subsidiaries

The scope of consolidation of the AEM Group includes the parent company, AEM S.p.A., as well as the companies over which it exercises direct or indirect control. The subsidiaries are consolidated from the date on which the Group effectively acquires control and are no longer consolidated from the date on which control is transferred to a company outside of the Group.

Associates

Investments in associates, in other words those in which the AEM Group holds a significant interest and is able to exercise a considerable influence, are valued under the equity method. Gains or losses pertaining to the Group are recognised in the consolidated financial statements from the date on which the Group began to have a significant influence over the company. The investment is deconsolidated if this significant influence comes to at end.
In the event that the loss pertaining to the Group exceeds the book value of the investment, the book value is cancelled and any excess loss is provided for to the extent that the Group has legal or implicit obligations towards the associate to cover its losses or, in any case, to make payments on its behalf.

Joint Ventures

Joint ventures, i.e. investments in companies in which the AEM Group holds joint control together with third parties, are consolidated on a proportional basis. The consolidated financial statements therefore includes, line by line, all of such companies' assets, liabilities, revenues and costs in proportion to the AEM Group's shareholding.
As regards joint ventures, AEM S.p.A. consolidates Edipower S.p.A. on a proportional basis (20%) in light of the contracts and agreements that exist among the current shareholders. This consolidation percentage includes the call options (4%) which are considered "as though exercised" at January 1, 2004, which means that they are not subject to valuation in accordance with IAS 32 and 39.

Potential voting rights

If the AEM Group holds call options to buy shares or other instruments representing capital that are convertible into ordinary shares, or other instruments that have the potential, if exercised or converted, to give the Group voting rights or reduce the voting rights of third parties ("potential voting rights"), such potential voting rights have to be taken into consideration when assessing whether or not the Group has the power to govern or influence the other company's financial and operating policies.

Consolidation procedures

General procedure

The financial statements of the subsidiaries, associates and joint ventures consolidated by the AEM Group have been prepared at each period-end using the same accounting principles as the parent company. Any items valued on alternative bases are adjusted during the consolidation process to bring them into line with Group accounting principles. All intercompany balances and transactions, including any unrealised profits deriving from transactions between Group companies, are eliminated completely.

Unrealised gains and losses with associates and joint ventures are eliminated for the portion pertaining to the Group. Unrealised losses are eliminated, unless they represent a permanent impairment.
In preparing the consolidated financial statements, the assets, liabilities, costs and revenues of the companies being consolidated are included in their entirety on a line-by-line basis, showing the portion of shareholders' equity and net profit for the period pertaining to minority interests separately in the balance sheet and income statement.
The book value of the investment in each of the subsidiaries is eliminated against the corresponding share of each subsidiary's net equity, including any adjustments to fair value at the date of acquisition; any difference that arises from this process has to be treated as goodwill and accounted for as such, in accordance with IFRS 3.

Consolidation procedure of the Ecodeco Group

On April 22, 2005, AEM S.p.A. acquired 30% of the share capital and voting rights of Ecodeco S.r.l..
Under the agreements made at that date, AEM S.p.A. has a call option, which has still not been exercised as of December 31, 2006, which gives it the right, but not

the obligation, to buy the other 70% of the share capital and voting rights of Ecodeco S.r.l. from April 22, 2006. The strike price is based on certain economic and financial ratios according to the consolidated financial statements of the Ecodeco Group.

Based on these agreements, the call option could not be exercised during the first quarter of 2006, so up until March 31, 2006 the investment in Ecodeco S.r.l. was consolidated at equity.

From April 1, 2006 the Ecodeco Group is fully consolidated on a line-by-line basis as the rights deriving from the call option have been considered "potential voting rights" in accordance with IAS 27, having examined all of the facts and circumstances affecting the rights, as required by the standard.

Hence, the consolidated balance sheet of the AEM Group includes all of the asset and liability balances of the Ecodeco Group at December 31, 2006, whereas the consolidated income statement of the AEM Group includes 30% of the Ecodeco Group's results for the period from January 1, 2006 to March 31, 2006 in line item 15 ("Gains and losses on valuation of investments at equity") and 100% of its results on a line-by-line basis from April 1, 2006 to December 31, 2006.

Moreover, as laid down in IAS 27, in the event of potential voting rights, the portions of gains or losses arising from changes in the equity attributable to the consolidating entity and minority interests are determined on the basis of the current ownership structure, without reflecting the possibility of exercising or converting potential voting rights.

So given an investment of 30% in the Ecodeco Group and line-by-line consolidation of 100% of the Group, the consolidated financial statements of the AEM Group will consider 70% of the results of the Ecodeco Group (from April 1, 2006 to December 31, 2006) as "profit pertaining to minority interests" and 70% of the equity of the Ecodeco Group at December 31, 2006 as "minority interests".

Consolidation procedures of the ACSM Group and deconsolidation of Serenissima Energia and Serenissima Gas

On October 20, 2006, AEM S.p.A. acquired 20% of the share capital and voting rights of ACSM S.p.A..
Given that ACSM is a quoted company and approves its financial statements later than AEM, making it impossible to obtain definitive figures in time to be included

in the consolidation, AEM will consolidate ACSM's results and its balance sheet figures with a three month delay (in other words, its fourth quarter 2006 results and equity at December 31, 2006 will be consolidated with AEM in the first quarter of 2007).
Moreover, given that ACSM did not prepare any accounts at October 30, 2006, it will be consolidated from October 1, 2006.
On the other hand, given that there are accounts available at October 31 for Serenissima Gas and Serenissima Energia S.r.l., they will be deconsolidated from November 1, 2006.

Consolidation procedures for non-current assets (and liabilities) held for sale and discontinued operations (IFRS 5)

Discontinued operations and assets held for sale include assets (or groups of assets being disposed of) whose book value will be recovered principally by being sold off rather than being continuously used. Assets held for sale are valued at the lower of net book value and fair value, net of selling costs.

The investments in companies which satisfy the requisites of IFRS 5 ("Non-current assets held for sale and discontinued operations"), which means that the assets, liabilities and net result have been shown separately in the consolidated balance sheet and income statement as required by this accounting standard.

As regards disclosure, AEM interprets IFRS 5 is the following way:
- the consolidated income statement has to be restated, also for comparative purposes, for separate disclosure of these companies' results which on preparation of the financial statements are shown in accordance with IFRS 5;
- the result is restated from the first day of the year in which the IFRS 5 requirements are met (the same occurs for the previous year);
- depreciation is suspended as soon as an asset meets the requirements of IFRS 5;
- assets and liabilities as per IFRS 5 as shown separately, without making a prior year comparison.

If the asset or investment is sold, the consolidated income statement will show, again under "Results of non-current assets held for sale and discontinued operations (IFRS 5)" the net result earned up to the date of disposal, including the consolidated gain or loss deriving from the sale.

“Purchase Price Allocation” pursuant to IFRS 3

As explained above, from June 30, 2006, the Ecodeco Group is fully consolidated on a line-by-line basis. On first-time line-by-line consolidation, the investment was valued at fair value in accordance with the purchase price allocation method. At June 30, 2005 the Ecodeco Group prepared an audited set of accounts in accordance with IFRS. The fair value valuation was performed by arranging for independent expert appraisals that made it possible to allocate a part (29 million euro) of the higher value paid for the investment to property, plant and equipment. The part not allocated to the Group’s assets, 10 million euro, was booked to “Goodwill” and submitted to impairment testing as required by IFRS.

Completion of the Purchase Price Allocation of Transalpina di Energia S.r.l. pursuant to IFRS 3

For IFRS purposes and for preparation of the Group's consolidated financial statements, the acquisition of control of Edison by Transalpina di Energia represents a Business Combination regulated by IFRS 3, which lays down that all business combinations have to be accounted for according to the ("Purchase Accounting Method"). This means that the buyer has to book all assets, liabilities (including debt) and contingent liabilities identifiable at the time of the purchase at fair value at the date of acquisition, at the same time identifying any goodwill on a residual basis.
The Purchase Price Allocation ("PPA") carried out as of the date of acquisition of control, conventionally considered September 30, 2005, was reported in detail in the financial statements at December 31, 2005, to which reference should be made for full information. PPA led to further goodwill on a residual basis for TDE, in addition to that of Edison (3,505 million euro) of 161 million euro.
Moreover, under IFRS 3 initial accounting for a business combination is of provisional value, as it is permitted to adjust the fair values previously assigned to the assets, liabilities and contingent liabilities within 12 months of the acquisition date (in this case by September 30, 2006), which become definitive after any such revision (so-called "complete accounting").
Revision is obligatory if there are errors that need correcting in accordance with IAS 8 (Changes in accounting estimates and errors). In this case, correction is possible beyond the period of 12 months, without any time limit.
In essence, figures only have to be revised if information available at the valuation date has erroneously not be used or if it has been used incorrectly and if its use would have modified the fair value in question.
Revising the figures used in the initial accounting (paragraph 62 of IFRS 3) presumes, on the other hand, new knowledge acquired after the acquisition date, which at the time of the acquisition was only potentially available; in this case the company has to estimate new fair values for the assets, liabilities and contingent liabilities acquired.
In all cases, adjustment of the fair value as well as of the related tax effect has retroactive effect and, as a result, the value of the goodwill booked initially gets restated.
IFRS 3, on the other hand, says that a change in estimate should not adjust the initial cost of a business combination as the effects have to be reflected in future years.
In this particular case, after a year from the first acquisition, certain new elements arose that induced management to adjust the initial values of property, plant and equipment, in particular elements that made it opportune to change the fair value

initially attributed to the investment in Edison Rete, the affiliate that runs the high-tension power grid.
In this regard, it has to be borne in mind that in the determination of the fair value of Edison Rete, only the fixed element of the tariff was taken into account, for prudence sake; in fact, this was the only element effectively received by the company as the variable element of the tariff has never been evaluated by the Authority.
Further consideration, also in light of the outcome of negotiations with third parties on disposal of the investment, as well as recent deals on the market, led management to revise this valuation. In particular:

- the variable element of the tariff was also included in determining the fair value;
- moreover, account was taken of transactions that have effectively taken place, determining the fair value based on the market value net of disposal costs.

Based on these considerations, the value attributed to the net invested capital of Edison Rete after the revision has been increased, compared with the initial allocation, from 205 to 311 million euro, in other words by 106 million euro, on which deferred tax liabilities of 4 million euro have been charged. The amount of the tax charge was determined by reference to the effective taxes that will have to be paid on disposal, bearing in mind the tax regime applicable to it (Participation Exemption).
As regards the intangible assets, on the other hand, no new elements arose to induce management to adjust the initial values; in certain cases, it was not possible to separate such assets from goodwill, whereas in other cases it proved impossible to measure the intangible asset: either because it was subject to the creation of assets whose value was not measurable, or because there was no experience or evidence of any trading in similar or identical assets.

Completion of the Purchase Price Allocation of Transalpina di Energia S.r.l. pursuant to IFRS 3

Taking all of the above into account, as well as the related deferred tax effects, the value of the incremental goodwill attributable to TDE, to be added to that of Edison (namely 3,505 million euro) changed as follows:

millions of euro	
Purchase cost of Edison investment	4,811
Less:	
Pro-quota shareholdersp equity of Edison:	
Equity pertaining to the Group as per IFRS (6,803 x 69.39%):	(4,721)
Edison acquisition goodwill	**90**

This definitive value compares with a provisional value of 161 million euro. As a result of the impairment test carried out particularly with reference to the Edison Group at December 31, 2005, it is worth pointing out that this goodwill relates essentially to the Hydrocarbon chain.
In the interests of greater clarity, the following table shows Edison's assets and liabilities at September 30, 2005 after being adjusted in accordance with IFRS 3. Note that the complete PPA has been audited by PricewaterhouseCoopers S.p.A..

Balance sheet millions of euro	Book value at 09.30.2005	Provisional value recognised at 09.30.2005	New fair value Edison rete	Definitive value recognised at 09.30.2005
Assets				
Property, plant and equipment	8,621	8,810	106	8,916
Investment property	57	57	–	57
Goodwill	3,505	3,505	–	3,505
Hydrocarbon concessions	332	447	–	447
Other intangible assets	37	722	–	722
Investments	65	65	–	65
Investments available for sale	79	79	–	79
Other financial assets	71	71	–	71
Deferred tax assets	105	105	–	105
Other assets	359	359	–	359
Total non-current assets	**13,231**	**14,220**	**106**	**14,326**
Inventories	444	444	–	444
Trade receivables	1,197	1,197	–	1,197
Receivables from customers	–	–	–	–
Current tax receivables	41	41	–	41
Miscellaneous receivables	318	369	–	369
Current financial assets	107	107	–	107
Cash and cash equivalents	342	342	–	342
Total current assets	**2,449**	**2,500**	**–**	**2,500**
Assets held for sale (disposal groups)	**436**	**548**	**–**	**548**
TOTAL ASSETS	**16,116**	**17,268**	**106**	**17,374**
Liabilities				
Share capital	4,266	4,266	–	4,266
Equity reserves	–	–	–	–
Other reserves	1,548	2,150	102	2,252
Translation reserve	3	3	–	3
Retained earnings (accumulated losses)	(58)	(58)	–	(58)
Retained earnings	–	–	–	–
Net profit (loss) for the year	340	340	–	340
Equity pertaining to the Group	6,099	6,701	102	6,803
Shareholders' equity pertaining to minority interests	469	469	–	469
Total shareholders' equity	**6,568**	**7,170**	**102**	**7,272**
Severance indemnities and retirement benefits	74	74	–	74
Deferred tax liabilities	1,166	1,534	4	1,538
Provisions for risks and charges	952	978	–	978
Bonds	2,845	3,001	–	3,001
Payables and other financial liabilities	1,960	1,960	–	1,960
Other liabilities	12	12	–	12
Total non-current liabilities	**7,009**	**7,559**	**4**	**7,563**
Current financial payables	664	664	–	664
Trade payables	923	923	–	923
Payables to customers	–	–	–	–
Current tax liabilities	69	69	–	69
Other payables	516	516	–	516
Total current liabilities	**2,172**	**2,172**	**–**	**2,172**
Liabilities related to disposal groups	**367**	**367**	**–**	**367**
TOTAL LIABILITIES AND EQUITY	**16,116**	**17,268**	**106**	**17,374**

Lastly, note that the PPA had an impact on the balance sheet values at December 31, 2005, even if with reference to the figures at September 30, 2005, as mentioned above.

Translation of foreign currency items

The functional and presentation currency used by the AEM Group is the euro. Transactions in currencies other than the euro are initially booked at the exchange rate ruling on the day of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into euro at the exchange rate ruling on the balance sheet date.
Non-monetary items valued at historical cost in foreign currency are translated at the exchange rate ruling on the date when the transaction was first recorded. Non-monetary items shown at fair value are translated at the exchange rate ruling on the valuation date.
The financial statements of consolidated companies operating in countries that do not form part of the Euro-zone are translated into euro by applying the exchange rate ruling at the end of the accounting period to balance sheet items and the average exchange rates for the period to income statement items. Exchange differences are booked directly to equity and shown separately in a specific equity reserve. When a foreign affiliate is disposed of, the exchange differences accumulated in a specific equity reserve are transferred to the income statement.

Property, plant and equipment

Property, plant and equipment purchased separately are booked at historical cost, including any additional charges directly attributable to the asset and needed to bring it into service (e.g. transport, customs duty, location preparation expenses, installation and testing costs, notary and cadastral fees and any non-deductible VAT), increased by the present value of the estimated cost of restoring the location from an environmental point of view or dismantling the plant, if this is significant and obligatory under current regulations. Property, plant and equipment acquired as a result of business combinations are booked at fair value as of the acquisition date. If important components of property, plant and equipment have different useful lives, they are accounted for separately according to the "component approach", giving each of them its own useful life for the purpose of calculating depreciation. All plots of land, whether occupied by residential or industrial buildings or devoid of construction, are not depreciated as they have an unlimited useful life, except for land used in production activities that is subject to deterioration over time (e.g. landfills, quarries).

Assets held under finance leases, through which substantially all risks and benefits of ownership are transferred to the Group, are recognised as Group assets at the lower of fair value and the present value of minimum lease payments. The corresponding liability to the lessor is shown in the balance sheet under financial payables.
Property, plant and equipment are shown net of accumulated depreciation and any writedowns. Depreciation is calculated from the year in which the individual asset enters service and is charged on a straight-line basis over the estimated useful life of the asset for the business. The useful life of each asset is reviewed annually and any changes, if needed, are made with a view to showing the correct value of the asset.
The depreciation of freely transferable assets is calculated on a straight-line basis over the lower of the residual duration of the concession and the estimated useful life of the assets.

The main depreciation rates used, which are based on technical and economic considerations, are as follows:

Depreciation rates

• buildings	1.0% - 17.3%
• production plant	1.0% - 33.3%
• transport lines	1.4% -100.0%
• transformation stations	1.8% - 33.3%
• distribution networks	1.4% - 33.3%
• miscellaneous equipment	3.3% -100.0%
• mobile phones	100.0%
• furniture and fittings	10.0% - 25.0%
• electric and electronic office machines	10.0% - 33.3%
• vehicles	10.0% - 25.0%
• leasehold improvements	12.5% - 33.3%

Items of property, plant and equipment are subjected to impairment testing if there are specific signs that they have suffered a loss of value. Impairment testing consists of comparing the recoverable amount of the asset with its net book value. The recoverable amount of an asset is the higher of the net selling price and its value in use.
To establish the value in use, the expected future cash flows are discounted at a pre-tax discount rate that reflects a current market estimate of the cost of money related to the period of time and the specific risks of the activity in question. For an asset that does not generate completely independent cash flows, the realisable

value is determined on the basis of the cash generating unit (C.G.U.) to which the asset belong. Impairment losses are booked to the income statement under amortisation, depreciation and writedowns. Impairment losses are written back if the reasons for them no longer exist.
When an asset is sold or future economic benefits are no longer expected from using the asset, it is eliminated from the balance sheet and any gain or loss (i.e. the difference between the disposal value and the carrying value) is booked to the income statement in the year of the elimination.

Intangible assets

Intangible assets purchased separately are booked at cost, whereas those acquired as a result of business combinations are accounted for at fair value as of the acquisition date. The cost is determined in the same way as for property, plant and equipment. Intangible assets produced internally are not capitalised but charged to income in the period in which the costs are incurred.

Intangible assets with a definite useful life are shown net of accumulated amortisation and any permanent losses of value which are established in the same way as for property, plant and equipment. Changes in the expected useful life or in the ways in which the future economic benefits of an intangible asset are achieved by the Group are accounted for by suitably adjusting the period or method of amortisation, treating them as changes in accounting estimate. The amortisation applied to intangible assets with a definite useful life is charged to the income statement in the cost category that reflects the function of the intangible asset concerned.
Intangible assets are subjected to impairment testing if there are specific signs that they have suffered a loss of value. Impairment testing consists of comparing the recoverable amount of the asset with its net book value.
Intangible assets with an indefinite useful life and those that are not yet available for use are subjected to impairment testing on an annual basis, whether or not there are specific signs that they have suffered a loss of value.

Gains or losses on disposal of an intangible asset are calculated as the difference between the disposal value and the carrying value of the asset and are booked to the income statement at the time of the disposal.

As regards so-called “emission rights”, following EFRAG’s failure to approve IFRIC 3 on Emission Rights and its subsequent withdrawal, there is no specific international accounting standard on this matter. Until a new standard is issued, the Group has decided to adopt the "gross method", which involves booking the emission rights assigned under intangible assets at fair value and emission rights payable under liabilities.

The costs incurred for the acquisition of mineral rights or the extension of existing permits are booked to intangible assets. If the exploration is subsequently abandoned, the residual cost is written off immediately to the income statement.
Exploration costs and the costs relating to geological prospecting, explorative soundings, geological and geophysical surveys, as well as explorative drillings are booked as intangible assets and amortised 100% in the year they are incurred.
The development costs of wells with positive outcomes and the production costs for the construction of plant for the extraction and storage of hydrocarbons are booked to property, plant and equipment according to their nature and depreciated using the unit of production (UOP) method.
The costs for the closure of well, abandoning the area, dismantling or removing structures are capitalised and depreciated using the UOP method.

Impairment of assets

At least once a year, the AEM Group verifies the recoverability of the book value of tangible and intangible assets, so as to establish whether there are any signs that these assets may have suffered a loss in value ("impairment"). If such evidence exists, the book value of the assets is reduced to their recoverable value. An intangible asset with a indefinite useful life is tested for impairment every year, or more frequently if there are signs that the assets may have suffered a loss in value.

When it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash generating unit (CGU) to which the asset belongs.

The recoverable amount of an asset is the higher of its fair value, net of selling costs, and its value in use. To determine an asset's value in use, the Group calculates the present value of the estimated future cash flows, before tax, applying a pre-tax discount rate, which reflects current market valuations of the time value of money and the specific risks to which the asset is exposed. A loss in value is booked if the realisable value is lower than the book value. If subsequently a loss on an asset, other than goodwill, is eliminated or reduced, the book value of the asset or of the CGU is raised up to the new estimate of recoverable value, but without it exceeding the value that the asset would have had without any impairment loss. Writebacks of impairment losses are booked immediately to the income statement.

Goodwill

In the case of a business acquisition, the assets, liabilities and contingent liabilities acquired and identifiable are recognised at their fair value at the date of acquisition. Any positive difference between the purchase cost and the Group's share of the fair value of such assets and liabilities is considered to be goodwill and is booked to the balance sheet as an intangible asset. If the difference is negative, it is treated as negative goodwill and written off to the income statement at the time of the acquisition.

Goodwill is initially booked at cost. After initial recording, goodwill is no longer subject to amortisation; instead, it is subjected to annual impairment testing to see if it has lost value. Goodwill is then allocated to each of the cash generating units that are expected to benefit from the synergies deriving from the acquisition. Any loss of value is identified by means of valuations based on the ability of each unit to generate cash flows to recoup the part of the goodwill that was allocated to it, using the same methods as were explained in the section on property, plant and equipment. If the value that can be recouped by a cash generating unit is less than the amount of goodwill allocated to it, the loss in value is recorded. This loss in value is not written back even if the reasons for it no longer exist.

Long-term construction contracts in progress

Long-term construction contracts currently in progress are valued on the basis of the contractual fees that have accrued with reasonable certainty, according to the stage of completion (or "cost to cost") method, so as to allocate the revenues and net result of the contract to the individual periods to which they belong, in proportion to the progress being made on the project. Any difference, positive or negative, between the value of the contracts and the advances received is booked respectively to the asset or liability side of the balance sheet.

In addition to the contractual fees, contract revenues include any variants, price revisions and incentive awards to the extent that probably represent actual revenues that can determined with a reasonable degree of reliability. Ascertained losses are recognised independently of the stage of completion of the contracts.

Inventories

Inventories of materials and fuel are valued at the lower of weighted average cost and market value at the period-end. Weighted average cost is determined for the period of reference and for each inventory code. Weighted average cost includes any additional costs (such as sea freight, customers charges, insurance, lay or demurrage days in the purchase of fuel) relating to purchases during the period. Inventories are constantly monitored and, whenever necessary, technologically obsolete stocks are written down with a charge to the income statement.

Financial instruments

The AEM Group has adopted IAS 32 and 39 from January 1, 2005.

IAS 39 provides for the following types of financial instruments:
- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

Initially, all financial assets are recognised at fair value, including transaction costs, for those not measured at fair value through profit or loss. The Company establishes the classification of its financial assets after initial recognition and, when needed and allowed, revises this classification at the end of each financial year.

All purchases and sales of financial assets are recognised at the trade date, in other words at the date on which the AEM Group makes a commitment to buy the asset.

The fair value is calculated according to the following hierarchical scale:

1. *Market value*
   The reference market has to be unrestricted and active, with prices made available to the public on a regular and continuous basis. If there are several

markets that can provide a price for the asset to be valued, the one with the lowest price is chosen.

2. Prices of similar assets or liabilities
If a market value is not available, the prices of similar assets or liabilities are analysed.

3. *Valuation methods*
In the absence of reliable prices, the fair value is determined by means of generally accepted valuation models and techniques that can make a reasonable estimate of the market value, such as discounted cash flow (DCF) and option pricing.

4. Cost
In the event that none of the above approaches is applicable, the only point of reference that remains is cost.

Subsequent measurement depends on the category to which the instrument belongs.

Financial assets at fair value through profit or loss

This category includes financial assets held for trading, i.e. all assets purchased with a view to selling them in the short term. Derivatives are classified as financial instruments held for trading, unless they are designated as effective hedges. Assets held for trading are shown at fair value through profit or less.
The AEM Group uses derivatives principally to hedge its exposure to commodity price risk, exchange rate risk and interest rate risk. In the event that such transactions, even if stipulated to hedge risks, do not satisfy the effectiveness test for derivatives foreseen by IAS 39, they are shown at fair value through profit or loss. In accordance with IAS 39, hedging derivatives can only be treated according to the methods laid down for hedge accounting when: a) there is a formal designation and documentation for the hedging relationship at the start of the hedge; b) the hedge is expected to be highly effective; c) the effectiveness can be reliably measured; and d) the hedge is highly effective during various accounting periods for which it was designated. The hedging derivatives that hedge the risk of fluctuations in the fair value of the instruments being hedged (fair value hedges; e.g. hedging changes in the fair value of fixed-interest assets/liabilities), are booked at fair value with changes recognised in profit or loss; in the same way, the instruments being hedged are adjusted to reflect

changes in the fair value associated with the risk being hedged. When the derivatives hedge the risk of changes in the cash flows generated by the instruments being hedged (cash flow hedges; e.g. hedging the variability of the cash flows generated by floating-rate assets/liabilities because of fluctuations in interest rates), any variations in the fair value are initially booked to equity and subsequently charged to the income statement in line with the economic effects produced by the hedged transaction. If a hedging instrument is closed, but the transaction being hedged has not yet taken place, the accumulated gains and losses remain in the equity reserve and are only transferred to income when the transaction is finalised. If the transaction being hedged is no longer considered probable, the gains and losses still to be realised and booked to the equity reserve are transferred immediately to income.
Changes in the fair value of derivatives that do not satisfy the conditions to qualify as hedges are booked to the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are measured at amortised cost using the effective interest method. Gains and losses are booked to the income statement when the loans and receivables are derecognised or when there are signs of impairment, as well as through the amortisation process.

Held-to-maturity investments

Financial assets that are non-derivative and with fixed or determinable payments are classified as "held-to-maturity investments", when the Group has the intention and the capacity to hold them in portfolio until maturity. After initial recognition, held-to-maturity investments are measured at amortised cost. This cost is calculated as the value initially recognised less the capital repayments, plus or minus the amortisation accumulated using the effective interest method of any difference between the value initially recognised and the amount due on maturity. This calculation includes all commissions or points paid between the parties that form an integral part of the effective interest rate, transaction costs and other premiums or discounts. For investments valued at amortised cost, gains and losses are booked to the income statement at the time the investment is derecognised or when there are signs of impairment, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those assets, excluding derivatives, that have been designated as such or not classified in any other of the preceding categories. After initial recognition at cost, financial assets held for sale are measured at fair value. Any gains or losses that arise are booked directly to an equity reserve and then charged to income when the assets disposal of. When the fair value of investments cannot be reasonably determined, they are valued according to the other methodologies envisaged by IFRS or at cost, adjusted for any permanent losses in value, the effect of which is charged to the income statement. The risk deriving from any losses in excess of the book value of the investment is booked to a special provision to the extent to which the investor has undertaken to meet the legal or implicit obligations vis-à-vis the investee enterprise or, in any case, to cover its losses.

Derecognition of financial assets and liabilities

A financial asset (or where applicable, part of a financial asset or parts of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows come to an end;
- the Group has retained the right to receive the future cash flows of the assets, but has assumed a contractual obligation to pass them on to a third party without material delay;
- the Group has transferred the right to receive the cash flows from the asset and (i) has transferred substantially all of the risks and rewards of ownership of the financial asset, or (ii) if it has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control over it.

In the cases in which the Group has transferred the rights to receive financial flows from an asset and has neither transferred nor retained substantially all of the risks and rewards or has not lost control over it, the Group continues to recognise the asset to the extent to which it has a continuing involvement in the asset. A continuing involvement that takes the form of a guarantee over the asset that has been transferred is measured at the lower of the initial book value of the asset and the maximum amount that the Group might have to pay.

A financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled, or expired.

Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognised in the income statement.

Trade receivables

Trade receivables are recorded at their fair value, i.e. their face value, and subsequently reduced for any impairment losses. Trade receivables that do not fall due within the normal trading terms and do not bear interest are discounted.

The collectibility of receivables and the need for any writedowns are reassessed on a quarterly basis.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and sight deposits. In this last case, the deposits have to have an original due date of three months or less and are shown at their face value.

Non-current assets held for sale and Liabilities associated with assets held for sale (Discontinued operations) – IFRS 5

Discontinued operations and assets held for sale include assets (or groups of assets being disposed of) whose book value will be recovered principally by being sold off rather than being continuously used. Assets held for sale are valued at the lower of net book value and fair value, net of selling costs.
In accordance with IFRS, the figures for discontinued operations are shown as follows:
The assets and liabilities have been reclassified respectively to the balance sheet headings “Non-current assets held for sale” and “Liabilities directly associated with non-current assets held for sale”.
The income statement shows in a specific caption : net profit (loss) on discontinued operations and assets held for sale.
With reference only to the income statement, the figures for discontinued operations are compared with the previous reference period.

If the asset or investment is sold, the income statement will show any gain or loss deriving from the sale, again under "Results of non-current assets held for sale and discontinued operations (IFRS 5)".

Trade payables

Trade payables that fall due within the normal trading terms do not get discounted and are booked at cost (i.e. their face value).

Employee benefits

Guaranteed employee benefits paid on or after termination of employment through defined-benefit plans (energy discount, health care or other benefits) or long-term benefits (fidelity bonus) are recognised in the period when the right accrues.
The liability relating to defined-benefit plans, net of any assets that exist to service the plan, is determined on the basis of actuarial assumptions and booked on an accrual basis in line with the work needed to be done to obtain the benefits; the liability is valued by independent actuaries.
Gains and losses arising from the actuarial calculation are charged to the income statement as a cost or as income; the Group does not apply the so-called "corridor method".

Provisions for risks and charges

The provisions for risks and charges concern costs of a determined nature that definitely or probably exist, but which at the balance sheet date are uncertain in terms of amount or timing. Such provisions are recognised when there is a current liability (legal or implicit), deriving from a past event, if it is likely that resources will have to be spent to satisfy the liability and it is possible to make a reasonable estimate of the amount of the liability.
Provisions are booked for an amount that represents the best estimate of the amount that the Company would have to pay to extinguish the liability, or to transfer it to third parties, as of the balance sheet date. If the effect of discounting is significant, the provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects a current market valuation of the cost of money over time. If discounting is applied, the increase in the provision due to the passing of time is booked as a financial expense. If the liability relates to

property, plant and equipment (e.g. dismantling and restoring industrial sites), the provision is booked as a contra-entry to the asset to which it refers; the expense is then charged to the income statement through the process of depreciating the asset in question.

Treasury shares

Treasury shares are booked as a reduction of equity. The par value of the treasury shares is booked as a separate item as a reduction of shareholders' equity

Grants

Grants, both from public entities and from external private entities, are booked at fair value when there is reasonable certainty that they will be received and that the Company will be able to comply with the terms and conditions for obtaining them.
Grants received to help cover specific expenses are booked to other liabilities and credited to the income statement on a systematic basis over the accounting periods needed to match the related costs.
Contributions received to help cover the cost of specific items of property, plant and equipment are booked either as a direct reduction of the assets concerned, or to other liabilities and credited over the period of depreciation of the assets to which they refer.
Operating grants (given to provide the company with immediate financial aid or as compensation for costs or losses incurred in a previous accounting period) are charged in their entirety to the income statement as soon as the conditions for booking the grants are satisfied.

Revenues and costs

Revenues are recognised to the extent that it is possible to establish their fair value on a reliable basis and it is probable that the related economic benefits will be enjoyed. Depending on the type of transaction, revenues are recognised on the basis of the following specific criteria:

- revenues for the sale and transport of electricity and gas are recognised at the time that the energy is supplied or the service rendered, even if they are still to be invoiced, and determined by integrating those based on pre-established meter-reading calendars with suitable estimates. These revenues are based,

when applicable, on the tariffs and related tariff restrictions foreseen by current law and by the Italian Authority for Electricity and Gas and equivalent organisation abroad in force during the period of reference;
- the revenues earned from the sale of natural gas coming from fields in which the AEM Group has a joint interest along with other producers are booked in proportion to the Group's share of the quantity produced;
- connection contributions paid by users, if not for costs incurred to extend the network, are book to income on collection and shown under "revenues from services";
- the contributions paid by users towards an extension of the gas network are accounted for as soon as there is a formal decision to deliver the service and there is no longer any obstacle to them being collected. They are deducted from the cost incurred by the Group to extend the network and are booked to income over the duration of the investment with a view to offsetting the depreciation of the installations concerned;
- the revenues and costs involved in withdrawing quantities that are higher or lower than the Group's share are measured at the prices foreseen in the related purchase or sale contract;
- revenues from the provision of services are recognised according to the stage of completion based on the same criteria as for contract work in progress. If it is impossible to establish the value of revenues on a reliable basis, they are recognised up to the amount of the costs incurred, providing they are expected to be recovered;
- revenues are booked net of returns, discounts, allowances and bonuses, as well as directly related taxes;
- revenues from the sale of green certificates are booked at the time of sale.

The costs are for goods or services sold or consumed during the year or as a result of systematic allocation; if it is not possible to see any future use for them, they are charged to income.

Financial income and charges

Financial income is recognised when interest income arises as a result of applying the effective interest method (at the rate which exactly discounts the expected future financial flows based on the expected life of the financial instrument).

Financial charges are recognised on an accrual basis and booked to the income statement at the amount of the effective interest.

Dividends

Dividend income is recognised when it is established that the shareholders have a right to receive payment.
Dividends are classified as financial income in the income statement.

Income taxes

Current taxes

Current income taxes for the period are based on an estimate of taxable income and in compliance with current tax regulations; account is also taken of the fact that the Company now files for tax on a Group basis.

Deferred tax liabilities

Deferred tax liabilities are calculated by applying the liability method to the temporary differences at the date of the financial statements between the book value of the assets and liabilities and their value for tax purposes. Deferred tax liabilities are booked on all taxable temporary differences, except:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, does not have any impact on the book result for the year nor on the profit or loss calculated for tax purposes;
- with reference to taxable temporary differences related to investments in subsidiaries, associates and joint ventures, in the event that reversal of the temporary differences can be controlled and it is probable that it will not take place within the foreseeable future.

Deferred tax assets are booked on all deductible temporary differences and for carry-forward tax assets and liabilities, to the extent that it is probable that there will be sufficient future taxable income to absorb the deductible temporary differences and the carry-forward tax assets and liabilities, except in the event that:

- the deferred tax asset linked to the deductible temporary differences derives from the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, does not have any impact on the book result for the year nor on the profit or loss calculated for tax purposes;
- with reference to the deductible temporary differences related to investments in subsidiaries, associates and joint ventures, deferred tax assets are only booked to the extent that it is probable that the deductible temporary differences will

reverse in the immediate future and that there is sufficient taxable income against which the temporary differences can be used.

The value of the deferred tax assets shown in the balance sheet is reassessed at each financial closing date and reduced to the extent that it is no longer probable that there will be sufficient taxable income in the future to absorb all or part of this tax credit. Unrecognised deferred tax assets are reassessed annually at the closing date and recognised to the extent that it has become probable that there will be sufficient taxable income to absorb them.
Deferred tax assets and liabilities are measured on the basis of the tax rates that are expected to be applicable in the year that the assets or liabilities reverse, bearing in mind current tax rates and those already enacted, or substantially enacted, at the balance sheet date.

The income taxes on items booked directly to equity are also booked directly to equity and not through the income statement.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities and the deferred taxes refer to the same fiscal entity and the same tax authority.

Use of estimates

When preparing the consolidated financial statements and notes according to IFRS, the Group makes estimates and hypotheses that have an effect on the assets and liabilities shown in the accounts and on the information regarding contingent assets and liabilities at the balance sheet date. The actual results could differ from these estimates. Estimates are used to calculate provisions for bad and doubtful receivables, obsolete and slow-moving goods, depreciation and amortisation, asset writedowns, employee benefits, taxes, restructuring and other provisions. These estimates and hypotheses are reviewed periodically and all changes are reflected immediately in the income statement.

Balance sheet

Please note the following:

- from September 30, 2005 the scope of consolidation of the AEM Group includes the consolidation of the Edison Group through Transalpina di Energia S.r.l., which is jointly controlled by Delmi S.p.A. (now "Delmi Group") and by Electricité de France (EDF) Group; as a result, the figures at December 31, 2006 are comparable with those at December 31, 2005. In application of IFRIC 4, the Delmi Group has restated and reclassified the financial statements for the year ended December 31, 2005: the following figures reflect these changes; the caption "Other information" shows the effects of this application on the figures at December 31, 2005. As foreseen by IFRS 5, the assets and liabilities of Serene S.p.A. have been reclassified to "Non-current assets held for sale" and "Liabilities directly associated with non-current assets held for sale";
- the caption "C) Non-current assets held for sale" also includes the investment in Mestni Plinovodi d.o.o. held by the parent company;
- in addition to the 30% interest in the share capital of Ecodeco S.r.l., AEM S.p.A. also holds a call option for the purchase of the other 70% of this company's share capital and related voting rights. In accordance with IAS 27 on so-called "potential voting rights", the investment in Ecodeco S.r.l. is fully consolidated from April 1, 2006. Up until March 31, 2006, the investment in Ecodeco S.r.l. was consolidated at equity as the call option was not exercisable;
- the scope of consolidation of the AEM Group includes all subsidiaries, consolidated line-by-line, as well as Plurigas S.p.A. and Edipower S.p.A., which are consolidated on a proportional basis.

For more details, please read the chapter entitled "Scope of consolidation".

Note that the so-called "old AEM scope of consolidation" refers to the AEM Group without consolidating the Delmi and Ecodeco Groups.

The balance sheet at December 31, 2006 reports assets of 13,094 million euro and liabilities of 8,883 million euro; shareholders' equity totals 4,211 million euro.

Net profit for the year came to 302 million euro.

ASSETS

A) Non-current assets

A1) Property, plant and equipment

millions of euro	Net book value 12.31.2005	Ecodeco Group first-time cons.	Cap. expend.	Other changes	Disposals	Depreciation and writedowns	Net book value 12.31.2006
Land	103	8	–	10	–	–	121
Buildings	595	2	5	59	(1)	(36)	624
Plant and machinery	5,718	148	149	790	(514)	(491)	5,800
Industrial and commercial equipment	14	–	5	–	–	(4)	15
Other property, plant and equipment	19	16	2	–	–	(3)	34
Construction in progress and advances	1,069	12	260	(907)	(2)	–	432
Total	**7,518**	**186**	**421**	**(48)**	**(517)**	**(534)**	**7,026**

Total property, plant and equipment millions of euro	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other property, plant and equipment	Assets in process of formation and advances	Total
Balance at 12.31.2006						
Of which:						
– historical cost	922	7,962	33	44	1,069	10,030
– acquisitions	5	149	5	2	260	421
– other changes	79	938	–	16	(895)	138
– writedowns	–	(50)	–	–	–	(50)
– disposals	(1)	(514)	–	–	(2)	(517)
– depreciation	(260)	(2,686)	(23)	(28)	–	(2,997)
Net book value	**745**	**5,800**	**15**	**34**	**432**	**7,026**

Property, plant and equipment amount to 7,026 million euro (7,518 million euro at December 31, 2005) of which 2,743 million euro for the AEM scope of consolidation, 166 million euro, net of depreciation, for the Ecodeco Group and 4,117 million euro for the Delmi Group; they have decreased by 492 million euro as a result of the following:

- an increase of 186 million euro as a result of first-time consolidation of the Ecodeco Group;

- an increase of 421 million euro due to capital expenditure and advances paid to suppliers during the year, analysed as follows by chain:
  - Electricity 251 million euro;
  - Gas and Heat 65 million euro;
  - Services 8 million euro;
  - Networks and Regulated Markets 93 million euro;
  - Other Activities 4 million euro;
- a decrease of 517 million euro from the sale of assets, net of accumulated depreciation of 16 million euro, and from disposal of the assets of the companies sold, namely Metroweb S.p.A. (262 million euro), Serenissima Gas S.p.A. (11 million euro), AEM Trasmissione S.p.A. (79 million euro) and Edison Rete S.p.A. (149 million euro);
- a decrease of 534 million euro because of depreciation and writedowns for the year, including 360 million euro due to consolidation of the Delmi Group and 20 million euro to consolidation of the Ecodeco Group.
  Note that as a result of the impairment test, we have written down certain items of plant belonging to the Delmi Group's electricity chain by 45 million euro;
- a decrease of 48 million euro due to 74 million euro of assets of the Delmi Group held for sale, less other positive adjustments of 26 million euro.

Capital expenditure during the year related to:
- the Electricity chain, for 251 million euro, of which 78 million euro was for investment in the hydroelectric plants at Premadio and Grosio, the new control panel at the San Giacomo dam, the new no. 6 Group at the Cassano d'Adda thermoelectric plant, continuation of works on the new Viola Canal and consolidation of the San Giacomo Dam. As regards the Delmi Group, 173 million euro was invested in the plants under construction at Simeri Crichi (CZ) and those which entered service at Torviscosa (UD) and Altomonte (CS). Investments were also made in the Chivasso and Mese power stations, in repowering the Turbigo (MI) plant, as well as in bringing the Ripabottoni (CB) wind farm into service;
- the Gas and Heat chain, for 65 million euro, of which 24 million euro for work on the plants and district heating networks in the Milan area and certain neighbouring municipalities. The Delmi Group has made investments of 41 million euro mainly for the development of the gas deposits at Candela, construction of the Caverzere-Minerbio gas pipeline and work carried out abroad in connection with the concessions in Algeria and Egypt;
- the Services chain, for 8 million euro, involving buildings such as the buildings of the West receiver station and the Caracciolo substations, as well as purchases of equipment, furniture, fittings, IT equipment and other operating assets;

- the Networks and Regulated Markets chain, for 93 million euro, involving work on the 220 kv and 130 kv lines, the extension of the medium and low tension networks, refurbishing of transformer and isolator cabins, modernisation of internal systems, laying medium and low pressure pipes, fitting of risers and measuring devices;
- other Activities, 4 million euro, arising on consolidation of the Delmi Group.

The overall value of property, plant and equipment includes 432 million euro (1,069 million euro at December 31, 2005) of construction in progress and advance payments with changes during the year of 637 million euro, detailed as follows:

- an increase of 12 million euro due to first-time consolidation of the Ecodeco Group;
- an increase of 260 million euro for capital expenditure during the period principally made up of 102 million euro, for continuation of the work on the New Viola Canal, for works being made on the Pramadio (SO) hydroelectric plant, the no. 6 Group of the thermoelectric plant at Cassano d'Adda (MI), the control panel at the San Giacomo Dam. Work has also continued to extending the electricity, gas and heat networks in the Milan area and in certain neighbouring municipalities, as well as works related to the new cogeneration plant in the Canavese area; the other 158 million euro relate to consolidation of the Delmi Group;
- a decrease of 907 million euro due to the start-up during the year of thermoelectric plants belonging to the Delmi Group (Altomonte) and to Edipower (Piacenza);
- a 2 million euro decrease in work in progress due to the sale of Metroweb S.p.A..

"Plant and machinery" includes the costs involved in the obligatory environmental restoration of the thermoelectric production areas of Edipower S.p.A., for 20 million euro. These costs have been discounted and the effect of this is reflected in the income statement under financial charges.

Property, plant and equipment include 147 million euro of leased assets, of which 63 million euro relate to consolidation of the Delmi Group and 35 million euro to the consolidation of the Ecodeco Group, booked in accordance with IAS 17 (revised). The total value of residual debt included in "payables and other financial liabilities" amounts to 69 million euro.

Assets under finance leases millions of euro	AEM S.p.A.	Delmi Group	Ecodeco Group	Balance at 12.31.2006
Assets under finance leases	49	63	35	147
Total	**49**	**63**	**35**	**147**

Property, plant and equipment are almost all located in Italy and their value does not include any capitalised financial charges.

A 2) Investment property

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Investment property	24	(4)	20

Investment property - millions of euro	Delmi Group
– historical cost	24
– sales	(4)
Net book value	**20**

Investment property at December 31, 2006 consists of land and buildings not held for the Group's business purposes; they amount to 20 million euro and all relate to consolidation of the Delmi Group.

A 3) Intangible assets

Intangible assets millions of euro	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Goodwill	Assets in process of formation and advances	Other intangible assets	Total
Balance at 12.31.2006						
Of which:						
– historical cost	36	265	1,937	4	462	2,704
– acquisitions	4	2	6	3	18	33
– writedowns	–	–	–	–	(1)	(1)
– amortisation	(22)	(32)	–	–	(120)	(174)
– other changes	–	(8)	(24)	–	1	(31)
Net book value	**18**	**227**	**1,919**	**7**	**361**	**2,532**

millions of euro	Net book value 12.31.2005	Ecodeco Group first-time cons.	Cap. expend.	Other changes	Disposals/ Write-downs	Amort.	Net book value 12.31.2006
Industrial patents and intellectual property rights	19	–	4	–	–	(5)	18
Concessions, licences, trademarks and similar rights	247	1	2	1	(10)	(14)	227
Goodwill	1,936	28	6	(51)	–	–	1,919
Assets in process of formation	4	1	3	(1)	–	–	7
Other intangible assets	391	–	18	1	(1)	(48)	361
Total	**2,597**	**30**	**33**	**(50)**	**(11)**	**(67)**	**2,532**

Intangible assets at December 31, 2006 total 2,532 million euro, including 140 million euro for the AEM scope of consolidation, 30 million euro for the Ecodeco Group and 2,362 million euro for the Delmi Group. They show a decrease of 65 million euro compared with December 31, 2005, as a result of:

- an increase of 30 million euro due to first-time consolidation of the Ecodeco Group;
- an increase of 33 million euro due to capital expenditure during the period, of which 7 million euro relating to Services and 26 million euro deriving from consolidation of the Delmi Group, including 6 million euro for the increase in

goodwill following the acquisition of Eneco Energia S.p.A. and EDF Energia Italia S.p.A. and 1 million euro for "CO_2 emission trading certificates;

- an decrease of 51 million euro due to a reduction in goodwill on the part of the Delmi Group having obtained tax benefits after its first-time consolidation (IFRS 3, para. 65), 42 million euro, and deconsolidation of the investments in Serenissima Energia S.r.l. and Serenissima Gas S.p.A. sold during the year for 9 million euro;
- a decrease of 10 million euro due to reclassification of the intangible assets relating to Metroweb S.p.A., sold during the year;
- a writedown of 1 million euro, relating to "CO_2 emission trading certificates" of the Delmi Group;
- a decrease of 67 million euro in amortisation for the period, including 61 million due to consolidation of the Delmi Group.

The consolidated portion of the Delmi Group relating to other intangible assets amounts to 317 million euro and comprises licences and similar rights, including the valuation of "take or pay" hydrocarbons supply contracts in compliance with the Purchase Price Allocation according to IFRS 3, and investments relating to the costs involved in research and exploration of hydrocarbon deposits were fully amortised during the period, except for the portion of costs that were capitalised in accordance with IFRS 6.

Goodwill amounts to 1,919 million euro at December 31, 2006, and refers to the following:

millions of euro	Balance at 12.31.2006
Enel Distribuzione business	110
AEM Calore & Servizi S.p.A.	4
Edipower S.p.A.	2
Delmi Group	1,775
Ecodeco Group	28
Total	**1,919**

The various items making up goodwill were tested for impairment at December 31, 2006.

IAS 36 says that goodwill, being an intangible asset with an indefinite useful life, is not to be amortised systematically, but submitted to an impairment test at least once a year. Given that goodwill does not generate independent cash flows nor can it be sold independently, IAS 36 states that the recoverable value of goodwill shown in the balance sheet can be estimated on a residual basis, using – depending on the situation – either the fair value or the value in use of a series of assets that make up the Cash Generating Unit(s) to which they belong.

The fair value of a cash generating unit is the amount, based on the best information available, that would be obtainable from the sale of the unit in a bargained transaction between knowledgeable, willing parties.

The value in use of a cash generating unit is the discounted present value of estimated future cash flows expected to arise from the continuing use of the unit, and from its disposal at the end of its useful life. Value in use is calculated by using the Discounted Cash Flow method, which provides for an estimate of the future cash flows, discounting them at an appropriate discount rate.

Management has prepared its gross margin forecasts on the basis of reasonable and tenable assumptions that reflect the value of the cash generating unit in its current conditions, which also represent the best possible estimate of the economic conditions that are likely to exist over its residual useful life. The following elements were taken into consideration in determining the value in use:

- future cash flows for a period not exceeding five years estimated by management, based on the most recent forecasts, that represent the best possible estimate of the economic conditions that are likely to exist over its residual useful life;
- the cash flows after this time horizon, estimated by assuming a zero rate of growth, unless a higher rate is justified (though it should in any case be lower than the average long-term rate of growth of the products, industrial sectors, countries and markets in which the company operates);
- the terminal value, in other words the cash flow deriving from disposal at the end of the useful life of the asset, estimated for prudence sake as zero or the sum of the net book value of property, plant and equipment, net working capital and provisions;
- the discount rate is set to reflect current market valuations for the present value of money and specific risks related to the business. The discount rate has been estimated on a consistent basis with the cash flows being considered by determining the weighted average cost of capital (WACC).

The following is a summary of the goodwill attributable to the individual Cash Generating Units, excluding that of the Delmi Group, of 1,775 million euro, which is described later on, specifying for each the type of recoverable value considered, the discount rates used and the time horizon of the cash flows.

CGU	12.31.2006 millions of euro	Recoverable amount	WACC 2006	WACC 2005
AEM Elettricità S.p.A.	110	Value in use	6.5% (1)	5.7% (1)
AEM Calore & Servizi S.p.A.	4	Value in use	7.4% (1)	5.8% (1)
Edipower S.p.A.	2	Value in use	7.4% (1)	6.9% (1)
Ecodeco S.r.l.	28	Value in use	7.5% (1)	–

(1) Pre-tax discount rate applied to future cash flows.

Cash generating unit: AEM Elettricità S.p.A.

The goodwill of 110 million euro arising on acquisition of the business unit from ENEL Distribuzione S.p.A. by AEM Elettricità S.p.A. on November 1, 2002 was tested for impairment. To this end, the value of this goodwill was attributed to the cash generating unit AEM Elettricità S.p.A., the recoverable amount of which was determined on the basis of its value in use.
In the interests of full disclosure, we would like to point out that when determining value in use, we took into consideration a time horizon up to expiry of the concession for the distribution of electricity in Milan and Rozzano.
No impairment loss was identified as a result of this test.

Cash generating unit: AEM Calore & Servizi S.p.A.

The 4 million euro of goodwill arising on line-by-line consolidation of AEM Calore & Servizi S.p.A. was tested for impairment. To this end, the value of this goodwill was attributed to the cash generating unit AEM Calore & Servizi S.p.A., the recoverable amount of which was determined on the basis of its value in use over a time horizon of 20 years.
No impairment loss was identified as a result of this test.

Goodwill of Edipower S.p.A.

The 2 million euro of goodwill arising on proportional consolidation of the investment in Edipower S.p.A. was tested for impairment. After impairment testing, the value of this goodwill was allocated to the CGU Edipower S.p.A..

The recoverable amount of the CGU Edipower S.p.A. was determined on the basis of its value in use, including the future operating cash flows estimated by management on the basis of recent forecasts, considering the profitability generated by the productive assets and evaluating the energy produced by the plants from the point of view of the AEM Group. No impairment loss was identified as a result of this test.

Goodwill - Delmi Group

For IFRS purposes and for preparation of the Group's consolidated financial statements, the acquisition of control of Edison by Transalpina di Energia represents a Business Combination regulated by IFRS 3, which lays down that all business combinations have to be accounted for according to the ("Purchase Accounting Method"). This means that the buyer has to book all assets, liabilities (including debt) and contingent liabilities identifiable at the time of the purchase at fair value at the date of acquisition, at the same time identifying any goodwill on a residual basis.

For details on "Purchase Price Allocation (PPA) please refer to the chapter: Completion of the Purchase Price Allocation of Transalpina di Energia S.r.l. pursuant to IFRS 3 in this report.

For the purposes of the Impairment Test on the goodwill of Delmi and TDE, as this value is intrinsically connected with the acquisition of control of Edison, we have made reference to the Cash Generating Units considered by Edison in testing its own goodwill, which amounts to 3,518 million euro, in line with the strategic and organisational decisions of the group, defined as the "Electricity Chain" ([1]) and the "Hydrocarbons chain" ([2]), as well as to the group as a whole. This item has increased by 13 million euro, deriving on the acquisition of Eneco Energia S.p.A. and EDF Energia Italia S.r.l..

From this point of view and on a preliminary basis, the surplus goodwill deriving from the Purchase Price Acquisition under IFRS 3 of TDE due to proportional consolidation, has been allocated to the Hydrocarbons Chain, in line with the indications that emerged from the impairment test carried out by Edison.
This analysis was carried out by an independent expert who estimated the value in use of the Cash Generating Units in question by applying statistical simulation

(1) Edison's "Electricity Chain" is included in the AEM Group's "Electricity Segment".
(2) The "hydrocarbons" chain of Edison is included in the AEM Group's "Gas and Heat" segment.

techniques, such as the Montecarlo Method, considering the cash flows based on the economic and financial plan of the Edison Group, as well as a terminal value in line with the nature of the investments and with the sectors in which Edison operates. These cash flows were discounted on the basis of a pre-tax weighted average cost of 9.6% for the electricity chain and of 11% for the hydrocarbons chain. The recoverable amount determined on the basis of this statistical process was higher, per each Cash Generating Unit, than the book value of the respective amounts of net capital employed.

In the same way as for the Impairment test of TDE's goodwill and on the basis of the same procedure, we thought it best to attribute the Delmi S.p.A.'s goodwill to the same Cash Generating Units.

On the basis of the indications that emerged from the impairment test carried out according to the statistical process described earlier, the recoverable amount of the two Cash Generating Units was still higher than the respective book values represented by the amounts of net capital employed. No impairment loss was identified as a result of this test on the Delmi Group's goodwill.

Ecodeco Goodwill

The 28 million euro of goodwill arising on line-by-line consolidation of the investment in Ecodeco S.r.l. was tested for impairment. After impairment testing, the value of this goodwill was allocated to the CGU Ecodeco S.r.l..
The recoverable amount of the CGU Ecodeco S.r.l. was determined on the basis of its value in use, including the future operating cash flows estimated by management on the basis of recent forecasts.
No impairment loss was identified as a result of this test.

A 4) Investments

Investments in associates valued at equity

Investments in associates, valued under the equity method, amount to 61 million euro (115 million euro at December 31, 2005).

The following tables shows changes of the year:

Investments in associates millions of euro	AEM Group	Delmi Group	Ecodeco Group	Total
Amount at December 31, 2005	**85**	**30**	**–**	**115**
Changes during the year:				
– acquisitions	23	–	–	23
– sales	–	(11)	–	(11)
– revaluations	–	1	–	1
– writedowns	(6)	–	–	(6)
– reclassifications	–	5	–	5
– other changes	(63)	(3)	–	(66)
Total changes for the period	**(46)**	**(8)**	**–**	**(54)**
Amount at December 31, 2006	**39**	**22**	**–**	**61**

Investments at December 31, 2006 decrease by 54 million euro compared with December 31, 2005, as a result of the following changes:

- 23 million euro on acquisition of 20% of ACSM S.p.A.. At December 31, 2006 the value in use of ACSM S.p.A. is in line with the market value at the same date;
- 6 million euro for the writedown and subsequent reclassification of the investment in Mestni Plinovodi d.o.o. (0.5 million euro) to non-current assets held for sale, as required by IFRS 5;
- 63 million euro of other negative changes:
  - 70 million euro for elimination of the investment in Ecodeco S.r.l. following line-by-line consolidation of the Ecodeco Group. Up to March 31, 2006 the investment in Ecodeco S.r.l. was consolidated at equity;
  - 7 million euro on acquisition of 23.53% of Burano S.p.A., resulting from the purchase/sale of Metroweb S.p.A., as explained in the section entitled "Other information";
- 8 million euro of decreases arising on consolidation of the Delmi Group, mainly relating to the sale of investments in Sat and Nile Valley.

In addition:

- no associate is quoted, with the exception of ACSM S.p.A.;
- the financial statements of the parent company AEM S.p.A. include all of the significant figures of the investments held directly in associates;
- the consolidated financial statements reflect all of the losses made by associates.

A 5) Other non-current financial assets

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Securities held for trading (HFT)	–	24	24
Financial assets held to maturity (HTM)	1	–	1
Loans and receivables (L&R)	56	6	62
Financial assets available for sale (AFS)	284	134	418
Other financial assets	1	–	1
Financial assets due from related parties	1	–	1
Total	**343**	**164**	**507**
of which:			
– "old scope" of the AEM Group	*247*	*136*	*383*
– Delmi Group	*96*	*27*	*123*
– Ecodeco Group	*–*	*1*	*1*

The other non-current financial assets total 507 million euro (343 million euro at December 31, 2005) and are made up of:

- securities held for trading amount to 24 million euro (zero at December 31, 2005) and relate to the convertible bond loan issued by Metroweb S.p.A., which was fully subscribed by the parent company in accordance with the sale agreement for this investment;
- financial assets held to maturity for 1 million euro (unchanged at December 31, 2005), related to the consolidation of the Ecodeco Group;
- loans and receivables resulting from operations of 62 million euro (56 million euro at December 31, 2005); these receivables refer, for 61 million euro, to the consolidation of the Delmi Group and are mainly made up of the receivable for the financial lease related to the thermoelectric plant of Ibiritermo in compliance with IFRIC 4, as well as of the receivable from IPSE 2000 relating to its portion of the UMTS licences and for 1 million euro to the financial loan granted to the associate Alagaz S.p.A. for the realization of the "Methanisation of Porgolovo" project in St. Petersburg;
- other financial assets for 1 million euro relate solely to the consolidation of the Ecodeco Group, whereas at December 31, 2005 this caption referred solely to the consolidation of the Delmi Group;

- financial assets available for sale amounting to 418 million euro (284 million euro at December 31, 2005) the changes of which are reported in the following table:

Financial assets available for sale millions of euro	AEM Group	Delmi Group	Ecodeco Group	Total
Amount at December 31, 2005	**247**	**37**	**–**	**284**
Changes during the year:				
– acquisition and capital increases	–	33	–	33
– sales	(14)	–	–	(14)
– revaluations (*)	124	–	–	124
– writedowns (*)	–	(5)	–	(5)
– reclassifications	–	–	–	–
– other changes	–	(4)	–	(4)
Total changes for the year	**110**	**24**	**–**	**134**
Amount at December 31, 2006	**357**	**61**	**–**	**418**

(*) Revaluations and writedowns refer to the valuation at fair value with contra-entry to an equity reserve.

The changes for the year mainly concerned:

- the sale of the investment in AEM Torino S.p.A. for 14 million euro, including its purchase cost and revaluations at fair value;
- the valuation at fair value, positive for 124 million euro, of the investment in ATEL SA;
- the increase in capital of the Delmi Group (33 million euro) for the amounts invested in Terminale GNL Adriatico;
- 5 million euro on consolidation of the Delmi Group;
- other negative changes of 4 million euro on consolidation of the Delmi Group.

The investments included under long-term financial assets, both consolidated and non-consolidated, and the investments carried at equity or at fair value method are listed in attachments 3, 4, 5, 6, 7 and 8 to the explanatory notes.

A 6) Non-current derivatives

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Non-current derivatives	**1**	**(1)**	**–**
of which:			
– "old scope" of the AEM Group	*1*	*(1)*	*–*
– Delmi Group	*–*	*–*	*–*
– Ecodeco Group	*–*	*–*	*–*

At December 31, 2006 these total zero (1 million euro at December 31. 2005).

A 7) Deferred tax assets

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Deferred tax assets	**262**	**1**	**263**
of which:			
– "old scope" of the AEM Group	*182*	*5*	*187*
– Delmi Group	*80*	*(13)*	*67*
– Ecodeco Group	*–*	*9*	*9*

This caption amounts to 263 million euro (262 million euro at December 31, 2005) of which 67 million euro relate to consolidation of the Delmi Group and 9 million euro to consolidation of the Ecodeco Group; it refers to amounts due from the tax authorities for deferred tax assets (IRES and IRAP), deriving from temporary differences between the net profit shown in the financial statements and taxable income, which will reverse in future years. Deferred tax assets have been calculated on the basis of the tax rates expected to be in force when the temporary differences that generated them will reverse.

A 8) Other non-current receivables

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other non-current receivables	**151**	**(105)**	**46**
of which:			
– "old scope" of the AEM Group	*2*	*1*	*3*
– Delmi Group	*149*	*(106)*	*43*
– Ecodeco Group	*–*	*–*	*–*

Other non-current receivables amount to 46 million euro (151 million euro at December 31, 2005). The decrease resulting from the consolidation of the Delmi Group amounts to 105 million euro. It mainly refers to tax credits for which reimbursement has been requested, including accrued interest at December 31, 2006.

A 9) Restricted or pledged deposits

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Restricted or pledged deposits	**5**	**(3)**	**2**
of which:			
– *"old scope" of the AEM Group*	*–*	*–*	*–*
– *Delmi Group*	*5*	*(3)*	*2*
– *Ecodeco Group*	*–*	*–*	*–*

This caption shows a balance of 2 million euro (5 million euro at December 31, 2005) relating to consolidation of the Delmi Group; it refers to guarantee deposits for timely reimbursement of the short and long-term instalments of project financing in accordance with the commitments signed with the financing entities.

A 10) Other non-current assets

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other non-current assets	**–**	**5**	**5**
of which:			
– *"old scope" of the AEM Group*	*–*	*4*	*4*
– *Delmi Group*	*–*	*–*	*–*
– *Ecodeco Group*	*–*	*1*	*1*

This caption shows a balance of 5 million euro (0 at December 31, 2005) and refers to costs already incurred but pertaining to future periods, of which 1 million euro relates to the consolidation of the Ecodeco Group.

B) Current assets

B 1) Inventories

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
– Materials	25	5	30
– Inventory obsolescence reserve	(1)	–	(1)
– Fuel	166	43	209
– Other	–	–	–
Raw, ancillary and consumable materials	**190**	**48**	**238**
– Finished products and goods for resale	7	(1)	6
– Contract work in progress	4	9	13
– Advance payments	1	(1)	–
Inventories	**202**	**55**	**257**
of which:			
– "old scope" of the AEM Group	*75*	*12*	*87*
– Delmi Group	*127*	*29*	*156*
– Ecodeco Group	*–*	*14*	*14*

At December 31, 2006 inventories amount to 257 million euro (202 million euro at December 31, 2005) of which 156 million euro relate to consolidation of the Delmi Group and 14 million euro to consolidation of the Ecodeco Group; they increase by 55 million euro compared with the end of the previous year. The changes of the year concerned:

- for 43 million euro, the increase in fuel inventories, mainly because of the seasonal fall in fuel stocks of natural gas held by Plurigas S.p.A. and by the Delmi Group, which are consolidated on a proportional basis, partly offset by the decrease of the fuel stocks of AEM Trading S.r.l.;
- for 9 million euro, the increase in inventories of contract work in progress mainly due to the line-by-line consolidation of the Ecodeco Group;
- for 5 million euro, the increase in inventories of materials, due to line-by-line consolidation of the Ecodeco Group and the increase in inventories of the Delmi Group and of the old AEM consolidation area;
- for 1 million euro the reduction in inventories of finished products and goods for resale of the Delmi Group;
- for 1 million euro, the increase in advance payments paid during the year.

The book value of materials in inventory was written down to current value by means of an obsolescence reserve. This reserve, which at December 31, 2006, amounted to 1 million euro, remained unchanged versus December 31, 2005, was set aside to write down materials that are slow-moving in the medium term, as well as those that are considered obsolete.

B 2) Current financial assets

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Trading investments (HFT)	14	(9)	5
Financial assets held to maturity (HTM)			
Loans and receivables (L&R)	–	14	14
Financial assets available for sale (AFS)	–	–	–
Other financial assets	1	(1)	–
Financial assets due from related parties	1	(1)	–
Total	**16**	**3**	**19**
of which:			
– "old scope" of the AEM Group	*–*	*–*	*–*
– Delmi Group	*16*	*3*	*19*
– Ecodeco Group	*–*	*–*	*–*

This caption shows a balance of 19 million euro at December 31 2006 (16 million euro at December 31 2005); the increase compared with December 31 2005 is due to higher loans and receivables originated by the company (14 million euro), partly offset by the decrease in trading investments following the sale of the interests in ACEA S.p.A. and AMGA S.p.A. by the Delmi Group.

The adjustment of investments (considered trading investments for IFRS purposes) in listed companies to current market values did not have any significant effect.

B 3) Current derivatives

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Current derivatives	**75**	**(4)**	**71**
of which:			
– "old scope" of the AEM Group	*42*	*(9)*	*33*
– Delmi Group	*33*	*5*	*38*
– Ecodeco Group	*–*	*–*	*–*

At December 31, 2006 this caption totals 71 million euro (75 million euro at December 31, 2005) and is made up of:

- 27 million euro (34 million euro at December 31, 2005) of the valuation at fair value of derivatives hedging the interest rate risk on the bond loan and of the valuation at fair value of derivatives hedging the interest rate risk on committed bank lines of credit;
- 6 million euro (8 million euro at December 31, 2005) for the valuation at fair value of the derivatives stipulated to hedge the price risk on fuel and electricity;
- 38 million euro (33 million euro at the end of the previous year) from consolidation of the Delmi Group, relating to transactions in derivatives on interest rates, exchange rates and commodities.

Compared with December 31, 2005, there has been a decrease in the derivatives hedging the bond loan following its adjustment to fair value at December 31, 2006 and a decrease in the commodity derivatives, partly offset by the rise in the value of the derivatives hedging committed bank credit lines, and by the growth in the fair value of derivatives of the Delmi Group, in particular those referring to interest rate swap contracts related to the loan stipulated by Transalpina di Energia S.r.l..

Details on derivatives are provided in the section on "Other information".

B 4) Taxes receivable

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Amounts due from tax authorities	**63**	**(9)**	**54**
of which:			
– "old scope" of the AEM Group	*42*	*2*	*44*
– Delmi Group	*21*	*(13)*	*8*
– Ecodeco Group	*–*	*2*	*2*

At December 31, 2006 this item amounts to 54 million euro (63 million euro at December 31, 2005) and refers mainly to the tax credit given by the difference between advance payments of IRES and IRAP during the year and the balance of the estimate of taxes due for the year, as well as amounts due from the tax authorities in connection with the IRPEF advance paid on severance indemnities due to employees on the books at the end of 1997; it was paid by the parent company partly in July and partly at the end of November 1997 and 1998.

The decrease of 9 million euro, is mainly due to a 13 million euro reduction in the Delmi Group's tax receivables, offset by consolidation of the Ecodeco Group for 2 million euro, as well as by an increase in amounts due from tax authorities relating to the "old scope" of the AEM Group for 2 million euro.

B 5) Trade and other receivables

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Receivables from customers			
Receivables from customers	1,424	223	1,647
Reserve for bad and doubtful accounts	(32)	(14)	(46)
Total receivables from customers	**1,392**	**209**	**1,601**
Receivables from affiliates			
Parent entity	65	(23)	42
Associates	30	(7)	23
Total receivables from affiliates	**95**	**(30)**	**65**
Other receivables			
Due to the Electricity Equalisation Fund	38	12	50
Advances to suppliers	2	2	4
Due from personnel	–	–	–
Miscellaneous receivables	177	(48)	129
Total other receivables	**217**	**(34)**	**183**
Total	**1,704**	**145**	**1,849**
of which:			
– "old scope" of the AEM Group	*758*	*(33)*	*725*
– Delmi Group	*946*	*123*	*1,069*
– Ecodeco Group	*–*	*55*	*55*

At December 31, 2006, trade and other receivables amount to 1,849 million euro (1,704 million euro at December 31, 2005), of which 1,069 million euro arising from the consolidation of the Delmi Group and 55 million euro arising from the consolidation of the Ecodeco Group. They show a rise of 145 million euro mainly related to:

- 209 million euro, a growth in receivables from customers, essentially due to a higher receivables for the sale of electricity and gas;
- 30 million euro, a decrease in receivables from affiliates, essentially due to a fall in receivables from the parent entity for lower supplies of electricity and services;

- 34 million euro, a decrease in other receivables, due to the reduction in miscellaneous receivables partly offset by the rise in receivables from Electricity Equalisation Fund and in advances to suppliers.

At December 31, 2006 the reserve for bad and doubtful accounts amounted to 46 million euro, an increase of 14 million euro compared with the end of the previous year as a result of the provisions and utilisations of the period, other changes. This reserve is considered adequate to cover the risk.

Changes in the reserve adjusting the value of receivables for the sale of power and services are shown in the following table:

millions of euro	Balance at 12.31.2005	Provision	Utilisations	Other changes	Balance at 12.31.2006
Reserve for bad and doubtful accounts from users and customers	32	20	(6)	–	46

B 6) Cash and cash equivalents

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Bank and postal deposits	185	68	253
Cash and cash equivalents	7	(7)	–
Receivables for financial transactions	50	(50)	–
Total	**242**	**11**	**253**
of which:			
– "old scope" of the AEM Group	*41*	*(18)*	*23*
– Delmi Group	*201*	*(52)*	*149*
– Ecodeco Group	*–*	*81*	*81*

Liquid funds at December 31, 2006 amount to 253 million euro (242 million euro at December 31, 2005) including the consolidation of the Delmi Group, 149 million euro, and of the Ecodeco Group, 81 million euro.
The increase, amounting to 11 million euro compared with December 31, 2005, is essentially due to the consolidation of the Ecodeco Group partly offset by the decrease in bank deposits of companies making up the old AEM scope of consolidation, as well as by the decrease in receivables for financial transactions and in cash and cash equivalents of the Delmi Group.
Bank deposits include interest accrued but not yet credited at the year-end.

B 7) Other current assets

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other current assets	**21**	**(8)**	**13**
of which:			
– *"old scope" of the AEM Group*	*15*	*(3)*	*12*
– *Delmi Group*	*6*	*(6)*	*–*
– *Ecodeco Group*	*–*	*1*	*1*

The total of 13 million euro (21 million euro at December 31, 2005) includes 1 million euro relating to the consolidation of the Ecodeco Group for accrued revenues collectible in future years and costs already incurred but pertaining to future years.

C) Non-current assets held for sale

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Non-current assets held for sale	**–**	**116**	**116**
of which:			
– *"old scope" of the AEM Group*	*–*	*0.5*	*0.5*
– *Delmi Group*	*–*	*115.5*	*115.5*
– *Ecodeco Group*	*–*	*–*	*–*

These amount to 116 million euro and refer almost entirely to non-current assets held for sale of the Delmi Group. They relate to the assets of Serene S.p.A., including 9 million euro of bank deposits, and 0.5 million euro of the investment in Plinovodi d.o.o. held by the parent company.

LIABILITIES AND EQUITY

D) Shareholders' equity

Shareholders' equity, which at December 31, 2006 amounts to 4,211 million euro (3,689 million euro at December 31, 2005), is detailed in the table below:

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Equity pertaining to the Group			
Share capital	936	–	936
(Treasury shares)	(23)	(2)	(25)
Legal reserve	85	9	94
Other reserves	310	104	414
Retained earnings	99	143	242
Net profit for the year	242	60	302
Total equity pertaining to the Group	**1,649**	**314**	**1,963**
Minority interests	2,040	208	2,248
Total shareholders' equity	**3,689**	**522**	**4,211**

D 1) Share capital

At December 31, 2006 the share capital totals 936 million euro and consists of 1,800,047,400 shares with a unit value of 0.52 euro each.

D 2) Treasury shares

At December 31, 2006 they total25 million euro and refers to 16,159,850 treasury shares held by the company (14,841,850 shares at December.31 2005). The increase is due to the purchase, during the period under review, of 1,318,000 treasury shares. This item has been deducted from equity in accordance with IFRS.

D 3) Legal reserve

At December 31, 2006 it amounts to 94 million euro. The increase compared with the financial statements for the year ended at December 31, 2005 is equal to 9 million euro and is attributable to the allocation to this reserve of 5% of the previous year's net profit, as required by article 2430 of the Italian Civil Code.

D 4) Other reserves

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other reserves	310	104	414

Other reserves, amounting to 414 million euro at December 31, 2006 (310 million euro at December 31, 2005), include the cumulative effects of revaluations of prior periods. It also includes the cash flow hedge reserve for the valuation, at December 31, 2006, of derivatives that comply with hedge accounting requirements at the end of the period and the reserve deriving from "assets available for sale". The total amount of these reserves at December 31, 2006 comes to 241 million euro.

D 5) Retained earnings

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Retained earnings	99	143	242

This caption shows a positive balance of 242 million euro (99 million euro at December 31, 2005) and includes consolidation adjustments to values booked in previous years' financial statements of group companies, and retained earnings and losses carried forward by subsidiaries.

D 6) Net profit for the year

It amounts to 302 million euro and includes the result of the year under review.

D 7) Minority interests

At December 31, 2006 this totals 2,248 million euro (2,040 million euro at December 31, 2005) and represents the portion of capital, reserves and net result pertaining to minority interests of Delmi S.p.A., of the Edison Group, consolidated through Transalpina di Energia S.r.l., and of the Ecodeco Group.

The method of determining the minority interests of Ecodeco are explained in the section on "consolidation procedures".

The portions pertaining to minority interests of the subsidiaries AEM Elettricità S.p.A., AEM Gas S.p.A., and AEM Energia S.p.A., are not significant, as AEM S.p.A. holds 99.99% of their share capital.

The following are the "Reconciliation between the AEM S.p.A.'s net result and the net result of the Group" and the "Reconciliation between the AEM S.p.A.'s equity and the equity pertaining to the Group".

Reconciliation between the AEM S.p.A.'s net result and the net result of the Group

millions of euro	2006
Net result of AEM S.p.A.	**177**
Intercompany dividends eliminated from the consolidated financial statements	(123)
Results of subsidiaries, associates and joint ventures not included in the financial statements of AEM S.p.A.	229
Different valuation of the result from assets held for sale	5
Other consolidation adjustments	14
Net result of the Group	**302**

Reconciliation between the AEM S.p.A.'s equity and the equity pertaining to the Group

millions of euro	2006
Equity of AEM S.p.A.	**2,251**
Elimination of the residual portion of the equity reserve resulting from the intercompany profit on the transfer of businesses	(687)
Retained earnings/Accumulated losses	274
Results of subsidiaries, associates and joint venture not included in the financial statements of AEM S.p.A.	229
Intercompany dividends eliminated from the consolidated financial statements	(123)
Different valuation of the result from assets held for sale	5
Other consolidation adjustments	14
Equity pertaining to the Group	**1,963**

E) Liabilities

E 1) Non-current liabilities

E1 – 1) Medium/long term financial liabilities

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Non-convertible bonds	2,026	(885)	1,141
Convertible bonds	–	–	–
Payables to shareholders for loans	–	–	–
Due to banks	2,637	(972)	1,665
Due to other providers of finance	293	(37)	256
Derivatives	–	3	3
Finance lease payables	45	8	53
Securities issued	–	–	–
Total	**5,001**	**(1,883)**	**3,118**
of which:			
– "old scope" of the AEM Group	*1,060*	*(428)*	*632*
– Delmi Group	*3,941*	*(1,492)*	*2,449*
– Ecodeco Group	*–*	*37*	*37*

Medium/long-term financial liabilities amount to 3,118 million euro (5,001 million euro at December 31, 2005) and decrease by 1,883 million euro, as detailed below:

- a decrease of 885 thousand euro in non-convertible bonds, in particular:
  - a decrease of 27 million euro, which relates to the valuation at fair value at December 31, 2006 of the non-convertible bond loan issued by AEM S.p.A. in October 2003 and placed on the international Eurobond market. We would like to point out that in current assets, current derivatives include the valuation at fair value of the derivative hedging the interest rate risk on the bond loan;
  - a decrease of 858 million euro in the bond loans of the Delmi Group essentially due to reclassification of the bond loans issued by Edison S.p.A., maturity 2007, to "current liabilities". Edison Treasury Services S.r.l. repaid the bond loan with nominal value of 195 million euro, maturity July 20, 2009, in advance to third parties in April 2006.

The following table gives details of the bond loans of the Delmi Group, considering its 50% consolidation.

millions of euro	Expiry	NominaL value in circulation	Amortised cost	Fair value
Euro Medium Term Notes				
Edison S.p.A.	12.10.2010	350.0	376.0	360.5
Edison S.p.A.	07.19.2011	250.0	257.5	255.5
Total		**600.0**	**633.5**	**616.0**

Note that the Edison bonds have been valued at fair value on the acquisition of control by Transalpina di Energia. This involved booking higher debt of 42 million euro at December 31, 2006;

- the decrease of 972 million euro in medium/long-term payables to banks is due to a combination of the decline in amounts due to banks by Edipower S.p.A. and reclassification of the short-term portion to current liabilities, partly offset by a rise in the exposure of AEM S.p.A. due to renegotiation of revolving credit lines; the consolidation of the Delmi Group entailed a decrease of 636 million euro, whereas line-by-line consolidation of the Ecodeco Group led to an increase of 17 million euro;
- the decrease of 37 thousand euro in medium/long-term amounts due to other providers of finance is exclusively due to reclassification to current liabilities of the amount maturing in 12 months of the loan granted by Cassa Depositi e Prestiti to AEM Elettricità S.p.A., related to the acquisition of the business from Enel Distribution S.p.A. partly offset by consolidation of the Delmi Group (an increase of 4 million euro) and of the Ecodeco Group (a rise of 1 million euro);
- an increase of 3 million euro in payables for derivatives on consolidation of the Delmi Group;
- the 8 million euro increase in lease payables mainly due to consolidation of the Ecodeco Group, 19 million euro, partly offset by the reclassification to current financial liabilities of 5 million euro of payables to leasing companies for the sale and lease-back transaction by AEM S.p.A. in 2001 involving the building located in Corso di Porta Vittoria, Milan, and by the decline for reimbursement of lease payables of the Delmi Group, 5 million euro.

The section "Other information" illustrates the nature and the content of medium/long-term loans.

E1 – 2) Deferred tax liabilities

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Deferred tax liabilities	**937**	**(168)**	**769**
of which:			
– "old scope" of the AEM Group	*207*	*4*	*211*
– Delmi Group	*730*	*(182)*	*548*
– Ecodeco Group	*–*	*10*	*10*

This caption includes the changes made to the financial statements of the individual companies to eliminate interference on the part of adjustments and provisions made solely for tax purposes ("defiscalisation") and the provision for deferred tax liabilities of all companies of the AEM Group for IRES and IRAP, which will be in force at the time the temporary differences that generated them reverse.

At December 31, 2006 it shows an amount of 769 million euro (937 million euro at December 31 2005). The decrease of 168 million euro essentially relates to the decrease in deferred tax liabilities deriving from consolidation of the Delmi Group, 182 million euro, which, through Edison S.p.A., exercised its option to carry out a partial realignment of the statutory and tax values of property, plant and equipment, leading to this reduction in deferred tax liabilities, as specified in note 23 "Significant non-recurring events and transactions".

The decrease was partly offset by the increase in this caption deriving from consolidation of the Ecodeco Group for 10 million euro and by provisions for the period made by the companies in the old AEM scope of consolidation for 4 million euro.

Details of deferred tax liabilities are given below, based on the nature of the temporary differences which generated them, taking into account that for certain Group companies they have been offset against deferred tax assets, if the requirements of IAS 12 are met:

Analysis of deferred tax assets and liabilities millions of euro	Consolidated financial statements 12.31.2006
Deferred tax liabilities	
Value difference in property, plant and equipment	739
Adoption of the finance lease standard (IAS 17)	28
Adoption of the financial instruments standard (IAS 39)	20
Other deferred tax liabilities	33
Deferred tax assets used in compensation	(52)
Total deferred tax liabilities	**769**
Deferred tax assets	
Prior year tax losses	16
Taxed risk provisions	74
Amortisation, depreciation and writedowns of non-current assets	77
Adoption of the financial instruments standard (IAS 39)	64
Other deferred tax assets	33
Total deferred tax assets	**263**

E1 – 3) Employee benefits

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Employees benefits	**200**	**10**	**210**
of which:			
– *"old scope" of the AEM Group*	*163*	*8*	*171*
– *Delmi Group*	*37*	*(1)*	*36*
– *Ecodeco Group*	*–*	*3*	*3*

At December 31, 2006 this caption amounts to 210 million euro (200 million euro at December 31, 2005) and is made up of:

- Severance indemnities

  Severance indemnities represent a form of personnel remuneration which is paid on a deferred basis when the person leaves the company. It accrues in proportion to the duration of the employment relationship and for the company represents an additional element in the purchase of labour.

This amounts to 108 million euro (106 million euro at December 31, 2005) and includes the total liability for severance indemnities accrued by employees on the books at December 31, 2006, net of advances as per article 1 of Law 297 of May 29, 1982. It also includes the liability for payments in lieu of notice accrued by entitled employees, hired before February 1, 1983 and still on the payroll at the end of the period.

In line with IAS 19, this item has been determined according to the "projected unit credit method" which calculates the liability in proportion to the years of service already matured at the balance sheet date, compared with the total period of service that could be rendered.

The changes during the year relate to provisions of 11 million euro, utilisations of 9 million euro and consolidation of the Ecodeco Group, which produced an increase in severance indemnities of 3 million euro, offset by other negative net changes of 3 million euro.

The main assumptions used in the actuarial estimate of the severance indemnity provision are as follows:

	2006	2005
Discount rate	min. 4.00% - max. 4.50%	min. 4.00% - max. 4.50%
Rate of increase in labour cost	min. 2.00% - max. 3.50%	min. 2.00% - max. 3.50%
Annual inflation rate	min. 1.50% - max. 2.00%	min. 1.50% - max. 2.00%

- Employee benefits

  This caption amounts to 102 million euro (94 million euro at December 31, 2005) and is made up of:
  - 54 million euro (50 million euro at December 31, 2005) for the discounts that employees receive on electricity and gas and the additional months' pay which relates to the fidelity bonus;
  - 40 million euro (36 million euro at December 31, 2005), being a provision for the present value, based on actuarial calculations, of the liability to retired former employees, who are entitled to a supplementary pension out of the Premungas fund, and to employees whose entitlement is currently accruing. The reserve, which at December 31, 2006 is considered sufficient to cover the risk to which it refers, went up by 4 million euro compared with December 31, 2005. This was caused by the difference between the utilisations during the year of 1 million euro, and the amount provided to adjust it to the charge actually borne by AEM S.p.A., 5 million euro;

– 8 million euro (8 million euro at December 31, 2005) for the present value, calculated on an actuarial basis, of payments in lieu of notice which are accruing and will be paid to employees who are entitled to them on termination of their employment; the methods of calculating the amount of this provision are already in line with the requirements of IAS 19.

The main assumptions used in the actuarial estimate of the severance indemnity provision are as follows:

	2006	2005
Discount rate	min. 4.00% - max. 4.50%	min. 4.00% - max. 4.50%
Rate of increase in labour cost	min. 2.00% - max. 3.50%	min. 2.00% - max. 3.50%
Annual inflation rate	min. 1.50% - max. 2.00%	min. 1.50% - max. 2.00%

The changes of the year are shown in the following table:

millions of euro	Balance at 12.31.2005	Provision	Utilisations	Reclassification	Other changes	Balance at 12.31.2006
Severance indemnities	106	11	(9)	–	–	108
Payments in lieu of notice	–	–	–	–	–	–
Employees benefits	94	18	(6)	–	(4)	102
Total	**200**	**29**	**(15)**	**–**	**(4)**	**210**

E1 – 4) Provisions for risks

millions of euro	Balance at 12.31.2005	Variazioni dell'esercizio	Balance at 12.31.2006
Provisions for risks	**618**	**–**	**618**
of which:			
– "old scope" of the AEM Group	*117*	*16*	*133*
– Delmi Group	*501*	*(61)*	*440*
– Ecodeco Group	*–*	*45*	*45*

At December 31, 2006 these provisions amount to 618 million euro (unchanged compared with December 31, 2005) and refer to:

– potential charges relating to an outstanding dispute with local entities regarding local taxes and outstanding disputes with social security institutions, as well as water off-take surcharges, for a total of 102 million euro (85 million euro at December 31, 2005);

- the provision to cover the risk arising from the dispute with the Authority for Electricity and Gas regarding the method of calculating the update of the raw material component of the tariffs applied to sales to end-customers, 9 million euro;
- provisions for outstanding disputes with personnel and third parties and potential liabilities related to operations, 22 million euro (17 million euro at December 31, 2005) of which 21 million euro relate to the consolidation of Edipower S.p.A.; the increase is attributable essentially to the higher provisions of Edipower S.p.A. and, in particular, to provisions for the environmental restoration and disputes with third parties;
- the consolidation of provisions for charges and risks of the Delmi Group of 440 million euro (501 million euro at December 31, 2005), made up of:

millions of euro	Balance at 12.31.2005	Provision	Utilisations	Other	Balance at 12.31.2006
Tax disputes	18	–	(12)	5	11
Charges relating to contractual guarantees on sales of investments	104	–	(29)	–	75
Disputes, litigation and settlements	86	8	(9)	–	85
Provisions for dismantling and reclamation of industrial sites	87	5	(3)	41	130
Environmental risks	90	–	(55)	–	35
Risks on investments	8	9	–	(8)	9
Other risks and charges	108	21	(16)	(18)	95
Total Provisions for charges and risks Delmi Group	**501**	**43**	**(124)**	**20**	**440**

- consolidation of the provisions for charges and risks of the Ecodeco Group relating to the treatment of leachate, environmental restoration and landfill post mortem costs, 45 million euro.

At December 31, 2005 this provision included 15 million euro relating to the provision made to cover the risk deriving from reintegration of resolution 20/04 of the Authority for Electricity and Gas relating to tariffs for the sale of electricity to the captive market, all of which were used during the year.

Changes during the year are shown in the following table:

millions of euro	Balance at 12.31.2005	Provision	Utilisations	Other changes	Balance at 12.31.2006
Provisions for risks	618	54	(141)	87	618

E1 – 5) Other non-current liabilities

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other non-current liabilities	**216**	**(215)**	**1**
of which:			
– "old scope" of the AEM Group	*95*	*(95)*	*–*
– Delmi Group	*121*	*(120)*	*1*
– Ecodeco Group	*–*	*–*	*–*

At December 31, 2006 these amount to 1 million euro (216 million euro at December 31, 2005) and refer to interest-bearing guarantee deposits issued by customers for gas supply contracts arising from consolidation of the Delmi Group.
The decrease compared with December 31, 2005, of 215 million euro, is due to the reclassification under current liabilities of the payable to financing shareholders of Edipower S.p.A. relating to the "put & call" options for the portions pertaining to AEM S.p.A. (4%) and the Delmi Group (10%, to be considered 50%) as exercisable in 2007.

E 2) Current liabilities

E2 – 1) Trade and other payables

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Advances	76	(23)	53
Trade payables	1,074	243	1,317
Trade payables to related parties:	5	5	10
– parent entity	*3*	*2*	*5*
– associates	*2*	*3*	*5*
Payables to social security institutions	21	1	22
Other payables	269	169	438
Total	**1,445**	**395**	**1,840**
of which:			
– "old scope" of the AEM Group	*586*	*163*	*749*
– Delmi Group	*859*	*182*	*1,041*
– Ecodeco Group	*–*	*50*	*50*

Trade and other payables amount to 1,840 million euro (1,445 million euro at December 31, 2005) and report an increase of 395 million euro as a result of the following:

- the decrease of 23 million euro in advances from customers mainly due to the decrease in advance payments paid by the Municipality of Milan, partly offset by line-by-line consolidation of the Ecodeco Group for 3 million euro;
- the increase of 243 million euro in payables to suppliers, due to the increases in payables of the Delmi Group, 126 million euro, and in payables of the "old scope" of the AEM Group, 79 million euro, as well as consolidation of the Ecodeco Group, 38 million euro;
- the increase of 2 million euro in payables to the Municipality of Milan;
- the increase, 3 million euro, in payables to associates, essentially due to the rise in payables of the Delmi Group of 2 million euro, as well as in those of the "old scope" of the AEM Group, 1 million di euro;
- the increase of 1 million euro, in payables to social security institutions, essentially due to the consolidation of the Ecodeco Group;
- the increase of 169 million euro, in other payables due to the following factors: on one hand, reclassification from other non-current liabilities of the payable to the financing shareholders of Edipower S.p.A. relating to the "put & call" options for the portions pertaining to AEM S.p.A. (4%) and the Delmi Group (10%, to be considered 50%), as well as consolidation of the Ecodeco Group for 5 million euro; on the other, the decrease in other payables of 52 million euro.

E2 – 2) Tax liabilities

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Tax liabilities	**102**	**(16)**	**86**
of which:			
– "old scope" of the AEM Group	*94*	*(58)*	*36*
– Delmi Group	*8*	*39*	*47*
– Ecodeco Group	*–*	*3*	*3*

Taxes payables amount to 86 million euro (102 million euro at December 31, 2005) and show a decrease of 16 million euro, mainly due to lower payables to the tax authorities of the "old scope" of AEM, partly offset by the increase in payables resulting from the consolidation of the Delmi Group (39 million euro) and of the Ecodeco Group (3 million euro).
These taxes are all due within one year.

E2 – 3) Short-term financial liabilities

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Non-convertible bonds	–	741	741
Convertible bonds	–	–	–
Payables to shareholders for loans	–	–	–
Due to banks	922	299	1,221
Due to other providers of finance	56	60	116
Derivatives	27	15	42
Finance lease payables	11	5	16
Securities issued	–	–	–
Financial payables to related parties	70	(45)	25
Total	**1,086**	**1,075**	**2,161**
of which:			
– "old scope" of the AEM Group	*749*	*(119)*	*630*
– Delmi Group	*337*	*1,158*	*1,495*
– Ecodeco Group	*–*	*36*	*36*

Short-term financial liabilities amount to 2,161 million euro (1,086 million euro at December 31, 2005) and increase by 1,075 million euro as detailed below:

- the increase of 741 million euro in bond loans of the Delmi Group, essentially due to reclassification of the portion of Edison S.p.A.'s bond loans maturing in 2007 to "Current liabilities";
- the increase of 299 million euro in amounts due to banks mainly because of the higher exposure to banks of the Delmi Group, 327 million euro, and the consolidation of the Ecodeco Group, 31 million euro, partly compensated by the reduction in amounts due to banks of the "old scope" of the AEM Group, 59 million euro;
- the increase of 60 million euro in amounts due to other providers of finance resulting from the consolidation of the Delmi Group;
- the increase of 15 million euro in derivatives due to the valuation at fair value of the consolidated derivatives of the Delmi Group, partly offset by the decrease in the valuation of derivatives hedging fluctuations in commodity prices of Plurigas S.p.A., as well as the fair value valuation of the derivatives stipulated during the year on differential contracts with Acquirente Unico S.p.A. and the derivatives hedging the interest rate risk on the debt owing to Cassa Depositi e Prestiti;
- the increase of 5 million euro in finance lease payables resulting from the consolidation of the Ecodeco Group;

- the decrease of 45 million euro, in financial payables from related parties concerning the fall in the balance on the current account which regulates financial dealings between AEM S.p.A. and the Municipality of Milan.

The section "Other information" illustrates the nature and the content of short-term loans.

E2 – 4) Other liabilities

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other liabilities	**45**	**(34)**	**11**
of which:			
– "old scope" of the AEM Group	*45*	*(35)*	*10*
– Delmi Group	*–*	*–*	*–*
– Ecodeco Group	*–*	*1*	*1*

At December 31, 2006 this caption amounted to 11 million euro (45 million euro at December 31, 2005) and essentially refers to services already invoiced, but pertaining to future periods.
This caption includes the future benefit on the portions assigned to production plant for emissions of polluting substances in compliance with the Kyoto Protocol.

F) Liabilities directly associated with non-current assets held for sale

millions of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Liabilities directly associated with non-current assets held for sale	**–**	**69**	**69**
of which:			
– "old scope" of the AEM Group	*–*	*–*	*–*
– Delmi Group	*–*	*69*	*69*
– Ecodeco Group	*–*	*–*	*–*

These amount to 69 million euro and refer to liabilities that are due to be disposed of as required by IFRS 5, in particular Serene S.p.A., as discussed under point "C" of assets.

G) Net financial debt

(pursuant to CONSOB Communication no. DEM/6064293 of July 28, 2006)

The following table gives details of net financial debt:

millions of euro	12.31.2006	12.31.2005	Changes
Bonds - non-current portion	1,141	2,026	(885)
Bank loans - non-current portion	1,665	2,636	(971)
Due to other providers of finance - non-current portion	256	293	(37)
Finance leases - non-current portion	53	45	8
Financial liabilities - non-current portion	3	–	3
Total medium/long-term debt	**3,118**	**5,000**	**(1,882)**
Financial assets - non-current portion	(40)	(29)	(11)
Medium/long-term loans	**(40)**	**(29)**	**(11)**
Total net non-current debt	**3,078**	**4,971**	**(1,893)**
Bonds - current portion	741	–	741
Bank loans - current portion	1,221	921	300
Due to other providers of finance - current portion	116	56	60
Finance leases - current portion	16	11	5
Financial liabilities - parent entity	25	70	(45)
Financial liabilities - current portion	14	2	12
Financial payables to companies held for sale	32	–	32
Total short-term debt	**2,165**	**1,060**	**1,105**
Current financial assets	(66)	(73)	7
Total short-term financial receivables	**(66)**	**(73)**	**7**
Cash and cash equivalents	(253)	(242)	(11)
Cash and cash equivalents included in assets held for sale	(9)	–	(9)
Total net current debt	**1,837**	**745**	**1,092**
Net debt	**4,915**	**5,716**	**(801)**

Note that the section entitled "Summary of results, assets and liabilities and financial position" in the report on operations includes comments on the cash flow statement, while details on related party transactions are given in note no. 21.

Income statement

From September 30, 2005 the scope of consolidation of the AEM Group includes the consolidation of the Edison Group through Transalpina di Energia S.r.l., which is jointly controlled through Delmi S.p.A. (hereafter called the "Delmi Group"). So, whereas in 2005 the Delmi Group was only consolidated for the fourth quarter, the 2006 consolidation includes its figures for the entire year.

From April 1, 2006 the scope of consolidation includes the line-by-line consolidation of the Ecodeco Group for the period April 1 to December 31, 2006, whereas the period January 1 to March 31, 2006 was consolidated at net equity. In addition, from September 30, 2006 the scope of consolidation also includes Valdisotto Energia S.r.l., which has been acquired 100% by the AEM S.p.A..

As a result, the income statement figures at December 31 2006 cannot be compared with the corresponding figures of the previous year.

The scope of consolidation of the AEM Group includes all subsidiaries, consolidated line-by-line, as well as Plurigas S.p.A. and Edipower S.p.A., which are consolidated on a proportional basis.

As required by IFRS 5, the net results deriving from the sale of Serenissima Gas S.p.A, Serenissima Energia S.r.l. and Metroweb S.p.A., the valuation of the parent company's investment in Mestni Plinovodi d.o.o. and the net result of the sale of Edison Rete S.p.A. as well as the charges for the future sale of Serene S.p.A. held by the Delmi Group, are shown under the heading "Net result of non-current assets sold or held for sale".

Note that the so-called "old AEM scope of consolidation" refers to the AEM Group without consolidating the Delmi and Ecodeco Groups.

1) Revenues

Revenues at December 31, 2006 amount to 6,852 million euro (3,007 million euro at December 31, 2005). The breakdown of the more important revenue items is as follows.

1.1 Revenues from sales

Revenues from sales millions of euro	12.31.2006	12.31.2005
Sale of electricity	4,487	1,816
Distribution, transport and measurement of electricity	438	149
Sale of heat	121	58
Sale and distribution of gas to customers and other companies	1,194	661
Sales of fuel	79	31
Water sold to civil customers	18	4
Hedging income on operating derivatives	1	–
Hedging charges on operating derivatives	(3)	–
Total revenues from sales	**6,335**	**2,719**
of which:		
– "old scope" of the AEM Group	*2,088*	*1,774*
– Delmi Group	*4,220*	*945*
– Ecodeco Group	*27*	*–*

Revenues from sales amount to 6,335 million euro (2,719 million euro at December 31, 2005) of which 4,220 million euro related to the consolidation of the Delmi Group and 27 million euro to the line-by-line consolidation of the Ecodeco Group and refer:

- for 4,487 million euro (1,816 million euro at December 31, 2005) to revenues from the sale of electricity to captive customers, to eligible end customers, to wholesalers and institutional operators (Acquirente Unico S.p.A. and Terna S.p.A. – formerly GRTN S.p.A.), also through sales on the Italian Power Exchange. The increase of 2,671 million euro compared with December 31, 2005, is mainly caused by the rise resulting from the consolidation of the Delmi Group, 2,342 million euro, and to the consolidation of the Ecodeco Group, 27 million euro. The increase in the so-called "old AEM scope" of 302 million euro is attributable to the higher quantities sold and the increase in the average selling prices of electricity, reflecting the rising trend in raw material prices on international markets;

- for 438 million euro (149 million euro at December 31, 2005), to revenues from the distribution, transport and measurement of electricity; these are stated net of estimated revenues exceeding the V1 price-cap restriction, as defined in the resolutions of the Authority for Electricity and Gas and net of the estimate for potential liabilities deriving from the equalisation of distribution costs. The growth of 289 million euro on December 31, 2005 is essentially due to the increase on consolidation of the Delmi Group for 286 million euro, as well as that of the “old scope” of the AEM Group for 3 million euro;
- for 121 million euro (58 million euro at December 31, 2005) to revenues from the sale of heat to customers. The increase of 63 million euro is due to consolidation of the Delmi Group, for 59 million euro, and higher sales by AEM Calore & Servizi S.p.A. for 4 million euro;
- for 1,194 million euro (661 million euro at December 31, 2005) to revenues from the sale and distribution of gas. The increase of 533 million euro compared with the previous year is due for 507 million euro to higher revenues of the Delmi Group and for 26 million euro to higher revenues of the “old scope” of the AEM Group, because of the upward trend in tariffs which reflect the rise in raw material prices;
- for 79 million euro (31 million euro in the previous year), to revenues from the sale of fuel. The total increase of 48 million euro is due to the following factors: on the one hand, the increase deriving from consolidation of the Delmi Group, 67 million euro, on the other, lower fuel sales to industrial partners of Edipower S.p.A., belonging to the “old scope” of the AEM Group, which fell by 19 million euro;
- for 18 million euro (4 million euro at December 31, 2005) to revenues from the sale of water to civil customers relating to the consolidated portion of the Delmi Group;
- for 1 million euro to charges arising from the hedging contracts stipulated on the electricity sale contracts of AEM Trading S.r.l.;
- for 3 million euro to charges arising from the hedging contracts stipulated on the electricity sale contracts of AEM Trading S.r.l..

1.2 Revenues from services

Revenues from services millions of euro	12.31.2006	12.31.2005
Services on behalf of customers and third parties	142	76
Services rendered to the parent entity	26	25
Services to associates	1	1
Total revenues from services	**169**	**102**
of which:		
– "old scope" of the AEM Group	*73*	*93*
– Delmi Group	*24*	*9*
– Ecodeco Group	*72*	*–*

Revenues for services rendered on behalf of third parties, amounting to 169 million euro (102 million euro at December 31, 2005), regarding;

- for 142 million euro (76 million euro at December 31, 2005), revenues for services on behalf of customers and third parties which concern:
  - for 7 million euro (19 million euro at December 31, 2005), repayments by ASM Brescia S.p.A. of charges relating to thermoelectric output at the Cassano power station, including a portion of the operating costs and capital expenditure;
  - for 24 million euro (43 million euro at December 31, 2005), revenues relating to services involved in the management of heat and to facility management services provided by AEM Calore & Servizi S.p.A.. The decrease refers substantially to the transfer of the contracts belonging to the National Area that were included in the sale of the business on April 1, 2005;
  - for 3 million euro (3 million euro at December 31, 2005) revenues from services in favour of the general public connected to the networks owned by Group companies;
  - for 12 million euro (2 million euro at December 31, 2005) revenues from miscellaneous services;
  - for 24 million euro (9 million euro at December 31, 2005), revenues arising from the consolidation of the Delmi Group;
  - for 72 million euro, revenues arising from consolidation of the Ecodeco Group mainly relating to waste treatment and disposal services;
- for 26 million euro (25 million euro at December 31, 2005), revenues for services to the Municipality of Milan which refer essentially to the installation and management of public illumination, video surveillance networks and urban traffic light systems, substantially unchanged compared with the previous year;

- for 1 million di euro, revenues from services to associates (unchanged versus December 31, 2005).

1.3 Revenues from long-term contracts

millions of euro	12.31.2006	12.31.2005
Revenues from long-term contracts	**23**	**(8)**
of which:		
– "old scope" of the AEM Group	*–*	*–*
– Delmi Group	*–*	*(8)*
– Ecodeco Group	*23*	*–*

Revenues from long-term contracts show a positive balance of 23 million euro (negative for 8 million euro at December 31, 2005); they relate to line-by-line consolidation of the Ecodeco Group and refer to contract work in progress on the construction of plants in Great Britain and Spain. At December 31, 2005 this caption referred to consolidation of the Delmi Group and showed a negative balance amounting to 8 million euro.

1.4 Other operating income

Other operating income millions of euro	12.31.2006	12.31.2005
Connection contributions	17	15
Rents paid by associates	1	1
Excess risk provisions	16	12
Other revenues	134	132
Hedging income on operating derivatives	185	60
Hedging charges on operating derivatives	(28)	(26)
Total other revenues and income	**325**	**194**
of which:		
– "old scope" of the AEM Group	*99*	*123*
– Delmi Group	*221*	*71*
– Ecodeco Group	*5*	*–*

Other operating income amount to 325 million euro (194 million euro at September 31, 2005) and is made up of:

- for 17 million euro (15 million euro at December 31, 2005), from connection contributions;

- for 1 million euro, unchanged compared with December 31, 2005, from rents to associates;
- for 16 million euro (12 million euro at December 31, 2005), from overprovision of certain reserves for specific risks of which 10 million euro relate to consolidation of the Delmi Group and 1 million euro to consolidation of the Ecodeco Group;
- for 134 million euro (132 million euro at December 31, 2005), from miscellaneous income, of which 43 million euro relating to the consolidation of the Delmi Group and 5 million euro to consolidation of the Ecodeco Group. This caption refers essentially to the valuation of the surplus green certificates and emission rights, to out-of-period income for overprovisions in prior years and to reimbursements for damages and penalties recognised by users, by insurance companies and individuals, as well as to sales of appliances and materials, as well as 8 million euro of other revenues of a non-recurring nature earned by Edipower S.p.A., consolidated on a proportional basis. At December 31, 2005 this caption included 19 million euro of non-recurring income, being the rebate of the tax on hydroelectric yield for 2001 following publication of resolution 73/05 by the Authority for Electricity and Gas;
- for 185 million euro (60 million euro at December 31, 2005) from hedging income on operating derivatives, of which 169 million euro relate to consolidation of the Delmi Group. This item relates to commodity differential contracts of the Delmi Group and to premiums collected on differential contracts for sales of electricity stipulated by AEM Trading S.r.l. with Acquirente Unico S.p.A., including the positive assessment of their fair value at December 31, 2006;
- 28 million euro (26 million euro at September 31, 2005) of charges on operating derivatives relating to differential contracts on commodities of the Delmi Group (1 million euro) and charges on differential contracts for the sale of electricity awarded by AEM Trading S.r.l. to the Sole Buyer (27 million euro).

2) Other operating income

2.1 Other operating income

Other operating income amounts to 138 million euro (48 million euro at December 31, 2005) and refers only to the consolidation of the other operating income of the Delmi Group, mainly concerning the recovery of costs for services provided to joint titleholders of hydrocarbons exploration projects and other revenues of an operating nature.

At December 31, 2005, this item included other non-recurring operating income of 7 million euro which referred to the gain realised by the subsidiary AEM Calore & Servizi S.p.A. on the sale of the "National Area" business to Cofathec Servizi S.p.A., on April 1, 2005.

3) Operating costs

Operating costs at December 31, 2006 amount to 5,313 million euro (2,150 million euro at December 31, 2005). The main items in this caption are commented on below.

3.1 Raw materials and consumables used

Raw materials and consumables used millions of euro	12.31.2006	12.31.2005
Purchases of power and fuel	3,888	1,594
Change in inventories of fuels	(15)	(6)
Demineralised industrial water	17	3
Purchases of other fuel	4	1
Purchases of materials	114	37
Change in inventories of materials	(3)	3
Hedging income on operating derivatives	(13)	(24)
Hedging charges on operating derivatives	12	13
Total raw materials and consumables used	**4,004**	**1,621**
of which		
– "old scope" of the AEM Group	*1,214*	*1,012*
– Delmi Group	*2,786*	*609*
– Ecodeco Group	*4*	*–*

Purchases of raw materials and goods amount to 4,004 million euro (1,621 million euro at December 31, 2005) of which 2,786 million euro relating to consolidation of the Delmi Group and 4 million euro to consolidation of the Ecodeco Group. In particular:

- costs for the purchase of power and fuel total 3,888 million euro (1,594 million euro at December 31, 2005) and refer to purchases of power from institutional operators, from other power companies, in Italy and abroad, and on Italian Power Exchange, as well as to purchases of fuel for resale and for hydroelectric production. the increase on December 31, 2005 is due for 203 million euro to higher costs of the "old scope" of the AEM Group and for 2,091 million euro to higher costs arising from the consolidation of the Delmi Group. These rises are due to the increase in production costs of power, and in unit purchase costs, associated with the changes in the price of raw materials on international markets;

- the change in inventories shows a positive balance of 15 million euro (versus a negative balance of 6 million euro at December 31, 2005), mainly due to higher stocks of natural gas held by Plurigas S.p.A., which are reflected in the financial statements on a proportional basis (40%), partly offset by the stocks of fuel held by the Delmi Group for 10 million euro;
- the cost of demineralised industrial water is 17 million euro (3 million euro at December 31, 2005) for the consolidation portion of the Delmi Group;
- the cost of other fuel is 4 million euro (1 million euro at December 31, 2005);
- purchased materials cost 114 million euro (37 million euro at December 31, 2005), net of capitalised expenses relating to investments, including 94 million euro on consolidation of the Delmi Group and 5 million euro on consolidation of the Ecodeco Group;
- the change in inventories of materials shows a negative balance of 3 million euro (a positive balance of 3 million euro at December 31, 2005), mainly due to the negative change in inventories of the Delmi Group (1 million euro) and of the Ecodeco Group (1 million euro);
- hedging income on operating derivatives is negative for 13 million euro (–24 million euro at December 31, 2005) and relate to hedges of fuel purchases by AEM Trading S.r.l., AEM Energia S.p.A. and Plurigas S.p.A.;
- hedging charges on operating derivatives amount to 12 million euro (13 million euro at December 31, 2005) and refer to derivatives on purchases of fuel by AEM Trading S.r.l. and AEM Energia S.p.A., as well as the valuation at fair value (fair value hedge) of the derivatives hedging fluctuations in commodity prices by Plurigas S.p.A..

3.2 Services

Services millions of euro	12.31.2006	12.31.2005
Electricity delivering and transmission charges	572	147
Subcontracted work	167	118
Services	188	68
Services from associates	14	14
Total services used	**941**	**347**
of which		
– *"old scope" of the AEM Group*	*218*	*214*
– *Delmi Group*	*663*	*133*
– *Ecodeco Group*	*60*	–

Services used amount to 941 million euro (347 million euro at December 31, 2005) of which 663 million euro relating to the Delmi Group and 60 million euro to the Ecodeco Group and concern:

- charges for the use of electric and gas infrastructure and energy dispatching and regulation charges incurred by AEM Energia S.p.A., AEM Elettricità S.p.A., Plurigas S.p.A. and Edipower S.p.A. and including the consolidation of the Delmi Group, for a total of 572 million euro (147 million euro at December 31, 2005);
- costs for subcontracted work, net of capitalised charges, for 167 million euro (118 million euro at December 31, 2005), including those resulting from consolidation of the Delmi Group (115 million euro), mainly relating to activities carried out for customers and third parties, and maintenance and repair of company assets,
- other costs, 188 million euro (68 million euro at December 31, 2005), of which 59 million euro relate to costs incurred by Delmi Group and 60 million euro to the consolidated costs of the Ecodeco Group;
- services from associates for 14 million euro, net of capitalisations, the same as at December 31, 2005.

3.3 Changes in inventories of finished goods and work in progress

millions of euro	12.31.2006	12.31.2005
Changes in inventories of finished goods and work in progress	**(36)**	**64**
of which:		
– "old scope" of the AEM Group	*1*	*2*
– Delmi Group	*(37)*	*62*
– Ecodeco Group	*–*	*–*

Changes in inventories of finished products and contract work in progress at December 31, 2006 show a negative balance of 36 million euro (positive for 64 million euro at December 31, 2005) relating essentially to the change in inventories of finished products and work in progress of the Delmi Group.

3.4 Other operating costs

Other operating costs millions of euro	12.31.2006	12.31.2005
Use of third-party assets	40	18
Use of assets of the parent entity	2	2
Water taxes, duties and fees	124	51
Other expenses	107	36
Hedging income on operating derivatives	(2)	(1)
Hedging charges on operating derivatives	133	12
Total other operating costs	**404**	**118**
of which:		
– "old scope" of the AEM Group	*107*	*83*
– Delmi Group	*291*	*35*
– Ecodeco Group	*6*	*–*

At December 31, 2006, other operating costs total 404 million euro (118 million euro at December 31, 2005) and are made up of:

- use of third-party assets for 40 million euro (18 million euro at December 31, 2005) and mainly refer to concessionary fees for the management of gas and district heating services in the area of certain municipalities close to Milan, vehicle lease instalments, rental expenses and software licence fees, as well as to the consolidation of the costs of the Delmi Group, 30 million euro and to the consolidation of the Ecodeco Group, 3 million euro;

- use of third-party assets of 2 million euro (unchanged with respect to December 31, 2005), including the concessionary fees for the management of gas and district heating services in the area of the Municipality of Milan;
- taxes and water fees of 124 million euro (51 million euro at December 31, 2005), of which 56 million euro relating to the Delmi Group and 2 million euro to the Ecodeco Group; they refer essentially to water fees and option rights to buy electricity on the French market, as well as ICI payable by the Group;
- other operating expenses amount to 107 million euro (36 million euro at December 31, 2005), of which 73 million euro from consolidation of the Delmi Group and 1 million euro from consolidation of the Ecodeco Group, and refer to the purchase of green certificates, trade association membership fees and out-of-period expenses and underprovisions;
- gains on hedges of operating derivatives of 2 million euro (–1 million euro at December 31, 2005) relate to the hedging contract for the transport capacity fee agreed by AEM Trading S.r.l., with Terna S.p.A. formerly GRTN S.p.A.;
- hedging charges on operating derivatives amount to 133 million euro (12 million euro at December 31, 2005) and relate to the hedging contract for the transport capacity fee agreed by AEM Trading S.r.l. with Terna S.p.A. (ex GRTN S.p.A.), and to the consolidated charges of the Delmi Group for 132 million euro.

4) Labour costs

At December 31, 2006, labour cost, net of capitalised costs, amounts to 277 million euro (187 million euro at December 31, 2005), of which 104 million euro refer to the Delmi Group and 10 million euro to the Ecodeco Group, as detailed below:

Labour costs millions of euro	12.31.2006	12.31.2005
Wages and salaries	174	112
Social security charges	58	39
Severance indemnities	11	10
Retirement benefits and similar provisions	1	1
Other costs	33	25
Total labour costs	**277**	**187**
of which:		
– "old scope" of the AEM Group	*163*	*158*
– Delmi Group	*104*	*29*
– Ecodeco Group	*10*	*–*

The increase in the old AEM scope of consolidation's labour cost, of 5 million euro, is essentially due to provisions made during the period to the Premungas pension fund, as well as the discount on electricity and gas granted to employees; the Delmi Group increased by 75 million euro, while the first-time consolidation of the Ecodeco Group amounts to 10 million euro.

The following table shows the average number of employees of AEM S.p.A. and fully consolidated companies broken down by category and type of contract; the employees of companies consolidated on a proportional basis, such as the Delmi Group and the Ecodeco Group, are therefore not included:

	2006					
	Managers	Electricity	Gas	Metal-workers	Commerce	Total
Managers	39	–	–	–	–	39
Supervisors	–	79	36	–	7	122
White-collar workers	–	1,021	530	–	143	1,694
Blue-collar workers	–	449	277	–	23	749
Total	**39**	**1,549**	**843**	**–**	**172**	**2,604**

	2005					
	Managers	Electricity	Gas	Metal-workers	Commerce	Total
Managers	43	–	–	–	–	43
Supervisors	–	85	40	3	8	136
White-collar workers	–	1,050	547	28	117	1,742
Blue-collar workers	–	504	300	–	40	844
Total	**43**	**1,639**	**887**	**31**	**165**	**2,765**

5) Gross profit from operations

As a result of the above movements, the consolidated gross profit from operations at December 31, 2006 amounts to 1,400 million euro (718 million euro at December 31, 2005).

6) Depreciation and amortisation, provisions and writedowns

Depreciation and amortisation, provisions and writedowns millions of euro	12.31.2006	12.31.2005
Amortisation of intangible assets	67	26
Depreciation of property, plant and equipment, of which:	484	199
1. ordinary depreciation	*431*	*174*
2. depreciation of transferable assets	*53*	*25*
Other writedowns of non-current assets	51	47
Writedown of receivables included among current assets and liquid funds	21	9
Provisions for risks and charges	54	74
Total depreciation and amortisation, provisions and writedowns	**677**	**355**
of which:		
– "old scope" of the AEM Group	*201*	*214*
– Delmi Group	*454*	*141*
– Ecodeco Group	*22*	*–*

Depreciation and amortisation, provisions and writedowns amount to 677 million euro (355 million euro at December 31, 2005) of which 454 million euro relating to the consolidation of the Delmi Group and 22 million euro to consolidation of the Ecodeco Group, and are made up of:

- amortisation, 67 million euro (26 million euro at December 31, 2005) of which 60 million euro relate to consolidation of the Delmi Group, including 20 million euro of hydrocarbon exploration costs and 1 million euro for the Ecodeco Group; amortisation refers to the costs incurred for the purchase of software licences for limited and unlimited periods of time, concessions for the distribution of gas in neighbouring municipalities to Milan, conversion to natural gas of the municipal central heating plants and district heating plants owned by customers;

- depreciation of 484 million euro (199 million euro at December 31, 2005), of which 53 million euro (25 million euro at December 31, 2005) refers to depreciation di freely transferable assets. This caption includes 315 million euro for the consolidated portion of the Delmi Group, of which 34 million euro consists of depreciation of freely transferable assets and 21 million euro to consolidation of the Ecodeco Group.
  Depreciation is calculated on the basis of rates that reflect the residual useful life of the assets concerned. Freely transferable assets (hydroelectric works) are depreciated over the residual life of the concession, and current regulations;
- writedowns of property, plant and equipment, for 51 million euro (47 million euro at December 31, 2005), mainly concern writedowns of non-current assets carried out by the Delmi Group (46 million euro);
- valuation of receivables included under current assets, 21 million euro (9 million euro at December 31, 2005), of which 12 million euro relate to consolidation of the Delmi Group, in order to adjust receivables from customers to their estimated realisable value;
- provisions for risks of 54 million euro (74 million euro at September 31, 2005) made by the Parent Company AEM S.p.A. and Group companies for disputes with social security institutions and local entities, by AEM Energia S.p.A. against the risk associated with the outstanding dispute with A.E.E.G. concerning the method of calculating the update of the raw material component of the tariffs applied to sales to end-customers, by Plurigas S.p.A. and Edipower S.p.A. for risks arising from ordinary operations. the consolidated portion of provisions made by the Delmi Group amounts to 21 million euro.

7) Profit from operations

In consideration of the above, operating income amounts to 723 million euro (363 million euro at December 31, 2005).

13) Financial costs

Net financial costs amount to 186 million euro (29 million euro at December 31, 2005), of which 121 million euro from consolidation of the Delmi Group and 2 million euro from consolidation of the Ecodeco Group.
Significant items are analysed in notes 8, 9, 10, 11 and 12 below.

8) Gains/losses on revaluation of financial assets available for sale

Gains/losses on revaluation of financial assets available for sale millions of euro	12.31.2006	12.31.2005
Income from revaluations of financial assets	1	–
a) of investments	*1*	–
Losses from revaluations of financial assets	2	2
a) of investments	*2*	*2*
Total gains/losses on revaluation of financial assets available for sale	**(1)**	**(2)**
of which:		
– "old scope" of the AEM Group	–	–
– Delmi Group	*(1)*	*(2)*
– Ecodeco Group	–	–

Gains/losses on revaluation of financial assets show a negative balance of 1 million euro (1 million euro at December 31, 2005), mainly due to consolidation of the Delmi Group.

9) Other gains/losses on derivatives

Other gains (losses) from derivatives millions of euro	12.31.2006	12.31.2005
Income on financial derivatives	84	17
Charges on financial derivatives	80	11
Total other gains/losses on derivatives	**4**	**6**
of which:		
– "old scope" of the AEM Group	*25*	*14*
– Delmi Group	*(21)*	*(8)*
– Ecodeco Group	*–*	*–*

This caption shows a balance of 4 million euro (6 million euro at December 31, 2005) and is made up of:

- gains on derivatives, for 84 million euro (17 million euro at December 31, 2005), which refer to the positive effect of the fair value of the bond loan and of the derivatives on the revolving lines of AEM S.p.A., net of the negative effect of fair value of the derivative on the interest rate risk of the bond loan, in addition to consolidation of 58 million euro of gains on financial derivatives of the Delmi Group;
- charges on derivatives amount to 80 million euro (11 million euro at December 31, 2005) and derive for 79 million euro from consolidation of the Delmi Group, being related to charges on derivatives stipulated by Delmi S.p.A. to hedge the risk of fluctuation in the price of Edison S.p.A.'s ordinary shares and for 1 million euro from the fair value of the derivative stipulated by AEM S.p.A. to hedge the loan granted by Cassa Depositi e Prestiti.

The section "Other information" illustrates the nature and the content of derivatives.

10) Gains/losses on the elimination of financial assets available for sale

Gains/losses on the elimination of financial assets available for sale millions of euro	12.31.2006	12.31.2005
Gains on disposal of financial assets	7	50
Losses on disposal of financial assets	–	–
Total gains/losses on the elimination of financial assets available for sale	**7**	**50**
of which:		
– "old scope" of the AEM Group	*–*	*50*
– Delmi Group	*7*	*–*
– Ecodeco Group	*–*	*–*

At December 31, 2006 non-recurring gains on disposal of financial assets amount to 7 million euro (50 million euro at December 31, 2005), mainly on consolidation of the Delmi Group.
Note that at December 31, 2005, this item relating to the gain realised on disposal of the investments in Fastweb S.p.A. and Zincar S.r.l..

11) Financial charges

Financial charges millions of euro	12.31.2006	12.31.2005
Interest expense on current account with the parent entity	2	2
Other:	246	111
– interest on bond loan	*67*	*33*
– banks	*79*	*19*
– miscellaneous income	*100*	*59*
Total financial charges	**248**	**113**
of which:		
– "old scope" of the AEM Group	*104*	*80*
– Delmi Group	*140*	*33*
– Ecodeco Group	*4*	*–*

Financial charges come to a total of 248 million euro (113 million euro at December 31, 2005) and concern:

- interest of 2 million euro from the parent entity of AEM S.p.A., the same as the previous year, relating to financial charges accrued on the current account with the Municipality of Milan, which is used to settle financial transactions with AEM S.p.A.;
- financial charges of 246 million euro (111 million euro at December 31, 2005) relating to interest on bonds for 67 million euro, interest on the Group's exposure to banks and Cassa Depositi e Prestiti, on the loan granted at the time of the acquisition of the ENEL Distribution business for 79 million euro and interest expense of 100 million euro. The consolidated portion of financial charges pertaining to the Delmi Group is 140 million euro, that of the Ecodeco Group 4 million euro. The increase in financial charges, net of the change in the scope of consolidation, is due to the increase in debt following the acquisition of joint control of Transalpina di Energia S.r.l..

12) Income/losses from financial assets

Income/(losses) from financial assets millions of euro	12.31.2006	12.31.2005
12.1) Dividend income	5	3
12.2) Income from receivables/securities included in non-current assets	1	–
12.3) Income from receivables/securities included in current assets	36	24
12.4) Exchange gains and losses	10	3
Total income (losses) from financial assets	**52**	**30**
of which:		
– "old scope" of the AEM Group	*16*	*16*
– Delmi Group	*34*	*14*
– Ecodeco Group	*2*	*–*

Income from financial assets totals 52 million euro at December 31, 2006 (30 million euro at December 31, 2005) and refers to:

- income from dividends totals 5 million euro (3 million euro at December 31, 2005) and refers to dividends distributed by the affiliates of AEM S.p.A. as well as from consolidation of the Delmi Group, 1 million euro;

- income from receivables/securities included in current assets of 1 million euro (zero balance at December 31, 2005), and refer to interest on bank deposits and interest on other receivables;
- income from receivables/securities included in current assets for 36 million euro (24 million euro at December 31, 2005), of which 23 million euro relating to the consolidation of the Delmi Group and 2 million euro relating to consolidation of the Ecodeco Group; this income is essentially interest on bank deposits and interest on other receivables;
- exchange gains/losses which show a positive balance of 10 million euro (positive for 3 million euro at December 31, 2005), are due to consolidation of the Delmi Group (10 million euro).

14) Gains and losses on valuation of investments at equity

millions of euro	12.31.2006	12.31.2005
Gains and losses on valuation of investments at equity	**1**	**1**
of which:		
– "old scope" of the AEM Group	*–*	*3*
– Delmi Group	*1*	*(2)*
– Ecodeco Group	*–*	*–*

At December 31, 2006 this caption is positive for 1 million euro and relates to the valuation at equity of the investments in certain affiliates of the Delmi Group.

15) Gains (losses) on disposal of property, plant and equipment

millions of euro	12.31.2006	12.31.2005
Gains (losses) on disposal of property, plant and equipment	**(6)**	**(4)**
of which:		
– "old scope" of the AEM Group	*(5)*	*(5)*
– Delmi Group	*(1)*	*1*
– Ecodeco Group	*–*	*–*

At December 31, 2006 this caption shows a negative balance of 6 million euro (negative for 4 million euro at December 31, 2005) and refer to losses from disposals of assets, mainly relating to AEM S.p.A., AEM Elettricità S.p.A. and AEM Gas S.p.A., and to the consolidation of the Delmi Group, negative for 1 million euro.

16) Other non-operating income

millions of euro	12.31.2006	12.31.2005
Other non-operating profits	**58**	**10**
of which:		
– *"old scope" of the AEM Group*	*–*	*–*
– *Delmi Group*	*58*	*10*
– *Ecodeco Group*	*–*	*–*

This caption at December 31, 2006 amounts to 58 million euro (10 million euro at December 31, 2005) deriving exclusively from consolidation of the Delmi Group and refers to the cancellation of guarantees given on the sale of investments and on settlement of certain disputes for which the risk provision made turned out to be higher than the amount of the settlement, as well as to out-of-period income mainly for rebates from the French tax authorities relating to previous years.

Note that this item refers to income not directly relating to the Group's industrial or financial operations.

17) Other non-operating costs

millions of euro	12.31.2006	12.31.2005
Other non-operating costs	**(41)**	**(36)**
of which:		
– *"old scope" of the AEM Group*	*–*	*–*
– *Delmi Group*	*(39)*	*(36)*
– *Ecodeco Group*	*(2)*	*–*

This caption shows a negative balance of 41 million euro at December 31, 2006 (36 million euro at December 31, 2005) relating to the consolidation of the Delmi Group, for 39 million euro, and to the consolidation of the Ecodeco Group, for 2 million euro.

The consolidated costs of the Delmi Group mainly relate to the additional amount provided to cover the charge deriving from the fine imposed by the European Commission on the former Montedison in connection with the allegation of anti-competitive behaviour on the part of the subsidiary Ausimont S.p.A. during the period 1995-2000. The costs of the Ecodeco Group relate to provisions for "post mortem" costs relating to a dump that is no longer in production.
Note that this item refers to charges not directly relating to the Group's industrial or financial operations.

18) Income tax expense

Income tax expense millions of euro	12.31.2006	12.31.2005
Current taxes	305	115
Income from the consolidated tax filing system	(1)	–
Deferred tax assets	19	(69)
Deferred tax liabilities	(181)	18
Total income tax expense	**142**	**64**
of which:		
– "old scope" of the AEM Group	*102*	*88*
– Delmi Group	*33*	*(24)*
– Ecodeco Group	*7*	*–*

Taxes for the year are calculated as follows, based on current accounting principles and consolidation policies:

- current taxes for the period, namely IRES and IRAP for 305 million euro, of which 192 million euro for consolidation of the Delmi Group and 6 million euro for consolidation of the Ecodeco Group. As regards the Delmi Group, note that income taxes for the year include the flat-rate substitute tax due for realignment of the statutory and fiscal values, as well as for the reversal of "goodwill" on realisation of the tax benefits not included in the balance sheet on first-time consolidation, as required by IFRS 3;
- income from the consolidated tax filing system is negative for 1 million euro, essentially on consolidation of the Delmi Group;
- deferred tax assets, 19 million euro (negative balance of 69 million euro at December 31, 2005). These taxes have been calculated on temporary differences between the net profit shown in the financial statements and the taxable income of each Group company;

- gains/losses on revaluation of financial assets show a negative balance of 181 million euro (positive balance of 18 million euro at December 31, 2005). These taxes are made up largely of deferred tax liabilities provided for at individual Group company level for provisions made off the books in accordance with the recommendations of art. 109 of Decree 917/86. They have been affected by the decision made by Edison S.p.A. to take advantage of the possibility given by the Budget Law 2006 (Law 266 of December 23, 2005) to realign the statutory and fiscal values of certain depreciable assets by paying a flat-rate tax of 12% that substitutes IRES and IRAP.

19) Net result from non-current assets sold or held for sale

Net result from non-current assets sold or held for sale millions of euro	12.31.2006	12.31.2005
Net result from non-current assets sold or held for sale	**55**	**11**
of which:		
– *"old scope" of the AEM Group*	*47*	*11*
– *Delmi Group*	*8*	*–*
– *Ecodeco Group*	*–*	*–*

The net result of non-current assets sold or held for sale amounts to 55 million euro and refers to the net result on disposal of the interests in Serenissima Gas S.p.A., Serenissima Energia S.r.l., AEM Trasmissione S.p.A., Metroweb S.p.A. held by the parent company, and Edison Rete S.p.A., held by the Delmi Group, as well as from the writedown of Mestni Plinovodi d.o.o., 41.11% held by AEM S.p.A., which was measured at fair value, net of selling costs, and from charges deriving from the future sale of the investment in Serene S.p.A. held by the Delmi Group.
At December 31, 2005 the net result of non-current assets due held for sale amounted to 11 million euro.

See the section entitled "Other information" for further details.

20) Net profit for the year pertaining to the Group

The Group net profit, net of tax and minority interests of –160 million euro (–10 million euro at December 31, 2005), of which 151 million euro relate to the consolidation of the Delmi Group and 9 million euro to the consolidation of the Ecodeco Group, amounts to 302 million euro (242 million euro at December 31, 2005).

Earnings per share

millions of euro	12.31.2006	12.31.2005
(a) Net profit attributable to the ordinary shareholders (1)	300	242
Net profit/loss attributable to the ordinary shareholders from assets held for sale (discontinued operations) or sold	55	11
(b) Net profit attributable to the ordinary shareholders from operating activities	245	231
(c) Net profit attributable to the ordinary shareholders for the calculation of diluted EPS (1)	293	242
(d) Net profit attributable to the ordinary shareholders from operating activities for the calculation of diluted EPS	238	231
Weighted average number of shares in circulation		
for the calculation of earnings (loss) per share		
– basic (f)	1,784,421,446	1,782,800,163
– diluted (g)	1,784,421,446	1,782,800,163
Earnings per share (in euro)		
– basic (a/f)	0.1684	0.1357
– basic (b/f) from operating activities	0.1375	0.1294
– diluted (c/g)	0.1642	0.1357
– diluted (d/g) from operating activities	0.1332	0.1294

(1) Net of 3% of the par value, for the higher dividend paid to the savings shareholders of Edison S.p.A. compared with the ordinary shareholders.

21) Notes on related party transactions

The definition of “related parties” is indicated in the international accounting standard on the disclosures to be made in financial statements on related party transactions (IAS 24), adopted in accordance with the procedure mentioned in article 6 of the EC Regulation no. 1606/2002 and therefore, in the case of AEM S.p.A., they are:

Relations with the parent entity and its subsidiaries

The parent entity of AEM S.p.A. is the Municipality of Milan. At December 31, 2006 the Municipality of Milan holds a relative majority of the share capital of AEM S.p.A. with 42.228% (760,126,204 shares), of which 42.225% directly (760,078,804 shares) and 0.003% (47,400 shares) indirectly through Metropolitana Milanese S.p.A..
AEM S.p.A. bought 1,318,000 treasury shares at December 31, 2006 in addition to the 14,841,850 treasury shares already held at December 31, 2005.
So at December 31, 2006 AEM S.p.A. held 16,159,850 treasury shares, equal to 0.898% of the share capital which consists of 1,800,047,400 shares; the remaining 56.874% constitutes the market float.
Dealings between companies of the AEM Group and the Municipality of Milan are of a commercial nature, involving the supply of electricity, gas, heat and management of the public illumination and traffic light systems.
Similarly, AEM Group companies have dealings of a commercial nature with the companies controlled by the Municipality of Milan, namely SEA S.p.A., MM S.p.A., SOGEMI S.p.A., ATM S.p.A. and AMSA S.p.A., providing them with electricity, gas and heat at market rates in line with the supply conditions, as well as various services required by them.

Dealings between the Municipality of Milan, AEM Elettricità S.p.A. and AEM Gas S.p.A. regarding the distribution of electricity, gas and heat and the provision of public illumination and traffic light services are regulated by specific agreements.
There are also dealings of a financial nature between AEM S.p.A. and the Municipality which are regulated by means of an interest-bearing current account, through which reciprocal payments are made; this current account is subject to normal market rates.
As regards relations between AEM S.p.A. and the other companies controlled by the Municipality of Milan, it should be borne in mind that AEM holds: 49.0% of

Malpensa Energia S.r.l., which is controlled by SEA S.p.A., as well as 27% of Zincar S.r.l., which is controlled directly by the Municipality of Milan.

Dealings with subsidiary and associated companies

Within the Group, AEM S.p.A. acts as a centralised treasury for all of the subsidiaries.
Intercompany transactions are regulated through current accounts between the parent company and the subsidiaries; these transactions are governed by market rates.
In 2006, AEM S.p.A. and its subsidiaries again adopted the Group VAT procedure, with the exception of Valdisotto Energia S.r.l..
For corporate income tax (IRES) purposes, AEM S.p.A. now files for tax on a consolidated basis, as per articles 117-129 of Decree 917/86, together with its Italian subsidiaries AEM Elettricità S.p.A., AEM Gas S.p.A., AEM Calore & Servizi S.p.A., AEM Energia S.p.A., AEM Trading S.r.l., AEM Service S.r.l. and Delmi S.p.A.. To this end, a contract has been stipulated with each subsidiary to regulate the tax benefits and burdens transferred, with specific reference to current items.
The parent company AEM S.p.A. provides the subsidiaries, including Delmi S.p.A. and Valdisotto Energia S.r.l., and associates with administrative, tax, legal, managerial and technical services, so as to optimise the resources available within the company and to make the best use of existing know-how in the most economical way possible. These services are governed by specific service contracts that are stipulated annually. In addition, the parent company AEM S.p.A. makes office space, operating areas and related services available at market conditions to Plurigas S.p.A. (a subsidiary) and e-Utile S.p.A. (an associated company).
AEM S.p.A. provides a power generation service to AEM Trading S.r.l. in exchange for a monthly fee that depends on the effective availability of the thermoelectric and hydroelectric plants.
AEM S.p.A. purchases an insignificant quantity of rights needed for hydroelectric production from the associate Società Servizi Valdisotto S.p.A. under a contractual agreement.
The associated company e-Utile S.p.A. provides AEM S.p.A. with IT services.

With reference to the proportional consolidation of the Transalpina di Energia Group, which is jointly controlled through Delmi S.p.A., note that parent company, AEM S.p.A., does not have direct dealings with any companies of the Transalpina di Energia Group.

Notes on related party transactions

Intercompany transactions and balances are summarised in the following tables, in accordance with CONSOB resolution 15519 of July 27, 2006:

Balance sheet in millions of euro	Total 2006	Of which with related parties				
		Subsidiary companies	Associated companies	Parent company (1)	Total related parties	% of caption
ASSETS:	**2,533**	**116**	**86**	**42**	**244**	**9.6%**
a) Non-current assets	568	–	63	–	63	11.1%
a4) Investments	61	–	61	–	61	100.0%
a5) Other non-current financial assets	507	–	2	–	2	0.4%
b) Current assets	1,849	–	23	42	65	3.5%
b5) Trade receivables	1,849	–	23	42	65	3.5%
c) Non-current assets held for sale	116	116	–	–	116	100.0%
LIABILITIES:	**4,049**	**69**	**5**	**30**	**104**	**2.6%**
e2) Current liabilities	3,980	–	5	30	35	0.9%
e2-1) Trade payables	1,841	–	5	5	10	0.5%
e2-3) Short-term loans	2,139	–	–	25	25	1.2%
f) Liabilities directly associated with non-current assets held for sale	69	69	–	–	69	100.0%

(1) Dealings with the Municipality of Milan.

Income statement thousands of euro	Total 2006	Of which with related parties				
		Subsidiary companies	Associated companies	Parent company (1)	Total related parties	% of caption
1) Revenues	**494**	**–**	**1**	**26**	**27**	**5.5%**
1.2) Revenues for services	169	–	–	26	26	15.4%
1.4) Other operating income	325	–	1	–	1	0.3%
3) Operating costs	**1,345**	**–**	**14**	**2**	**16**	**1.2%**
3.2) Services	941	–	14	–	14	1.5%
3.6) Other operating costs	404	–	–	2	2	0.5%
12) Financial charges	**248**	**0.5**	**–**	**1.5**	**2**	**0.8%**
14) Portion of gains and losses on valuation of investments at equity	**1**	**–**	**1**	**–**	**1**	**100.0%**

(1) Dealings with the Municipality of Milan

22) Consob Communication no. DEM/6064293 of July 28, 2006

Significant non-recurring events and transactions

In addition to the comments contained in "Information on non-current assets held for sale and discontinued operations", we would also point out the following matters that took place during 2006:

- the Delmi Group adopted a new method of depreciation for CIP 6/92 plants based on the economic benefits; this increased the depreciation charge by 40 million euro;
- some tax credits were sold by Edison S.p.A. and Finel S.p.A., in December 2006; their nominal value was 83 million euro;
- the Delmi Group took advantage of the possibility given by the 2006 Budget Law (para. 469 of Law 266 of December 23, 2005) to realign the statutory and fiscal values of certain depreciable assets by paying a flat-rate tax of 12% that substitutes IRES and IRAP; overall, this had an positive effect of 101 million euro;
- other revenues of non-recurring nature proportionally consolidated for 8 million euro by Empower S.p.A..

The following non-recurring transactions took place in 2005:

- reimbursement of the hydroelectric yield for 2001, 19 million euro, following publication of resolution 73/05 by the Authority for Electricity and Gas;
- sale of the investment in Fastweb S.p.A., 50 million euro;
- a capital gains of 7 million euro following the sale of the national division by AEM Calore & Servizi S.p.A..

Guarantees and commitments with third parties

Guarantee deposits received

The guarantees deposited by subcontractors and guarantees issued by credit institutions to ensure proper execution of work amount to 265 million euro (181 million euro in the previous year).

Guarantees and commitments with third parties

These amount to 289 million euro (231 million euro at December 31, 2005) and refer to guarantee deposits lodged as security for commitments to third parties and to sureties given, of which 170 million euro given by AEM S.p.A. and lodged as security with Edipower S.p.A. as specified in the comment below.
As regards the investment in Edipower S.p.A., note that as part of the refinancing of Edipower, the AEM Group took a commitment to the associate to pay certain amounts by way of capital and/or a subordinated loan to guarantee the positive outcome of the repowering plan, both as regards any increases in investment costs and in the timing of the plan's completion, and as regards the power, efficiency and performance of the plants after the repowering plan (coverage of cost overruns, defects liability and underperformances).
Moreover, in connection with the tolling contract and the "power purchasing agreement", the AEM Group is responsible for the commercial obligations taken on by Edison Trading versus Edipower, but only for situations of serious non-performance or insolvency on the part of Edison Trading (150 million euro) and AEM Trading S.r.l. (120 million euro).

As regards the personal guarantees given, note in particular the commitment by AEM S.p.A. (10 million euro) and by the Edison Group (12.5 million euro) to pay in capital and/or grant a subordinated loan to meet the financing requirements of Edipower in connection with the repowering plan (Repowering Equity Contribution Agreement).
Note that the Edipower shares owned by AEM S.p.A. and Edison S.p.A. have been given in pledge to a pool of banks for the loans granted by them.

On January 29, 2007 Edipower S.p.A. stipulated a new line of credit for 2,000 million euro with a pool of Italian and international banks to refinance the line stipulated in 2003, originally for 2,300 million euro, and renegotiated in 2005.
This new loan, which lasts for 5 years, is backed exclusively by a pledge on the company's shares granted by the shareholders of Edipower S.p.A..
All of the other guarantees given by the industrial partners to ensure Edipower S.p.A. the financial resources needed to complete the repowering plan have been released.

The commitment taken in favour of Simest S.p.A., a minority shareholder of Mestni Plinovodi d.o.o., for the purchase of 50% of the interest currently held by Simest S.p.A. (17.543%) on June 30, 2009. The purchase price has been irrevocably agreed between the parties, as the higher between the cost incurred by Simest S.p.A. for the acquisition of the investment (1.5 million euro) and the company's net equity at June 30, 2009.
On February 23, 2007, the transfer of AEM's 41.109% stake in Mestni Plinovodi d.o.o. to ACSM S.p.A. was formalised.
The commitment toward Simest will also cease as a result when ACSM S.p.A. takes over.

Guarantees and commitments with third parties of the Delmi Group

Personal guarantees given

The value of the personal guarantees shown, namely 610 million euro, represents the potential, undiscounted amount of the commitment at the balance sheet date. In particular, there are:

- 184 million euro of the guarantees given by Edison S.p.A. to clients of Tecnimont S.p.A. for supply contracts stipulated with them;
- 378 million euro of guarantees issued by Edison S.p.A. in favour of the Milan Tax Office on behalf of subsidiaries for the compensation of the VAT receivable, on behalf of subsidiaries for the intercompany transfer of tax credits;
- 9 million euro of guarantees issued by Edison S.p.A. in favour of banks for project financing, loans and credit lines granted to Group companies;
- a 22 million euro commitment to indemnify and to take over as soon as possible from the selling company, EDF International SA, in the guarantees issued on behalf of EDF Energia Italia, now absorbed by Edison Energia;
- 17 million euro of guarantees issued to third parties by EDF Energia Italia, now absorbed by Edison Energia.

Secured guarantees given

The other real guarantees given for liabilities shown in the balance sheet for 627 million euro refer essentially to mortgages and liens on thermoelectric plants as security for the loans granted, of which 286 million euro relates to mortgages on debt waiting to be cancelled.

The Group has stipulated long-term contracts with third-party entities for the purchase of natural gas.

Guarantees and commitments with third parties of the Ecodeco Group

Guarantees given to third parties and commitments

At December 31, 2006 guarantees amount to 107 million euro and refer to guarantees given to third parties for industrial operations and as collateral for VAT rebates.
These guarantees are principally to ensure payment of any "post mortem" costs and the environmental recovery of land where associates have landfill dumps.

Commitments at December 31, 2006 amount to 1 million euro.

Secured guarantees in favour of third parties

At December 31, 2006 they amount to 92 million euro and refer principally to mortgages on land and buildings and to pledges on quotas of subsidiaries (S.r.l.) given in favour of certain financial institutions as collateral for the loans received from them.

Other information

Effect of the application of IFRIC 4

An analysis of the agreements outstanding within the Group made it necessary – solely for the Ibiritermo thermoelectric power plant which is consolidated through the Delmi Group – to restate the balance sheet, income statement, statement of cash flows and the reconciliation of equity for the comparative periods published in these financial statements.
This interpretation led to the following main changes, which involved restating the comparative figures:

- *in the balance sheet at December 31, 2005:*
  - the reversal of property, plant and equipment for 27.7 million euro;
  - the simultaneous booking of non-current financial receivables for 29.9 million euro;
  - the booking of current financial payables for 1.0 million euro;
  - the provision of deferred taxes for 0.4 million euro;
  - a positive 0.8 million euro adjustment to equity pertaining to the Group and minority interests.

Note also that property, plant and equipment includes certain assets subject to contracts which transmit a right to use an element of property, plant and equipment and are therefore similar to operating leases. The assets subject to these contracts consist of certain thermoelectric power stations for which there are contractual agreements to provide energy on an exclusive basis to industrial complexes where the power stations are located (captive stations), as well as certain wind plants, with useful lives in line with the CIP 6/92 contract. In all these cases, the normalisation of revenues and margins is guaranteed either by the price formulae (captive power plants) or by the application of depreciation correlated to the economic benefits (CIP 6/92).

Information on non-current assets held for sale and discontinued operations (IFRS 5)

The investments in Serenissima Gas S.p.A., Serenissima Energia S.r.l., AEM Trasmissione S.p.A., Metroweb S.p.A. and Edison Rete S.p.A. were sold during the year, whereas the investments in Mestni Plinovodi d.o.o and Serene S.p.A. are due to be sold, so in accordance with IFRS 5, the net result from these sales, together with the writedown of the investment in Mestni Plinovodi d.o.o. and the charges deriving from the future disposal of Serene S.p.A. are shown under “Net result from non-current assets sold or held for sale”.

The carrying value of Mestni Plinovodi d.o.o., and the assets and liabilities of Serene S.p.A. have been booked to "Non-current assets held for sale" and "Liabilities directly associated with non-current assets held for sale" as required by IFRS 5.

The consolidated income statement at December 31, 2005 has also been restated for comparative purposes, with separate disclosure of the results of these companies which had been sold as of December 31, 2006.
IFRS 5, on the other hand, does not require comparison of the balance sheet figures.

The following is information on the disposal process with key balance sheet and income statement figures for the companies concerned.

Edison Rete S.p.A.

On November 24, 2006 Edison S.p.A. and R.T.L. S.p.A., both of the Terna Group, put into effect the agreement signed on October 16, 2006 which provided for the sale of 100% of Edison Rete S.p.A. to R.T.L. S.p.A., once approval had been received from the Antitrust Authority.
The price paid by R.T.L. S.p.A. to Edison S.p.A. for the shares amounts to 294 million euro, which corresponds to an enterprise value for Edison Rete of 311 million euro.

Serene S.p.A.

On December 14, 2006 Edison S.p.A. signed an agreement to sell BG Italia S.p.A. its 66.32% stake in Serene S.p.A. for 98 million euro (BG Italia already held the other 33.68%). This price includes a maximum of 13 million euro, the payment of which is subordinated to the evolution of CIP 6/92 regulation concerning the Kyoto emission rights by AAEG.
The transaction was formalised on February 14, 2007 and, once completed, will generate a positive effect on the consolidated net debt of 65 million euro, which will be reflected in the 2007 financial statements. This amount includes around 5 million euro of dividends which were collected at the same time as the closing. At the time of the sale, 7 million euro were deposited in an escrow account; payment of this amount will depend on how the CIP 6/92 regulations evolve.
Serene S.p.A. currently operates five thermoelectric power stations started up in 1997 with a total installed capacity of 400 Megawatt. These five plants operate under the CIP 6/92 agreements, which will expire in 2012; the incentives came to an end in 2005.

Serenissima Gas S.p.A., Serenissima Energia S.r.l. and Mestni Plinovodi d.o.o.

On October 30, 2006, a deed was signed transferring AEM's controlling interest in Serenissima Gas S.p.A. to ACSM. The two parties also stipulated a contract by which AEM sold ACSM a stake representing 71.44% of Serenissima Energia S.r.l..
The transfer of 742,961 shares in Serenissima Gas S.p.A. (71.44% of the share capital) was to subscribe the entire increase in capital resolved by ACSM and reserved for AEM on August 5, 2006; as a result, AEM have been issued 9,374,125 new ordinary shares in ACSM at a price of 2.43 euro each.

This operation, which was presented to the market on March 6, 2006 when the protocol of understanding between the two companies was signed, therefore results in AEM S.p.A. taking a 20% interest in ACSM, becoming a strategic partner.
AEM did in fact sign a shareholder agreement on the same date with the Municipality of Como, ACSM's majority shareholder, which regulates certain aspects of its corporate governance.

AEM completed the sale of its 41.109% stake in Mestni Plinovodi d.o.o. to ACSM on February 23, 2007 for 500 thousand euro.

Metroweb S.p.A.

On October 19, 2006 AEM S.p.A. sold its controlling interest in Metroweb S.p.A. to Stirling Square Capital Partners, a private equity fund, in accordance with the framework agreement signed on August 3, 2006.
In effect, Metroweb S.p.A. was bought by Burano S.p.A., an Italian company indirectly controlled by Stirling Square Capital Partners with a 76.47% stake, whereas AEM has a 23.53% interest (having invested 8 million euro).
AEM has also subscribed 24 million euro of convertible debt securities issued by Metroweb S.p.A. In the event of conversion AEM would end up with a minimum of 29.75% and a maximum of 39.57% of Metroweb S.p.A..
As already communicated, the deal was closed on the basis of an enterprise value for Metroweb S.p.A. of 232 million euro (including its net debt, which at December 31, 2005 amounted to around 200 million euro). Considering the reinvestment in shares and convertible debt securities by AEM, this deal has a positive impact on the AEM Group's net financial position of around 200 million euro.

The participants signed shareholder agreements regarding the corporate governance and their respective interests in these companies. Among other things, AEM has the right to appoint two members of the board, including the Chairman, and is able to veto certain types of extraordinary transaction. The investments will, among other things, be subject to lock-up until December 31, 2008, as well as to reciprocal co-sale rights/obligations. AEM has in any case a right of prior approval if Stirling Square Capital Partners wants to sell the interests that it holds directly or indirectly in Metroweb S.p.A.

AEM Trasmissione S.p.A.

On 24 November 2006 AEM S.p.A. and R.T.L. S.p.A., both companies of the Terna Group, implemented the agreement signed on October 16, 2006 which provided for the sale to R.T.L. S.p.A. of the 99.99% investment in AEM Trasmissione S.p.A., after obtaining authorisation from the Antitrust Authority.

Against an enterprise value for the investment of around 118 million euro, AEM S.p.A. received proceeds of 123 million euro based on price adjustment mechanisms foreseen in the agreement.
AEM Trasmissione S.p.A. is the asset company that owns around 1,100 Km of high tension transport lines which form part of the National Grid.
The sale of the investment in AEM Trasmissione S.p.A. is in line with the regulatory context, which envisages the gradual unification of ownership and management of the National Grid under Terna.

For the purposes of IFRS 5, the investments in Serenissima Gas S.p.A., Serenissima Energia S.r.l., Metroweb S.p.A. and Mestni Plinovodi d.o.o. held by AEM S.p.A. and the investment in Edison Rete S.p.A. held by Edison S.p.A. have been valued at the lower of book value at the time of the reclassification and their fair value, net of selling costs. This involved a valuation of 6 million euro of the investment in Mestni Plinovodi d.o.o.. The other assets and liabilities are shown at book value at the time of the reclassification.

Figures at December 31, 2006

Assets and liabilities of companies held for sale millions of euro	Investments in Mestni Plinovodi d.o.o.	(50% of the figures) Serene S.p.A.	Total
Non-current assets	0.5	75.8	76.3
Current assets	–	39.9	39.9
Total assets	**0.5**	**115.7**	**116.2**
Non-current liabilities	–	18.3	18.3
Current liabilities	–	50.2	50.2
Total liabilities	**–**	**68.5**	**68.5**

Figures at December 31, 2006

Net result of non-current assets held for sale millions of euro	Investments in Mestni Plinovodi d.o.o.	(50% of the figures) Serene S.p.A.	Total
Revenues from sales	–	–	–
Gross profit from operations	**–**	**–**	**–**
Amortisation, depreciation and provisions	–	–	–
Profit from operations	**–**	**–**	**–**
Financial charges, net	(6.2)	(2.6)	(8.8)
Income before taxes	**–**	**(2.6)**	**(2.6)**
Income taxes	–	–	–
Net result	**(6.2)**	**(2.6)**	**(8.8)**

Figures at December 31, 2005

Net result of non-current assets held for sale millions of euro	Metroweb S.p.A.	Serenissima Gas S.p.A.	Serenissima Energia S.r.l.	AEM Trasmissione S.p.A.	(50% of the figures) Edison Rete S.p.A.	Total
Revenues from sales	46.3	5.9	24.5	15.5	4.8	97.0
Gross profit from operations	**28.8**	**3.7**	**2.1**	**10.2**	**2.3**	**47.1**
Amortisation, depreciation and provisions	(11.1)	(0.6)	–	(4.5)	(2.0)	(18.2)
Profit from operations	**17.7**	**3.1**	**2.1**	**5.7**	0.3	**28.9**
Financial charges, net	(6.8)	0.0	–	–	(0.2)	(7.0)
Gains from disposal of property, plant and equipment	(0.7)	0.4	–	(0.3)	–	(0.6)
Income before taxes	**10.2**	**3.5**	**2.1**	**5.4**	**0.2**	**21.4**
Income taxes	(5.3)	(1.3)	(0.8)	(2.1)	(0.6)	(10.1)
Net result	**4.9**	**2.2**	**1.3**	**3.3**	**(0.5)**	**11.3**

Please note that, at December 31, 2005 the Delmi Group was not consolidated only for the period from October 1 to December 31, 2005 and the investment in Metni Plinovodi d.o.o. was consolidated at equity.

Figures at December 31, 2006

Net result of non-current assets sold millions of euro	Metroweb S.p.A.	Serenissima Gas S.p.A.	Serenissima Energia S.r.l.	AEM Trasmissione S.p.A.	(50% of the figures) Edison Rete S.p.A.	Total
Gains	–	3.1	4.6	36.3	7.4	51.4
Losses	(0.5)	–	–	–	–	(0.5)
Result for the period of ownership	6.0	1.2	(0.1)	3.0	3.0	13.1
Net result of non-current assets sold	**5.4**	**4.3**	**4.6**	**39.3**	**10.4**	**64.0**

Treasury shares

During 2006, AEM S.p.A. bought 1,318,000 treasury shares in addition to the 14,841,850 treasury shares already held at December 31, 2005.
So at December 31, 2006 AEM S.p.A. held 16,159,850 treasury shares, equal to 0.898% of the share capital which consists of 1,800,047,400 shares.
The shareholders' meeting on October 27, 2006 authorised the purchase and sale of treasury shares up to a maximum of 180,004,740 shares, including those

already held, and for a period of not more than 18 months from the date of the resolution.

Please note that, at December 31, 2006 the Delmi Group did not hold treasury shares.

Risk management

Responsibility for risk management (exchange risk, commodity price risk, interest rate risk and credit risk) lies with two functions: the Energy Risk Management function, which reports to the Group CFO, handles the various risk factors that exist in the energy market (price and exchange rate risk on commodities and credit risk on the bilateral contracts of AEM Trading S.r.l.), whereas the Group Finance and Administration Department manages liquidity risk, credit risk for all other customers, interest rate risk, equity risk, if its exists, and any residual exchange rate risk, which is marginal compared with that handled by the Energy Risk Management function.

1) Risk factors in the energy market: commodity price risk, exchange rate risk and credit risk

The economic and financial results of the AEM Group's core business operations are exposed to a series of risks:

- price risk is related to changes in the market value of a commodity. It consists of the possible negative effects that a change in the market price of one or more commodities could have on the Company's prospective earnings;
- volume risk is linked to a reduction in the economic margin associated with a purchase and sale transaction due to a change in the quantity or quality of the underlying volumes;
- counterparty risk is the risk that AEM's customers may not honour their obligations at the due date.

In January 2004, the AEM Group developed its own "Energy Risk Policy", after formal approval by the Board of Directors of AEM S.p.A. Responsibility for the control and management of risk limits, which are decided annually by the Board of Directors, has been delegated to the Energy Risk Commission (ERC), chaired by the Managing Director of the AEM Group. It uses the services of a unit entitled Energy Risk Management, which was set up in AEM S.p.A. reporting directly to the Group CFO. The objective of the Energy Risk Management unit is control over risk profiles and the adoption of measures to keep them within the limits permitted by the Energy Risk Policy.

Within the ambit of the risk management strategy approved by the ERC, the Group CFO can impose any action that may be needed to maintain the AEM Group's risk profile within its official limits. The priority objective of energy risk

management is to protect the Group's gross margin, which is subject to risk because of market price fluctuations. The use of commodity derivatives is only permitted to limit the AEM's Group's exposure to adverse price trends on raw material markets, as laid down by the ERP.
The AEM Group takes steps to optimise its energy portfolio (purchases and sales of gas and production/purchase and sale of electricity, hedging of price risk, etc.) based on the desired risk/return profile.
The hedging of price risk by means of derivatives focused on protection against high volatility of energy prices on the power exchange (IPEX), on stabilising electricity margins on the wholesale market with particular attention being paid to energy sales at fixed prices, and on stabilising price differences (sales/purchases) deriving from various indexing mechanisms for the price of gas.
Commodity and currency hedging contracts were also taken out with the main national and international operators in the sector so as to protect the margin on fixed-price sales (at a price not index-linked to energy products and currencies) of gas and electricity and to protect 100% of the margin coming from other sales, with the objective of bringing the limits back within the amounts laid down in the ERP. Valuing these hedges of the AEM Group at fair value at December 31, 2006 was negative for 5.9 million euro, whereas the overall result realised in 2006 was negative for 4.1 million euro.

2) Interest rate risk, equity risk, liquidity risk and residual exchange rate risk

Exchange rate risk is the possibility of incurring losses because of an unfavourable change in exchange rates.
Interest rate risk is the possibility of incurring losses because of an unfavourable change in interest rates.
Equity risk is the possibility of incurring losses based on an unfavourable change in the price of shares.
In order to limit liquidity risk, which is the risk of having to make unexpected cash outlays without having sufficient financial resources, the company has stipulated medium term revolving committed lines of credit with banks for a total of 2,510 million euro. This amount guarantees that the company has sufficient funds to cover any financial requirements that might arise over the next few years.
Interest rate risk is linked to medium and long-term loans and has a different impact depending on whether the loan is fixed or floating rate.
In fact, if the loan is floating rate, the interest rate risk is on the cash flow; if the loan is fixed rate, the interest rate risk is on the fair value (e.g. if market rates rise above the rate paid on the bonds, the bond price will go down). Indeed, there is an inverse correlation between a loan's price and its yield to maturity.

It is up to the Group Finance and Administration Department to identify and propose suitable strategies to limit these types of risk.

At December 31, 2006, before consolidation of the Delmi Group, the structure of the AEM Group's medium and long-term debt was as follows:

- 18% consisted of floating-rate loans,
- 1% consisted of fixed-rate loans,
- 81% of the loans were hedged, even if this cover did not fully satisfy the effectiveness test required by IFRS to apply hedge accounting.

The loans that were hedged were made up as follows:

- a bond loan with a nominal value of 500 million euro with an annual fixed coupon of 4.875%;
- a loan from the Cassa Depositi e Prestiti, residual debt at December 31, 2006 of 275 million, floating rate (average of 6-month Euribor measured in November and May);
- 600 million euro of revolving lines, floating rate (6-month Euribor).

The hedging policy adopted by the Group is designed to minimise any losses connected to fluctuations in interest rates in the case of floating rate loans and to minimise the higher cost of fixed rate loans compared with floating rate ones (the so-called "negative carry").
This policy makes it possible to transform the fixed rate, Euribor and Euribor average into a floating rate within a collar with barrier, so as to limit:

- interest rate fluctuations with well defined limits, in the case of floating rate;
- the negative carry compared with the Euribor (floating), in the case of fixed rate.

This policy has been applied to the bond loan, the loan from the Cassa Depositi e Prestiti and the revolving committed lines of credit.

As regards the exchange rate risk on purchases and sales other than those of commodities, the AEM Group does not consider it necessary to take out specific hedges as the amounts involved are quite small, they are paid or collected within a short period of time and any imbalance is immediately offset by a sale or purchase of foreign currency.

Derivatives

On interest rates

With reference to the Euro 500,000 thousand bond issue maturing in October 2013, AEM S.p.A. has adopted suitable financial strategies to transform the fixed rate (net of the issue spread) into a floating rate based on 6-month Euribor, the value of which is limited to within a collar with a barrier. At

September 31, 2006, the valuation at fair value of the derivative is positive for 11 million euro.

The fair value of the bond loan, applying the "fair value option", at December 31, 2006, came to 507 million euro.

With reference to the loan granted by the Cassa Depositi e Prestiti to AEM Elettricità S.p.A., with due date June 2013, AEM S.p.A. has adopted suitable financial strategies to set the floating rate within a collar with a barrier option. At December 31, 2006, the valuation at fair value of the derivative is negative for 0.3 million euro.

With reference to the revolving committed lines of credit falling due in 2012, AEM S.p.A. has adopted suitable financial strategies to fix the floating rate within a collar. At December 31, 2006, the valuation at fair value of the derivative is positive for 15 million euro.

Commodity derivatives

All contracts are designed to protect the AEM Group from the risk of fluctuations in the market prices of certain raw materials.
The fair value of the cash flow hedges has been classified on the basis of the underlying derivative contracts as per IAS 39. The heading Electricity in the tables that follow includes the contracts that hedge the cost of generation and sale of electricity stipulated with banking counterparties, which have a notional expressed in MWh, differential contracts adjudicated on November 30, 2006 at an auction called by Acquirente Unico S.p.A.. This calculation excludes differential contracts with Gestore dei Servizi Elettrici (GSE) assigned on the basis of the Ministerial Decree of December 14, 2006 (CIP 6 contracts) as the type of indexing of the reference price has still not been determined for the quarters after the first one, making any economic evaluation impossible.

The contracts not considered hedges for the purposes of IAS 39 include the one-way differential contracts adjudicated at an auction called by Acquirente Unico in December 2004 and subsequently renewed; as far as the AEM Group is concerned, these are hedging contracts, even if they cannot be treated as such for hedge accounting purposes under IFRS.
The use of financial derivatives is regulated by the AEM Group's Energy Risk Policy and is designed to limit the risk of the AEM Group being exposed to fluctuations in the market prices of the raw materials that it needs, based on a cash flow management strategy involving cash flow hedges).
Their valuation at fair value, in the absence of a forward market curve, has been estimated internally, using models based on industry best practice.

Risk management at the Delmi Group/Transalpina di Energia Group/Edison Group

The Delmi Group is made up of Delmi S.p.A., Transalpina di Energia S.r.l. and the Edison Group.

Delmi is exposed to equity risk because of the equity swaps on 16,616,858 ordinary shares of Edison S.p.A..
Delmi S.p.A. has also stipulated a flexible forward agreement with a financial counterparty which has the right, but not the obligation, to buy Edison S.p.A. ordinary shares at a price of 1.671 euro per share up to a maximum of 16,616,858 Edison S.p.A. ordinary shares with maturity November 24, 2008.
As regards the equity swap transaction on the Edison S.p.A.'s ordinary shares, please note that, these are non-hedging contracts designed to take advantage of any rise in the value of Edison S.p.A.'s shares, which are listed on the Milan Stock Exchange. In addition, Delmi S.p.A. will receive amounts from the counterparty equal to the dividends paid by Edison S.p.A. on the underlying shares.
For the equity swaps the banks will receive a remuneration that is partly variable, based on the time period of the transaction.
Note that at December 31, 2006, the valuation of the equity swap and flexible forward transactions was negative for 3.1 million euro.
As regards the equity derivatives stipulated by Delmi S.p.A. explained above, AEM S.p.A. has issued a Deed of Guarantee and Indemnity, guaranteeing the performance of Delmi S.p.A.'s bonds..

Transalpina di Energia S.r.l. is exposed to interest rate risk of which 81% has been hedged by means of interest rate swaps.
The Edison Group's activity is exposed to various types of risk, including interest rate, exchange rate, price and cash flow risk. The Group uses derivatives to minimise such risks as part of its risk management activities. The risk management model coincides with that of the subsidiary Edison S.p.A..
In line with the rules of the Code of Conduct for Listed Companies, from 2006 Edison began to implement an integrated risk control model based on the international standards of Enterprise Risk Management, with the definition of a global corporate risk model using risk mapping and risk scoring methodologies.
The risk model adopted provides for a classification according to two fundamental criteria:

- the origin of the inherent risk, on the basis of which risks are split between risks linked to the external environment, process risks and strategic and policy risks, in accordance with the guidelines of the COSO Framework;

- the main quantification methodology, on the basis of which risks are split between market risk, credit risk, operating risk and other risks, essentially strategic and reputational risks, in accordance with the Basel II guidelines.

Market Risk

Market risk includes all of those risks that are linked directly or indirectly to fluctuations in prices on the physical and financial markets where the company operates, in particular:
- commodity risk, associated with the price volatility of energy commodities and environmental securities;
- exchange rate risk;
- interest rate risk;
- liquidity risk, deriving from the potential lack of financial resources to meet short-term commitments.

As far as energy commodity price risk and the related exchange rate risk are concerned, with a few minor exceptions involving Edipower, Edison has set up a process that is based on a logic of segregation and separation of the risk control and management function, which is centralised in Edison S.p.A. reporting directly to the Chief Financial Officer, from operating on financial markets, which is centralised in Edison Trading S.p.A. as far as commodity markets are concerned and in the Finance Department as far as exchange rates are concerned.
In particular, the Energy Risk Policies introduced precisely to manage commodity price risk and the associated exchange rate, provide for constant control over the Group's net exposure, calculated on the entire portfolio of the Group's assets and contracts, as the sum of the transactions carried out by all members of the Group, as well as the overall level of economic risk taken on (Profit at Risk) compared with a maximum limit approved by the Board of Directors at the same time as the annual Budget.
Every month, the Risk Management Committee – chaired by top management – reviews the Group's exposure and, in the event that Profit at Risk exceeds the limit, decides on adequate hedging policies by means of derivatives.

Commodity and exchange rate risk associated with trading in commodities

The Group is exposed to price risk, including the related exchange risk, on all of the energy commodities that it handles, namely electricity, natural gas, coal, crude oil and refined products, as both purchases and sales are affected by fluctuations in the prices of these energy commodities (above all fuels denominated in US dollars). These fluctuations act both directly and indirectly, through formulas and indexing in the pricing structure.

As regards price risk management, the Group's policy is to minimise the need for recourse to financial markets for hedging purposes by exploiting vertical and horizontal integration of the various lines of business.
To this end, the Group above all plans all physical balancing of volumes for its sales of physical energy commodities on the markets for the various deadlines by means of its own production assets and its portfolio of outstanding contracts, both medium/long term and spot.
The Group then pursues a policy of homogenisation between the physical sources and uses, so that the formulas and indexing to which energy commodity sales are linked reflect as far as possible the formulas and indexing of the Group's costs, i.e. its purchases of energy commodities on the markets and the procurement for its own production assets.
To manage the residual risk, the Group can use structured hedges on financial markets based on a cash flow hedging strategy. Hedging transactions can be used to block the margin on an individual transaction or on a limited set of identical transactions (called "operational hedging"), or it can be used to protect a maximum level of exposure to price risk calculated centrally on the total net portfolio of the Group, of an entire legal entity of the Group or, in any case, of a set of physical and contractual assets that are relevant for the company as a whole (so-called "strategic hedging"). Operations in hedging derivatives are carried out in compliance with AEM's risk management policy and procedures with the support of a specific deal capture system. Edison only stipulates hedging derivative contracts within specific and limited stop losses.

Exchange rate risk not associated with commodity risk

Except as explained above in connection with commodity risk, the Group is not particularly exposed to exchange rate risk. It is prevalently concentrated in the translation of the financial statements of certain foreign subsidiaries, as the operating companies generally have a substantial convergence between the currencies in which their revenues are billed and the currencies in which their costs are billed.

Interest rate risk

Edison is exposed to interest rate fluctuations to the extent that they affect the market value of financial assets and financial and the level of net financial charges. Group strategy is to maintain a balance between the fixed and floating component of interest rates so as to mitigate the effects of any changes in market rates.
The exposure to interest rate risk at December 31, 2006 can be put at around 33% of the Edison Group's total exposure, mainly attributable to the reduction in average indebtedness, even though there are hedging structures in place that currently involve the application of a floating rate.

Liquidity risk

Liquidity risk is the risk that the financial resources available to the company will not be sufficient to meet its financial commitments as they fall due.
Edison's policy for managing liquidity risk is very prudent, in the sense that the Company adopts a suitable strategy to avoid cash outlays becoming a critical issue for the Group, especially if they are unforeseen. The minimum objective is to provide the Company with the committed lines of credit that it needs to reimburse any debt falling due over the next twelve months.
The Group's financial requirement is therefore ensured by long-term funding raised mostly through the bond market.

Credit risk

Credit risk represents Edison's exposure to potential risks deriving from non-compliance with the commitments taken on by the counterparty.
this risk may stem from purely technical/commercial or administrative/legal factors (disputes over the nature/quantity of the goods or services supplied, the interpretation of contractual clauses, the related invoices, etc.) or from typically financial factors, i.e. the so-called "credit standing" of the counterparty.
For Edison, exposure to credit risk is principally linked to its growing commercial activity, selling electricity and natural gas on the free market.
In order to keep this risk under control, the Edison Group has established a dedicated structure, laid down Credit Management Guidelines and implemented procedures and methods of evaluating customers (which also involves the use of suitable scoring matrices), monitoring expected flows and any steps needed to recover the debt.
Lastly, as regards the choice of counterparties for the management of temporary cash surpluses, the Group only uses those that have a particularly secure profile and a high international standing.

Operating risk

Operating risk represents the risk of losses or damage to the company or to third parties deriving from inadequacy or malfunctioning on the part of procedures, human resources or systems, including legal risk, or from external events.
In this sense, Edison's activities include, among other things, the construction and management of plants for the production of electricity and hydrocarbons. These plants are technologically complex and interconnected throughout the entire value chain. The risk of losses or damage can arise from the unexpected lack of availability of one or more machines that are critical to the production processes, following material damage to the machines or to specific components, which cannot be com-

pletely covered or transferred by insurance policies. Prevention and control measures to limit the frequency of such events, or to reduce their impact, envisage high security standards and frequent plans for review, contingency planning and maintenance. Where appropriate, adequate policies of risk management and ad hoc insurance cover in an industrial setting minimise the possible consequences of such damage.

One potential source of significant risk is the constant evolution in the legislative and regulatory context, which essentially affects tariffs, service quality and technical and operating procedures. In this connection, Edison continuously monitors the situation to ensure that it is aware of any changes as soon as they arise and to minimise their economic impact.

In the field of operating risk, it is worth mentioning the IT systems that support operations, particularly as regards the technical, commercial and administrative aspects. In order to limit the risk of an interruption caused by a system fault, Edison has equipped itself with a hardware and software architecture with a highly reliable configuration for those applications that support critical activities. Moreover, as part of the service provided by the outsourcer, the disaster recovery plan (tested in 2006) guarantees rapid recovery times.

Analysis of forward transactions and derivatives

The Group's use of financial derivatives is designed to protect its physical and contractual assets from fluctuations in the prices of the risk factors to which the Group is exposed, particularly energy commodities (gas, oil and oil derivatives, coal and electricity), the euro dollar exchange rate and the interest rate, based on a strategy of cash flow hedges.
As regards their classification in the financial statements, these transactions meet the compliance requirements as per IAS 39 for the application of hedge accounting.
In particular:

- Transactions considered hedges for the purposes of IAS 39: can be split into transactions to hedge future cash flows and transactions to hedge assets or liabilities (fair value hedges). For transactions involving cash flow hedges, the only ones that currently exist in the financial statements, the accrued result is included in gross profit from operations when realised, whereas the prospective value is shown in equity.
- Transactions not considered hedges for the purposes of IAS 39 can be split between:
  - Margin hedges: for all hedging transactions that meet the requirements of compliance with the internal risk policy and procedures, the accrued result and prospective value are included in gross profit from operations;

– Trading transactions: for all other transactions, the accrued result and the prospective value are booked to financial income and charges below the gross profit from operations.

The valuation of financial derivatives for electricity at fair value, in the absence of a forward market curve, has been estimated internally, using models based on industry best practice.

Risk management at the Ecodeco Group

The Ecodeco Group operates in Italy, Great Britain and Spain in the field of waste treatment and disposal and in the production of electricity from waste incineration and biogas.

AEM S.p.A. holds 30% of the share capital and voting rights with a call option to buy the other 70%.

The group consists of 15 companies that are consolidated line-by-line and 4 that are consolidated proportionally.

The Edison Group's activity is exposed to various types of risk, including interest rate, exchange rate, price and cash flow risk, as explained in greater detail in the following paragraphs. In order to minimise these risks, the Group uses derivatives as part of its risk management activity, while generally speaking derivative or similar instruments are not used or held purely for trading purposes.

All of this is placed within the ambit of precise directives, especially of an organisational nature, which regulate the Ecodeco Group's Risk Management activity and to this end procedures have been introduced to control all transactions involving derivatives. In this area, all risk management activities are handled centrally, with some insignificant exceptions.

The main group companies that are active in financial risk management are: Ecodeco S.r.l. (Parent company), Ecolombardia 4 S.p.A. (controlled 68.5% by Ecodeco S.r.l.), Fertilvita S.r.l. (controlled 95.84% Ecodeco S.r.l.), Ecoenergia S.r.l. (indirectly controlled 100% through by Ecodeco S.r.l.), Cavaglià S.p.A. (indirectly controlled 99.8% through Ecodeco S.r.l.), A.S.R.A.B. S.p.A. (indirectly controlled 69% by Ecodeco S.r.l.), Sistema Ecodeco UK Ltd (controlled 100% by Ecodeco S.r.l.) and Bellisolina S.r.l. (indirectly controlled 50% by Ecodeco S.r.l.), CMT Ambiente S.r.l. (indirectly controlled 51% by Ecodeco S.r.l.).

Financial management of the Ecodeco Group is carried in coordination with AEM S.p.A.'s Finance and Administration Department to take advantage of the better terms and conditions that the AEM Group can obtain from banks and other financial institutions.

Hence, all decisions relating to the stipulation of medium/long term loans or financial risk hedging transactions by any member of the Ecodeco Group are taken jointly by Ecodeco and AEM management.

Ever since the Ecodeco Group was acquired, steps have been taken to rationalise its long-term debt, cancelling the more onerous loans (onerous in economic terms and in terms of guarantees), bringing the main clauses into line with AEM Group standards wherever possible.

Loans that could not be renegotiated have been kept at their original conditions.

Interest rate risk

The Ecodeco Group's strategy is to reduce the impact of interest rate changes on the income statement.
The interest rate hedging policy adopted by the Ecodeco Group is to minimise any risks connected to interest rate fluctuations by transforming floating rates (entirely or partly) into fixed rates.

The exposure to interest rate risk at December 31, 2006 can be put at around 14% of the Edison Group's total exposure, even though there are hedging structures in place that currently involve the application of a floating rate.

The larger medium/long-term positions, which mostly relate to project financing and leasing, have been hedged.

Exchange rate risk

The group is not particularly exposed to exchange rate risk, being almost entirely in the conversion of the financial statements of a foreign subsidiary, System Ecodeco UK LTD, which operates in Great Britain. The parent company Ecodeco S.r.l., which operates internationally, has a substantial convergence between its billing currencies and its purchasing currencies.

Price risk

The group is not exposed to significant price risks related to energy markets, but it remains exposed to the natural risks of price changes by market competitors.

Credit risk

This is the risk that one of the parties to a contract involving deferred settlement does not comply with their payment obligation, generating a financial loss for the other party. This risk may stem from purely technical/commercial or administrative/legal factors (disputes over the nature/quantity of the goods or services supplied, the interpre-

tation of contractual clauses, the related invoices, etc.) or from typically financial factors, i.e. the so-called "credit standing" of the counterparty.
For the Ecodeco Group, exposure to credit risk is principally linked to its commercial activity, namely waste disposal services, electricity production and plant construction. Customers consist of private companies, with which the group has long-standing relationships, and public entities such as municipalities, local authority utilities, consortiums, etc.. Private customers have also been chosen carefully and this has allowed the Ecodeco Group to keep its credit risks low.
Lastly, as regards the choice of counterparties for the management of temporary cash surpluses, the Group only uses banks that have a particularly secure profile and a high international standing.

Liquidity risk

The group has a prudent liquidity risk management policy If available liquid funds are insufficient, the minimum objective is to provide the group at any one time with the credit facilities needed to repay the debt falling due in the next twelve months. The Group's financial requirement is ensured by long-term funding, which is obtained exclusively through bank loans.

Derivatives

Financial derivatives (exclusively interest rate derivatives) are used to hedge fluctuations in the floating rates applied to the loans obtained from the Ecodeco Group.

As regards their classification in the financial statements, these transactions meet the compliance requirements as per IAS 39 for the application of hedge accounting.

Details of the contracts used to hedge interest rate risk are shown below.

On the 25 million euro floating-rate loan granted in 2002 by a pool of banks to Ecodeco S.r.l., an Interest Rate Swap (IRS) contract has been stipulated to transform the floating rate into a fixed rate of 3.73%.

On the floating rate loan granted in 2002 to Ecoenergia S.r.l., originally for 21 million euro, there is an IRS contract hedging the interest rate as it is designed to transform the floating rate into a fixed rate of 3.32%.

CMT Ambiente S.r.l. has an IRS derivative contract designed to transform the floating rate into a fixed rate of 3%.

Ecolombardia 4 S.p.A. has an IRS designed to hedge the interest rate risk on a leasing contract for a nominal amount of 27 million euro. The derivative transforms the floating rate into a fixed rate of 3.675%.

The fair value of these instruments at December 31, 2006 comes to a net of less than 1 million euro: all of these transactions have the requisites for being considered cash flow hedges.

Analysis of forward transactions and derivatives

Instruments outstanding at December 31, 2006

A) On interest and exchange rates

The following analyses show the outstanding amounts of derivative contracts stipulated and not expired at the balance sheet date, by maturity.

millions of euro	Notional value maturity within 1 year		Notional value maturity between 2 to 5 years		Notional value maturity beyond 5 years
	to be received	to be paid	to be received	to be paid	
Interest rate risk management					
– cash flow hedges as per IAS 39	–	542	–	129	508
– not considered hedges as per IAS 39	–	1,166	–	2,163	1,276
Total derivatives on interest rates	**–**	**1,708**	**–**	**2,292**	**1,784**
Exchange rate risk management					
– considered hedges as per IAS 39					
On commercial transactions	574	166	–	–	–
On financial transactions	–	6	–	–	–
– not considered hedges as per IAS 39					
On commercial transactions	19	1	–	–	–
On financial transactions	–	–	–	–	–
Total exchange rate derivatives	**593**	**173**	**–**	**–**	**–**
Equity risk management					
– considered hedges as per IAS 39	–	–	–	–	–
– not considered hedges as per IAS 39	–	–	–	28	–
Total equity derivatives	**–**	**–**	**–**	**28**	**–**

B) On commodities

The following is an analysis of the commodity derivative contracts outstanding at the balance sheet date for the purpose of managing the risk of fluctuations in the market prices of certain raw materials.

Energy product price risk management	Unit of measurement of the notional value	Notional value with maturity within one year	Notional value with maturity within two years	Notional value with maturity beyond two years
A. cash flow hedges as per IAS 39, including:				
– Electricity	ThW	4	–	–
– Oil	bbl	1,670,845	–	–
– Other commodities	tonnes	–	–	–
– Exchange rate	million dollars	–	–	–
B. fair value hedges as per IAS 39				
C. not considered hedges as per IAS 39, including:				
C.1 margin hedges				
– Electricity	ThW	2	–	–
– Liquid gas, oil	bbl	–	–	–
– Coal	tonnes	–	–	–
– Other commodities	tonnes	–	–	–
– CO^2	tonnes	–	1	1
C.2 trading transactions				
– Electricity	ThW	–	–	–
– Liquid gas, oil	bbl	–	–	–
– Other commodities	tonnes	–	–	–
– Exchange rate (forward points)	million dollars	–	–	–

Balance sheet and income statement effects of activity in derivatives during 2006

The following is an analysis of the effects on the balance sheet and income statement of derivatives management

Balance sheet figures

in millions of euro	
ASSETS	
A) NON-CURRENT ASSETS	**–**
A6) Non-current derivatives	–
B) CURRENT ASSETS	**66**
B1) Inventories	(5)
B3) Current derivatives	71
TOTAL ASSETS	**66**
E) LIABILITIES	
E1) NON-CURRENT LIABILITIES	**3**
E1-1) Medium/long-term financial liabilities	3
– Amounts due to banks	–
– Derivatives	3
E2) CURRENT LIABILITIES	**42**
E2-3) Short-term financial liabilities	42
– Amounts due to banks	–
– Derivatives	42
TOTAL LIABILITIES	**45**

Income statement figures

millions of euro	Realised in the period (A)	Fair value on contracts outstanding at 12.31.2005 (B)	Fair value on contracts outstanding at 12.31.2006 (C)	Change in fair value during the period (D = C – B)	Amounts booked to the income statement (A + D)
1) REVENUES AND OTHER OPERATING INCOME					
Energy product price risk management and commodity exchange risk management					
– considered hedges as per IAS 39	140	–	–	–	140
– not considered hedges as per IAS 39	25	11	1	(10)	15
Total (1)	**165**	**11**	**1**	**(10)**	**155**
3) OPERATING COSTS					
Energy product price risk management					
– considered hedges as per IAS 39	(100)	–	–	–	(100)
– not considered hedges as per IAS 39	(37)	(3)	(1)	2	(35)
Total (3)	**(137)**	**(3)**	**(1)**	**2**	**(135)**
TOTAL BOOKED TO GROSS PROFIT FROM OPERATIONS	**28**	**8**	**–**	**(8)**	**20**
9) OTHER GAINS (LOSSES) FROM DERIVATIVES					
Energy product price risk management					
– Trading income	–	–	–	–	–
– Trading charges	–	–	–	–	–
Margin on trading in commodities	**–**	**–**	**–**	**–**	**–**
Interest rate and equity risk management, including:					
A. Financial income					
– considered hedges as per IAS 39	5	–	4	4	9
– not considered hedges as per IAS 39	40	(495)	(460)	35	75
Total financial income (A)	**45**	**(495)**	**(456)**	**39**	**84**
B. Financial charges					
– considered hedges as per IAS 39	(10)	–	(4)	(4)	(14)
– not considered hedges as per IAS 39	(45)	(13)	(34)	(21)	(66)
Total financial charges (B)	**(55)**	**(13)**	**(38)**	**(25)**	**(80)**
Margin on interest rate and equity management (A + B)	**(10)**	**(508)**	**(494)**	**14**	**4**

millions of euro	Realised in the period (A)	Fair value on contracts outstanding at 12.31.2005 (B)	Fair value on contracts outstanding at 12.31.2006 (C)	Change in fair value during the period (D = C – B)	Amounts booked to the income statement (A + D)
12) INCOME (LOSSES) FROM FINANCIAL ASSETS					
Exchange rate risk management, including:					
A. Exchange gains					
– considered hedges as per IAS 39	–	–	–	–	–
– not considered hedges as per IAS 39	–	–	–	–	–
Total exchange gains (A)	–	–	–	–	–
B. Exchange losses					
– considered hedges as per IAS 39	–	–	–	–	–
– not considered hedges as per IAS 39	–	–	–	–	–
Total exchange losses (B)	–	–	–	–	–
Margin on exchange rate risk management (A + B)	–	–	–	–	–
TOTAL BOOKED TO FINANCIAL COSTS	(10)	(508)	(494)	14	4

Bank borrowings and amounts due to other providers of finance

The following are all the figures relating to bank borrowings and amounts due to other providers of finance:

millions of euro	Book balance 12.31.2006	Portions maturing within 12 months	Portions maturing beyond 12 months	Portions maturing into				
				2008	2009	2010	2011	beyond
Bonds	1,882	741	1,141	–	–	376	258	507
Non-banking loans	466	157	309	60	69	48	47	85
Bank loans	2,886	1,221	1,665	187	136	47	47	1,248
Total	**5,234**	**2,119**	**3,115**	**247**	**205**	**471**	**352**	**1,840**

Comparison between nominal balance and fair value

millions of euro	Fair value 12.31.2006	Book balance 12.31.2006	Fair value 12.31.2005	Book balance 12.31.2005
Bonds	1,882	1,882	2,026	2,026
Non-banking loans	466	466	475	475
Bank loans	2,886	2,886	3,559	3,559
Total	**5,234**	**5,234**	**6,060**	**6,060**

Changes in the nominal value of the debt

millions of euro	Book balance 12.31.2005	Change	Book balance 12.31.2006
Bonds	2,026	(144)	1,882
Non-banking loans	475	(9)	466
Bank loans	3,559	(673)	2,886
Total	**6,060**	**(826)**	**5,234**

Medium/long-term loans (excluding current portions)

millions of euro	Book balance 12.31.2006	12.31.2006 Portions maturing beyond 12 months	12.31.2005 Portions maturing beyond 12 months	Change
Bonds	1,882	1,141	2,026	(885)
Non-banking loans	466	309	339	(30)
Bank loans	2,886	1,665	2,636	(971)
Total	**5,234**	**3,115**	**5,001**	**(1,886)**

Medium/long-term loans: current portions

millions of euro	12.31.2006 Portions maturing within 12 months	12.31.2005 Portions maturing within 12 months
Non-banking loans	157	136
Bank loans	1,221	921
Total	**1,378**	**1,057**

Covenants

AEM S.p.A.'s bank debt of (a) 100 million euro at floating rate with maturity September 2012 and (b) 85 million euro at floating rate with maturity June 2018

The Company's non-subordinated, unsecured long-term debt has a credit rating clause: the 100 million euro loan requires it to maintain a rating of "BBB", while the 85 million euro loan is required to maintain a rating of not less than investment grade, in both cases for the entire duration of the loan.
If this commitment is not met, there are capital, economic and financial covenants linked to its Debt/Equity ratio, Debt/Gross Profit ratio, and Gross Profit/Financial Charges ratio. These covenants will be evaluated by the Company every twelve months based on the consolidated financial statements.

Revolving committed lines of credit

AEM S.p.A. has stipulated a number of committed lines of credit with various financial institutions for a total of 2,510 million euro.
These lines are not subject to any covenants nor does a specific level of rating have to be maintained.

Delmi Group debt

In this regard, any deterioration or the elimination of Edison's rating does not trigger off any automatic requirement to repay the loan. This applies both to bond loans and to bank borrowings. As for financial covenants, which are obligations to comply with certain minimum or maximum financial ratios, there are none attached to any of the Group's bond loans, nor for the portion of the bank debt pertaining to Edison. On the other hand, some of its subsidiaries still have covenants on bank lines of credit used for project financing. The amount of debt involved amounts to around 74 million euro. With specific reference to the loan of Edipower, were Edison to lose the minimum rating associated with investment grade, no obligation would arise for Edipower to repay the loan in advance, but Edison would have to submit to certain financial covenants. In the case of violation of these financial covenants, after a period of observation, Edison would have to pay the amount guaranteed by them under the Completion Equity Contribution Agreement and the Repowering Equity Contribution Agreement.
It is worth mentioning that on January 29, 2007 Edipower stipulated a new financing contract with a group of banks, replacing the previous one which was cancelled ahead of schedule. Under the new contract, Edison is no longer obliged to comply with financial covenants, neither for rating purposes, nor for any other reason; and there are no longer the guarantees regarding the payment of contributions in favour of the associate (Completion Equity Contribution Agreement and Repowering Equity Contribution Agreement).

Edipower debt

With specific reference to the loan of Edipower S.p.A. of 2,300 million euro, at floating rate and with maturity September 2008, were Edison S.p.A. or AEM S.p.A. to lose the minimum rating associated with investment grade, no obligation would arise for Edipower S.p.A. to repay the loan in advance. The only requirement would be for Edison and AEM to come back into line with the financial covenants. In the

case of violation of these financial covenants, after a period of observation, Edison and AEM would have to pay the amount guaranteed by them under the Completion Equity Contribution Agreement and the Repowering Equity Contribution Agreement. The financial covenants of Edipower S.p.A. refer to the ratio between gross profit from operations and financial charges, the ratio between net debt and gross profit from operations, and a minimum level of gross profit from operations.
On January 29, 2007 a new loan contract was signed by Edipower and the banks.

Ecodeco Group debt

As regards the consolidated debt of the Ecodeco Group, the 25 million euro floating rate loan granted by a pool of banks to Ecodeco S.r.l. in 2002 and the 1.6 million euro loan granted by a leading banking group to ASRAB S.p.A. are subject to financial covenants.
In the case of the loan granted to Ecodeco S.r.l., the covenants make reference to the ratio between net financial debt and gross profit from operations and the ratio between gross profit from operations and net financial charges.
In the case of the loan granted to ASRAB S.p.A., the covenant makes reference to the ratio between net financial debt and gross profit from operations. The loan granted to ASRAB S.p.A. was repaid in January 2007.
The Ecodeco Group does not have any problem complying with these covenants.

Concessions

The following table shows the main concessions obtained by the AEM Group:

Concessions	Expiry	
	From	To
10 Concessions for hydroelectric plants	2007	2043
Concession agreement for the distribution of electricity stipulated on May 2, 2001 between the Ministry of Industry and AEM Distribuzione Energia Elettrica S.p.A. (AEM Elettricità S.p.A.) in the Municipalities of Milan and Rozzano		2030
Delegation agreement for management of the public gas and district heating network services stipulated on December 3, 1996 between the Municipality of Milan and AEM S.p.A., now in the name of AEM Gas S.p.A.		For the same period as the duration of the Company (*)

(*) Pursuant to the Marzano Decree and, as clarified by the Note of the Ministry of Productive Activities of November 10, 2005 "Clarifications regarding delegations and concessions for natural gas distributions as per art. 15 of Decree 164 of 5.23.2000, as amended by art. 1, para. 69, of Law 239 of 8.23.2005", the expiry date of the concession for the gas distribution service has been brought forward to December 31, 2011.
AEM Gas S.p.A. also has concessions/agreements for management of the gas and heat distribution service in various municipalities in Northern Italy. AEM S.p.A. holds the concession for the urban illumination and traffic lights service in the Municipality of Milan, whereas AEM Elettricità S.p.A. holds concessions in some neighbouring municipalities.

The following information relates to the concessions obtained by the Delmi Group/Edison Group:

	Number	Residual life	
		From	To
Storage concessions	2	8	18
Hydroelectric concessions	70	2	25
Distribution concessions	63	1	13
Hydrocarbon concessions	73	*"unit of production"* (*)	–

(*) Amortisation is calculated on the basis of the extracted portion in relation to the available reserves.

Information on concessions of the Ecodeco Group is reported below:

	Number	Residual life	
		From	To
Agreements on solid urban waste ("SUW") (*)	10	2 (**)	18 years (**)

(*) Agreements can relate to the disposal and treatment of SUW, the construction and running of dumps, dump management and safety or waste valorization.
(**) In certain cases, the duration depends on when the dump's volume is filled.

EC infringement procedure

On June 5, 2002, the European Commission published a decision declaring that the three-year exemption from income tax (under art. 3.70 of Law 549/95 and art. 66.14 of D.L. 331/1993, converted into Law 427/93) and the advantages deriving from the loans granted under art. 9-*bis* of D.L. 318/1986, converted into Law 488/96) granted to joint-stock companies with a public-sector majority set up under Law 142/90 was incompatible with EC law as it was considered State aid which is banned by art. 87.1 of the EC Treaty.
On the other hand, the Commission did not consider the tax exemption on the transfers under art. 3.69 of Law 549/95 as State aid.
This decision was notified on June 7, 2002 to the Italian State, which impugned it before the Court of Justice.
The decision was subsequently communicated by the Commission to AEM S.p.A., which impugned it before the Court of first instance of the European Community on September 30, 2002, pursuant to art. 230.4 of the EC Treaty. Other public-sector companies and Confservizi are also considering impugning this decision.
In the proceedings taken by AEM S.p.A., on January 6, 2003 the Commission deposited an objection claiming that it could not accept the appeal. AEM promptly replied before the legal deadline. The Court set the meeting concerning the objection claiming that it could not accept the appeal by order dated August 5, 2005.
In February, the Italian State asked the Court of Justice to suspend the case before it to allow the one before the Court of first instance to go ahead, seeing as all of the main beneficiaries of the aid were taking part in it. The Court ordered a suspension on June 8, 2005. On March 15, 2006 AEM deposited a brief in response to the judgement pending before the Court of first instance.
The Italian State did not ask the Court of Justice to suspend execution of the Commission's June 2002 Decision so as not to prejudice the resolution of merit in the event of a refusal. In fact, it is rare for the Court to concede a stay of execution, above all in matters regarding State aid.
The decision is therefore fully effective and binding on the Italian State, which is obliged to recover the aid granted.
The Commission's Decision, on the other hand, does not have any effect on the private sector, nor does the appeal to the Court of first instance have any impact on it.
On the invitation of the Commission, the Italian State has activated a recovery procedure, preparing a questionnaire to carry out a survey of joint-stock companies

with a public-sector majority that have benefited from this kind of tax exemption or from loans granted by the Cassa Depositi e Prestiti during the years under consideration. AEM S.p.A. received from the Municipality of Milan a request for information on June 14, 2005 and is currently gathering relevant data. It would appear that such requests form part of a survey to gather relevant information, rather than being binding.

The Italian State's recovery initiatives continued with the predisposition of an amendment to the EC law, which was approved by the Senate in April 13, 2005 (art. 27, Law 62 of April 18, 2005). The measure envisages detailed recovery procedures based on ordinary tax rules to adjust any recovery to the effective existence of recoverable aid (considering the specific circumstances of each position and bearing in mind any outstanding disputes with the tax authorities). In particular, this measure envisages certain declarations on the part of the tax-payer and presumes certain official acts specifying the application methods and guidelines for a correct evaluation of cases of non-application. The guidelines were then amended to make them more precise by art. 1.133 of Law 266 of March 23, 2006 (Budget Law 2006). AEM S.p.A. has punctually complied with the obligations that the former municipal utilities have been subjected to as laid down in the recovery regulations and related implementation instructions. Subsequently, following Italy's condemnation by the Court of Justice for the delay in recovering the "aid" (Sentence June 1, 2006, lawsuit C – 207/05), with Decree 10 of February 15, 2007 (not yet converted into law, but approved by the Senate on March 14, 2007), further amendments were made to the existing recovery procedures. However, these amendments do not entail new or additional charges or obligations for AEM, as the recovery will be carried out on the basis of the declarations already presented under the previous regulations.

On October 27, 2005 the Tax Authorities visited the head office of AEM S.p.A. to acquire documentation to check the correctness of the figures declared in the tax returns presented in accordance with art. 27 of Law 62.

The visit was merely to ascertain the amount of any taxes that are to be reimbursed, to be followed by their definitive liquidation. AEM S.p.A. has given the inspectors an ample statement on how the tax returns were compiled. If all possible forms of legal protection fail, it is reasonable to assume that the Italian government's efforts to recover this money will take the form of a revocation of the benefits granted in various ways to different public service sectors, to the extent that the business has effectively opened up to competition during the period of the measures being contested and hence the extent to which it may have been distorted.

Talking of which, AEM's appeal explains how the Company operated during the 1996-1999 period, the one under review by the Commission in sectors that were not opened up to competition, such as power and gas, for which AEM S.p.A. did not take part in any tender to be entrusted the service.
In light of the uncertainty regarding the outcome of the recourses launched by the Italian State and by AEM S.p.A., and the ways in which the Commission's Decisions would be applied, the Company thinks it possible, but not probable, that it risks having to hand back all of the aid received if the result of the entire appeal procedure turns out to be negative. It follows that the financial statements do not reflect any provision for this matter.
Because of these same conditions of uncertainty, it is currently impossible to have sufficient objective elements to make a reasonable estimate of the impact on AEM S.p.A. as a consequence of this Decision.
By way of an indication, the following table shows the net profit reported in AEM's approved financial statements for the various years affected by the European Commission's decision:

	1996	1997	1998	1999
Millions of euro	14	93	115	1,027

The net profit for 1999 includes the capital gain of 935 million euro, generated by the transfer to the subsidiaries AEM Trasmissione S.p.A., AEM Elettricità S.p.A. and AEM Gas S.p.A. of the power transmission, power distribution and sale, and natural gas and heat distribution and sale businesses.
These transfers were decided by AEM S.p.A. in accordance with precise obligations laid down in Decree 79/99 which adopted the EU Directive on the single electricity market and as part of the planned deregulation of the natural gas sector.
Given the "tax moratorium", AEM S.p.A. was not at the time required to file tax returns for those years.
It is also worth bearing in mind that the bulk of the earnings distributed by AEM S.p.A. during this tax moratorium went to the Municipality of Milan, part of the Public Administration.
AEM S.p.A. did not receive any loans from the Cassa Depositi e Prestiti under the laws mentioned and during the period considered by the Commission.

Main legal disputes of the AEM Group

Amendments to the articles of association approved by the Extraordinary Shareholders' Meeting held on April 29, 2004

The Extraordinary Shareholders' Meeting held on April 29, 2004, the minutes of which were regularly filed with the Companies Register on May 27, 2004, adopted a series of amendments to the articles of association in order to adjust them to the new regulations introduced by the Company Law Reform and the new rules for the composition of the Board of Directors; this was also in connection with the decision taken by the Municipality of Milan to place a further tranche of AEM S.p.A. shares up to a maximum of 17.6% of the share capital. In May 2004, two appeals were filed with the Lombardy TAR to obtain first the suspension and then cancellation of the resolutions of the Milan City Council, both concerning the "Sale of part of the AEM S.p.A. shares held by the Municipality of Milan. Accelerated offer for sale Issue of a bond loan convertible into shares of AEM S.p.A." as well as "Amendments to the Articles of Association of AEM S.p.A.. Applicable immediately". In June 2004, the Lombardy TAR accepted the requests for an injunction to suspend the resolution of the Municipality of Milan in connection with the new mechanism for appointing AEM Directors, scheduling the merit discussion hearing on September 29, 2004. An appeal against the TAR's injunction was then filed with the Council of State, which by sentences 6748 and 6749 of August 10, 2004 cancelled the Lombardy TAR's injunctions, giving as their reason the merit of the appeal and taking the view that the amendments to the articles of association proposed by the Municipality of Milan were not in contrast with EC and Italian rules and that the procedure of privatisation chosen by the Municipality of Milan was also legitimate.

On September 29, 2004, the TAR, "not issuing a definitive sentence", suspended the previous judgements, raising a question of interpretation under art. 234 of the EU Treaty before the European Court of Justice. In reference orders 174-175/04 (with the same contents), the TAR asked the EC Court to gives its interpretation, essentially, of the compatibility of art. 2449 of the Italian Civil Code with art. 56 of the EU Treaty, also in consideration of the application made in this particular case in the context of art. 16 of the articles of association of AEM S.p.A. (i.e. together with a voting list). On January 18, 2005, the President of the European Court of Justice issued an order combining proceedings nos. C-463/04 and C-464/04, both of which concern the Lombardy TAR's request to the Court for its preliminary ruling.

On August 4, 2005 the defence counsel for the Municipality of Milan applied to the European Court of Justice for the oral phase of the proceeding to begin.

The hearing was held in front of the European Court of Justice on June 29, 2006. The Advocate General of the Court presented his conclusions on September 7, 2006, suggesting to the Court to resolve the questions raised by the Lombardy TAR as follows: "Art. 56 CE is in contrast with a national rule that allows a public entity with shareholdings, in this case, of 33.4% of the capital of an enterprise that has been privatised to retain the power to appoint an absolute majority of the members of the Board of Directors". The Court is expected to pass judgement soon.

* * *

With writ served on August 5, 2005, Dario Trevisan, the owner of 1,000 shares, acting on his own behalf as a shareholder and as defence counsel, sued AEM S.p.A. before the Milan Court, asking for the resolution of the extraordinary shareholders' meeting of April 29, 2004 to be declared null and void and/or invalid and/or ineffective in the part in which it amends article 17 of the articles of association (numbering changed to article 16) for violation of the EC Treaty; the same applies to Decree Law 332/94 of the resolution of the ordinary shareholders' meeting of April 29, 2005 in the part that deals with the nomination and election of the directors and statutory auditors, as well as of all of the deeds relating to execution of these resolutions. The writ also asks for AEM S.p.A. to be sentenced to pay compensation of the damages suffered by the plaintiff and, on a preliminary basis, if considered necessary and after suspending judgement, to submit to the European Court of Justice the question whether art. 2449 of the Italian Civil Code together with art. 2.d) of Decree Law 332/94 can be considered in compliance with arts. 43 and 56 of the EC Treaty.
Subsequently, with a statement transmitted on December 30, 2005, Mr. Trevisan declared that he had asked, in primis, for the annulment of the AEM S.p.A. resolutions that he had impugned (i.e. the resolution passed at the Extraordinary Shareholders' Meeting in April 2004 and the subsequent resolution by the Ordinary Shareholders' Meeting in April 2005, which implemented the first), and, in secondis, an action to ascertain the non-compliance of the 2005 resolution with the law, from which derived the request for compensation. As for the requests for invalidity and ineffectiveness, according to the plaintiff's premises, there are "ancillary and consequent to the action for nullity, without this involving any change in the petitum or proposition of a new or different request to the one for nullity".

With submissions dated November 14, 2005 and March 15, 2006, AEM S.p.A. asked for the plaintiff's requests to be rejected. This on the basis of a series of defence arguments, including above all total compliance with internal law on the part of the resolution passed in 2004 and full respect of art. 2 of Decree Law 332/94 on the part of AEM.
Mr. Trevisan has not replicated further and with a request notified to AEM on May 12, 2006 he has asked for a date to be set to discuss the matter before a full court. Having read this request, the reporting judge summoned the parties to the hearing scheduled for September 18, 2006 to hear them as regards the regularity of the procedure for setting a date for the hearing on January 31, 2007, reserving judgement as to the outcome. This reservation has still not been lifted, nor has a new hearing been scheduled.

AEM – ACEA S.p.A.

With writ served on August 1, 2006, ACEA S.p.A. summoned EDF (Electricité de France S.A.) and AEM Milano S.p.A. to appear before the Rome Court on March 15, 2007 to ascertain whether AEM and EDF (and/or their subsidiaries) had exceeded the maximum limit of 30% set by DPCM (Prime Minister's Decree) of November 8, 2000 for public entities' participation in the share capital of the GenCo "Eurogen" (subsequently merged and now "Edipower"), thereby carrying out an illicit act that could be considered unfair competition vis-à-vis ACEA, which complied with the said limit in its participation in the share capital of the GenCo "Interpower". Once this had been ascertained, ACEA asked for AEM and EDF to be sentenced (a) to pay compensation for the damages suffered by ACEA as a result of the unfair competition on the part of EDF and AEM, and (b) to sell their participations in Edipower so as to reduce them to the maximum limit of 30%. Lastly, ACEA asked for AEM and EDF to be prevented from withdrawing and/or using the electricity in excess of the permitted 30% limit and for the sentence to be published in the main Italian daily newspapers.
In particular, ACEA submitted that – in implementation of the "Bersani Decree" – Enel had to transfer around 15,000 MW of its own installed power to three distinct GenCo's set up specifically for this purpose. These three GenCos are called "Eurogen" (now Edipower), "Elettrogen" and "Interpower". The DPCM of November 8, 2000 subsequently laid down that for a period of 5 years, the share capital of these GenCos could be held by public entities, including business entities, or by Italian or foreign public enterprises to an extent not in excess of 30%.

In March 2002, Eurogen, i.e. the second GenCo, was bought – continues ACEA – by the Edipower consortium, made up among others by AEM and Edison S.p.A., and after its merger with Edipower, it took on the name "Edipower".
According to ACEA, in the case of Edipower the maximum limit of 30% had been amply exceeded by AEM and EDF, both entities that – in ACEA's opinion – should be considered "public" as EDF is wholly owned by the French State and AEM is controlled by the Municipality of Milan. According to ACEA, the share capital of Edipower suffers from the interference of an overall public shareholding on the part of AEM and EDF, also through their joint control of Edison S.p.A., in excess of the maximum limit of 30% established by the DPCM of November 8, 2000. This situation – ACEA adds – was also pointed out by the Competition Authority, which issued a report on the matter in accordance with arts. 21 and 22 of Law 287/1990 on July 7, 2006.
Having said this, ACEA also made the point that AEM and EDF were its competitors, operating in the same electricity market, emphasising that the fact that AEM and EDF had exceeded the 30% limit for holdings in GenCos, also through Edison S.p.A., gave them an illicit competitive advantage over ACEA, which, being controlled by the Municipality of Rome, had always complied with its obligations under the DPCM of November 8, 2000, including that regarding participations in another GenCo. This competitive advantage, which derives from the fact that it has a higher market share than the law permits, was the result of conduct on the part of AEM and EDF which – in ACEA's opinion – qualified as unfair competition in accordance with art. 2598.3 of the Italian Civil Code or, in any case, as an illicit act according to art. 2043 of the Italian Civil Code.
Lastly, ACEA preannounced, but for the moment has not proposed, requests to the Court for suitable measures to anticipate the effects of the future sentence.
As far as AEM and EDF are concerned, they have not yet taken any defensive action, given that ACEA has not yet followed through on its threats and the first hearing of the merit judgement was set by ACEA for March 15, 2007 and was then postponed by the judge to May 24, 2007, obliging the parties to appear during the 20 days prior to this hearing.

AEM - ATEL S.A.

AEM, which holds 5.7% of ATEL S.A., opposed the obligatory takeover bid launched by the Consortium (of which EDF and EOSH are members, among others), which had bought a controlling interest in Motor Columbus, which in turn controls Atel; this bid was structured as an offer to exchange shares with which it had been proposed to the minority shareholders of Atel, AEM included, to subscribe new shares in Motor Columbus immediately after it had absorbed Atel. On May 3, 2006, the Federal Bank Commission declared that the Consortium's offer did not comply with Swiss law, as it jeopardised the rights of the minority shareholders. Following this pronouncement, the Consortium then launched another public share exchange offer that took account of the Federal Bank Commission's observations; in particular, it no longer envisaged the reverse merger between Motor-Columbus and Atel, which in the original plan would have taken place 12 days after the public share exchange offer, thereby forcing the shareholders of Atel that took up the offer to remain shareholders of Atel. AEM also opposed the Consortium's new public share exchange offer as it was felt that it still jeopardised the rights of Atel's minority shareholders. On July 4, 2006, the Federal Bank Commission considered the Consortium's new offer in accordance with Swiss law. AEM impugned the decision of the Federal Bank Commission by appealing to the Federal Court, filing a request on September 4, 2006 that asked for the Consortium's public share exchange offer to be declared not in accordance with Swiss law and that the Federal Bank Commission's decision of July 4, 2006 should be cancelled. The Federal Court rejected the appeal filed by AEM with a judgement communicated to the parties on March 20, 2007. The Federal Court did not go into the merit of the appeal, nor did it express any opinion on the principal complaint made by AEM; namely, that the public share exchange offer made by the Consortium did not comply with the legal requirements of Swiss law in cases of obligatory takeover bids. In fact, the Federal Court refused the appeal insofar as AEM, as a minority shareholder of ATEL, did not have the right to appeal to the Federal Bank Commission, far less to the Federal Court. This exception, which had already been raised by ATEL before the Federal Bank Commission, had been rejected by the Commission, which stated that, unlike what was subsequently established by the Federal Court, AEM did have the right to take part in administrative proceedings.

ENEL v AEM

With a writ served in 2001, ENEL requested annulment of the decision made by the Board of Arbitrators appointed in accordance with Decree 79 of March 16, 1999 (the so-called "Bersani Decree"), which set at Lire 820 billion the price to be paid to ENEL for the sale to AEM Elettricità of the power distribution business in Milan and Rozzano. AEM asked for ENEL's request to be rejected, as the arbitrators' decision could not be considered manifestly unfair or erroneous in accordance with art. 1349 of the Italian Civil Code. Moreover, AEM in turn filed a reconventional claim asking for ENEL to be sentenced to pay compensation for the damages caused by the delay with which ENEL implemented the sale of the business as imposed by the law. In AEM's opinion, the judge would only be able to change the arbitrators' decision if it appeared to be "manifestly unfair or erroneous", as confirmed by an expert witness's report which the judge has ordered.

The Court-appointed expert witness carried out a laborious review of the situation, making numerous adjustments, and in the end of the day established a figure of 66 million euro as the higher value of the business, net of the damages that the witness recommended should be awarded to AEM. However, even on the basis of the expert witness's report, the differences between the two estimates – that of the arbitrators and that of the expert witness appointed by the Court – do not appear to be attributable either to unfairness or to errors, but rather solely to different valuation methods used in a field where the room for technical discretion tends to be very wide.

As regards the dispute, at present, after numerous adjournments, a hearing has been set for November 9, 2007 when the judge will announce his conclusions. The terms for the parties' defence conclusions will presumably run from that date, which means that the case is likely to be decided during the first half of 2008.
Even if the expert witness's report is not in AEM's favour, the final outcome of the lawsuit cannot be foreseen with any degree of reliability, whether because the judge could choose to disregard the expert witness's conclusions, or because of the objective complexity, both in fact and in law, of the questions that have to be resolved before ENEL's and/or AEM's requests can be considered.

Other commitments and risks of the Delmi Group

We would also like to mention the following commitments and risks relating to the consolidation of the Delmi Group, mainly relating to the Edison Group:

- in the **field of hydrocarbons**, natural gas import contracts in particular – as in usual in transactions of this amount and duration – there are "take or pay" clauses which envisage an obligation for the buyer to pay for the quantity not withdrawn compared with a set threshold if the non-withdrawals are due to causes not foreseen in the contract, except for the possibility during the course of the contract to recover at certain conditions the volume already partially paid for but not withdrawn. The contracts that are already operative concern imports from Russia, Libya and Norway for total supplies under normal conditions of 7.4 billion cubic metres per year.

Take or pay amounts are paid for at a price that is in proportion to the supply price, which is linked to current market conditions. These contracts last for between 10 and 25 years and make it possible to achieve supplies of 18 billion cubic metres of natural gas per year for the period when all of the contracts are up and running.
There are also three new agreements for the import of additional quantities of natural gas over the coming years:
- the first refers to a contract for imports RasGas (Qatar) with the start of deliveries dependent on completion, by GNL Adriatico S.r.l., of LNG of Isola di Porto Viro currently under construction and expected to come into service by 2008. The volumes of this contract will amount to 6.6 billion cubic metres of gas;
- the second consists of a contract for imports from Algeria signed with Sonatrach for a volume of 2 billion m3/year, expected to start in 2008, depending on completion of the first stage of the upgrade of the gas pipeline that links Algeria with Italy through Tunisia (TTPC: Trans Tunisian Pipeline Company);
- the third is a new agreement signed with Sonatrach in November 2006 ("Protocole d'accord") for the supply of 2 billion cubic metres of natural gas through the new pipeline to be built by Galsi that will link Algeria with Sardinia and Tuscany; the project is currently being developed (the agreement is subject to the new infrastructure being built).

As regards the contract relating to Terminale GNL Adriatico S.r.l., the agreements provide:
- for all shareholders: an obligation not to transfer their holding until 36 months after the terminal's start of operations, but in any case not beyond July 1, 2011 (the lock-up clause);
- in favour of Edison: a right to buy the other 90% or to sell its own 10% interest if certain events take place, not due to the fault of Edison, that prevent the terminal being completed (the put & call clause);
- in favour of the two majority shareholders: the right to buy the 10% interest belonging to Edison in the event that the gas supply contract with RasGas is cancelled for some reason attributable to Edison (the call clause);
- a price for the sale of the quotas in the event of the put and call options being exercised, calculated on the basis of the net equity value at the time they are exercised;
- a commitment on the part of the shareholders to provide, on a pro quota basis, the company with adequate financial resources to build the terminal. In addition, once the North Adriatic regasification terminal has been completed,

even though Edison only has 10% of the infrastructure, it will become the main user as it will have available around 80% of the overall regasification capacity for 25 years;

- in the **electricity chain** , we would point out that:
  - Termica Celano has granted the lending banks a special lien on moveable assets making up the cogeneration power plant, and a first degree mortgage on the properties;
  - on September 30, 2006 Termica Milazzo repaid the loan stipulated with Mediobanca and steps are currently being made to cancel the secured guarantees: a mortgage and a special first degree lien. There is also a loan from IRFIS backed by a subsidiary guarantee under Regional Law 50 of 12.21.1973, a mortgage and a special lien;
  - the loans that benefited Parco Eolico San Giorgio and Parco Eolico Foiano, now merged in Edison Energie Speciali S.p.A., were repaid ahead of schedule on June 30, 2006 Secured and personal guarantees backing these loans will cease to be effective on June 30, 2006;
  - Edison has granted Cartiere Burgo S.p.A. a call option for 51% of Gever that can be exercised on expiry of Gever's power and steam contract with Cartiere Burgo (by the end of 2017), at a price equal to its share of the company's book net equity;
- in the **Corporate area**, we would point out that, as part of the agreements that tie the members of the RCS MediaGroup blocking and consultation syndicate, in the event that a takeover bid is launched, any member that decides to exercise their right to withdraw from the investment has to sell their syndicated shares to the other members of the syndicate. The buyers have the right, but not the obligation, to purchase the shares in proportion to their percentage of the shares contributed to the syndicate.

Update of the principal outstanding legal and tax disputes of the Delmi Group

The Delmi S.p.A. does not have any legal or tax disputes still pending.

On 7 May 2006, Transalpina di Energia received notification of a summons from Camuna di Partecipazioni S.p.A. (formerly Carlo Tassara S.p.A.) with which the latter called as defendants before the Milan Court: Transalpina di Energia, EDF, Italenergiabis S.p.A. (IEB) and their directors.
Tassara maintains that EDF is in breach of contract with regard to the commitment that it took to buy back the warrants issued by IEB and purchased in 2002 by

Tassara, at an agreed price of 20,404,441 euro. Tassara is therefore asking the Court to condemn EDF to pay the price mentioned above, or, subordinately, to accept its right to be reimbursed for the damage caused by IEB selling its investment in Edison and the Edison warrants to Transalpina di Energia at a price that Tassara considers too low, or, subordinately, to declare the sale null and void because of the prior purchase of the IEB warrants by Tassara, or, subordinately again, to ascertain the nullity of the sale of the controlling interest in Edison and of the Edison warrants by IEB to Transalpina.
The Company has prepared its defence case.
The company also has pending the lawsuit discussed below under the heading "ACEA Unfair Competition".

As regards the Edison Group, the main legal and tax disputes still pending are commented below on the basis of available information. Legal disputes are further broken down between those for which it is possible to make a reasonable estimate of the probable cost, making a suitable provision in the balance sheet, and potential liabilities for which no reliable estimate can be made, leading only to disclosure in the notes without any provision being made (potential liabilities).
Lastly, there is a breakdown between the lawsuits involving Edison S.p.A. and those involving other companies in the Group.

A) Edison S.p.A.

European Commission – Antitrust procedure relating to Ausimont

In the appeal against the provisionally executive decision of the European Commission regarding an infraction of art. 81 of the EC Treaty and art. 53 of the EEA Agreement with regard to a cartel in the market for hydrogen peroxide and its derivatives, sodium perborate and sodium percarbonate, as a result of which Edison was fined 58.1 million euro, of which Solvay Solexis was jointly liable for 25.6 million euro, Edison has paid 45.4 million on a provisional basis, this being the whole of the amount that it is due on its own and half of the amount for which it has joint liability with Solvay Solexis. In the meantime, Edison's appeal against the above decision is going ahead before the European Union's Court of First Instance, asking for the sentence to be cancelled and the penalty reduced.

Collapse of the Stava Dam

Efforts have continued to finalise the last lawsuits still pending with third parties that suffered damages as a result of the collapse of the Prestavel basins in 1985.

Lawsuit for damages to employees operating the chemical plants contributed to Enimont

There are nothing of any importance to report in connection with the lawsuits still pending before the judicial authorities for the damages caused by operating the plants that were then transferred to Enimont. In particular: (i) the preliminary stage of the suit pending before the Milan Court between the Lombardy Region and EniChem, Basf Italy, Dibra and Montecatini (now Edison), relating to the damage to the environment caused by the plant at Cesano Maderno continued; while (ii) the suit before the same Court between Dibra, EniChem and Montecatini (now Edison), relating to compensation for the damage caused by the sale of part of the said plant, is still in suspense depending on the outcome of the previous dispute.

Petrochemical plant at Porto Marghera – Criminal proceedings for injuries stemming from exposure to vinyl chloride monomer and for damage to the environment

In the criminal trial for injuries stemming from exposure to vinyl chloride monomer and for damage to the environment in connection with the petrochemical plant at Porto Marghera, Edison has filed an appeal against the sentence of the Venice Court of Appeal which on December 15, 2004, in partial reform of the previous court's sentence, condemned five former directors and managers of Montedison for the culpable homicide of a worker who died of hepatic angiosarcoma in 1999, as well as to pay damages together with Edison, responsible for third-party liability, to reimburse the plaintiffs' legal fees and pay the costs of the lawsuit. Following the Supreme Court's decision, Edison came to a settlement with some of the damaged parties and is currently negotiating with other parties whose right to compensation has been recognised.

Petrochemical plant at Brindisi – Criminal proceedings for injuries stemming from exposure to vinyl chloride monomer and vinyl polychloride and for damage to the environment

In the trial of former Montedison directors and managers relating to the injuries allegedly caused by exposure to vinyl chloride monomer and vinyl polychloride and for environmental damage pending before the Brindisi Court, discussions have continued regarding the merit of those wanting to oppose the request for dismissal of the case by the Public Prosecutor.

Petrochemical plant at Mantua – Criminal proceedings for injuries to health and for damage to the environment

Preliminary enquiries have continued, with no procedural updates of note, into the alleged statistically significant increase in mortality rate due to tumours among the population and employees of the Mantua plant and the impact on the environment of the waste incinerator and dumps within the plant.

Petrochemical plant at Priolo – Criminal proceedings for injuries to health

The Public Prosecutor at the Siracusa Court has carried out preliminary enquiries into certain former directors and managers of Montedison (now Edison) for allegedly discharging into the sea liquid waste containing mercury from the petrochemical plant at Priolo. These effluents are alleged to have poisoned the water and marine flora and fauna, and caused miscarriages and serious injuries to people living in the province of Siracusa.

Plant at Verbania – Criminal proceedings for injuries stemming from exposure to asbestos powder.

The trial against certain former directors and managers of Montefibre relating to the Verbania plant continued without any significant changes. The final defence hearing is expected in the first few months of 2007. This should put an end to the debate.

Claims for damages for exposure to asbestos

In recent years there has been a considerable increase in the number of claims for damages relating to the death or illness of workers alleged to have been caused by their exposure to various forms of asbestos at the plants previously owned by Montedison (now Edison) or relating to legal positions taken over by Edison as a result of mergers and acquisitions. Without prejudice to any evaluation of the legitimacy of these claims, considering the latency times of the illnesses linked to exposure to various forms of asbestos and the industrial activities carried on by the Company and by the Group, both in the past and at present, especially in the chemical sector, their geographical spread and the plant engineering technologies used, having regard to the period when these activities were carried on and the relative state of the art at the time, even if in full compliance with the regulations then in force, we cannot exclude that further legitimate claims for damages may arise, in addition to those for which various civil and criminal proceedings are already underway. Therefore, based on past experience and the knowledge acquired over time in connection with similar events, the company has considered it opportune to make a further provision, in addition to the specific ones already made for the lawsuits already in progress; this additional provision has been estimated on the basis of the expected value resulting from the average between the value of the claims for damages received and paid by the company for similar events over the course of the year and the court and out-of-court claims received by the company to date.

Ausimont sale: Solvay Arbitration

The preliminary stage of the arbitration regarding certain disputes that arose regarding the declarations and guarantees stipulated in the contract for the sale of Edison's stake in Agorà S.p.A. (the parent company of Ausimont S.p.A.), commenced on May 11, 2005 by Solvay SA and Solvay Solexis S.p.A. against Edison, through the International Court of Arbitration of the International Chamber of Commerce (ICC). The hearing for discussion of the suit before the Board of Arbitrators is due to take place in early 2007.

Savings shareholders/UBS: impugnment of the resolution to merge Edison with Italenergia and request for damages

Following the filing of the report by the expert witness appointed by the investigating judge, which despite considering the criteria used as perfectly adequate, still felt that the valuation process had been affected by certain deficiencies (no use made of control methods) and errors of application of the criteria used, such as to produce harmful consequences for the savings shareholders, proceedings continued regarding the joint suits before the Milan Court, in which the Common Representative of the Savings Shareholders and UBS AG summoned Edison, Italenergia S.p.A. and others, proposing impugnment of the merger of the two companies and compensation for damages.

Val Martello Flood

On June 28, 2006 Edison paid the Province of Bolzano an amount of 650 thousand euro in execution of the agreements reached on August 6, 2004 after which full settlement was reached for the lawsuits pending with the Province itself and with the persons damaged by the flood in Val Martello. This payment marked full execution of the settlement mentioned above.

B) Other Group companies

Farmoplant – Accident in 1988 at the Massa plant

The civil action taken by the Province of Massa-Carrara and by the Municipalities of Massa and Carrara for compensation of the damages resulting from the accident at the Farmoplant location in Massa in 1988 is still at the preliminary stage at the Genoa Court, which has jurisdiction for tax collection.

Montedison Finance Europe – Domp BV bankruptcy

The appeal continued against the decision of the Dutch Court of First Instance that considered Montedison Finance Europe responsible for the bankruptcy of J. Domp and therefore for all of its liabilities, quantified by the liquidator at 11.6 million euro.

Montedison srl (formerly Immobiliare Assago) – Nepa Arbitration

The definitive arbitration award that ended the dispute between Montedison Srl (formerly Immobiliare Assago) and Nepa in connection with the sale of a building in Milan was filed on April 26, 2006. The award, which has already been implemented, condemned Montedison S.r.l. to pay Nepa 1.53 million euro by way of compensation of damages caused by loss of earnings. It is worth reiterating that with the partial award filed in May 2004, Immobiliare Assago had already been condemned to pay Nepa 1.25 million euro by way of damages for consequential loss.

* * *

As regards the state of the main **lawsuits** relating to events referring to the past, where there is a potential liability, but the outlay is impossible to estimate based on the information currently available, we would mention the following:

Environmental regulations

In recent years, there have been considerable developments in the regulations concerning environmental matters and, as far as this section is concerned, in the question of liability for damage to the environment. In particular, the circulation and application in various legal systems of the principle of “internalisation” of environmental costs (better known with the saying “he who pollutes pays”) have triggered off the introduction of new assumptions of responsibility for pollution that is objective (i.e. quite apart from the subjective element of blame) and indirect (depending on others’ actions). Even a preceding situation seems to take on importance, with the result that the present situation goes over the current limits of acceptability of the contamination.
In Italy, this concept seems to be taking over in practice, both at an administrative level, as a consequence of a rigorous application of the provisions of D.M. 471/99, implementing the rules laid down in art. 17 of D.Lgs. 22/97, as at

a judicial level, particularly as a result of a severe interpretation of the criminal law and the rules regarding third-party liability, which are relevant in situations of damage to the environment.
In this connection, we would point out that there are various proceedings pending at different levels of justice before the administrative tribunals against the measures taken by state and local administrations, ordering the company to carry out reclamation work both on industrial sites that have already been sold and on others that are still owned (thermoelectric power stations, in particular), which are also contaminated by the activities that were carried on there previously. More in general, without prejudice to any evaluation of the legitimacy of these new regulatory assumptions and the legal fairness of the related methods of application and interpretation, nonetheless, considering the industrial activities carried on by the Company and by the Group, both in the past and at present, especially in the chemical sector, their geographical spread and the their environmental impact, having regard to the period when these activities were carried on and the relative state of the art at the time, even if in full compliance with the regulations then in force, we cannot exclude that there could emerge, in accordance with current law, new contaminations, in addition to those for which administrative and judicial proceedings are currently underway, and that all of these situations of contamination could be considered with the same rigour and severity as mentioned above.
Moreover, the uncertain state of current proceedings makes it impossible to hazard a guess as to the probability and quantification of any such charges.

A) Edison S.p.A.

ACEA Unfair Competition

On August 7, 2006 ACEA S.p.A. served a writ on Transalpina di Energia and Edison with which it also sued AEM S.p.A., EdF SA and Edipower S.p.A. before the Rome Court.. ACEA alleges that as a result of EdF S.p.A. and AEM S.p.A, acquiring joint control of Edison, by EdF S.p.A. and AEM S.p.A., they violated the 30% limit laid down in the DCPM of November 8, 2000 for an interest in the capital of Edipower SpA on the part of public sector enterprises. ACEA claims that this constitutes unfair competition pursuant to art. 2598.3 of the Italian Civil Code, as a result of which ACEA suffered damages that it now wants reimbursed by AEM S.p.A. and EdF S.p.A. It also wants the Court to take steps to eliminate the effects of this situation (such as proportional disposal of the shareholding in excess of the limit mentioned above and an injunction preventing AEM and EdF from withdrawing and using the energy produced by Edipower S.p.A. in excess of the amount permitted by complying with the limit). The first hearing, originally scheduled for March 15, 2007, has been postponed to May 24, 2007 after repeat notification. ACEA S.p.A. has said that it will ask the Court for preventative measures while the case is still under discussion. Edison is evaluating its defence tactics.

Liability suit under art. 2393 of the Italian Civil Code (former Calcemento)

We are still waiting for the sentence relating to the liability suit decided by the shareholders of Calcemento (now Edison) in May 1997 against the former chairman Lorenzo Panzavolta for violation of the obligations to manage the company correctly and diligently, causing foreseeable damage to the company and its shareholders, especially as a result of buying the real estate complex of Pizzo Sella (Poggio Mondello) and the companies Heracles and Halkis.

Merger of Montedison (now Edison) – Finanziaria Agroindustriale

There is nothing new to report with regard to the appeal against the sentence passed in December 2000 by the Genoa Court in the lawsuit brought by Mittel Investimenti Finanziari Mittel Investimenti Finanziari and other shareholders of Finanziaria Agroindustriale, for which we are still waiting for the decision against the parties that did not accept the negotiated settlement between Edison and Mittel Investimenti Finanziari.

Sale of Tecnimont: Edison/Falck arbitration

In the arbitration between Edison and Falck following the latter's failure to buy Edison's stake in Tecnimont, the Arbitration Board appointed an expert witness to determine the amount of the damage suffered in various ways by Edison as a consequence of Falck's breach of contract.

MEMC lawsuits

In the lawsuit brought by MEMC, among others, against Edison and Edison Energia concerning the commercial relationship for the sale and provision of electrical power, pending before the Milan and Venice Courts, an appeal was filed against the decision of the Milan Court that had rejected all of the counterparty's requests, condemning MEMC to reimburse the expenses incurred.

B) Other Group companies

Pizzo Sella Complex and attachment of assets in Sicily

There is nothing new to report with regard to the negative assessment suit by Finimeg, parent company of Poggio Mondello (now under court administration)

before the administrative tribunal to hear declare the inability for it and Poggio Mondello to suffer the confiscation for illegal construction of the building complex at Pizzo Sella ordered by the Palermo Court of Appeal and confirmed by the Court of Cassation in December 2001; a confiscation that includes the buildings owned by Poggio Mondello.
As regards the lawsuits by certain buyers and potential buyers of the houses that formed part of the Pizzo Sella complex that was confiscated, which sued Poggio Mondello and the Municipality of Palermo for damages caused by the confiscation, appeals are underway against the sentences passed by the Palermo Court, which decided that the confiscation could not be enforced against third parties who had bought in good faith and who had registered their title prior to the start of any administrative measure. On the other hand, appeals have continued against the sentences of the Palermo Court that penal confiscation could not be inflicted on those third-party buyers in good faith who had registered their title prior to the start of official proceedings. All of the other lawsuits concerning the houses in this complex are still pending in first degree.
We are waiting for the Palermo Court of Appeal to deposit its sentence regarding the impugnment of the sequestration, subsequently converted into confiscation of the shares, quotas and assets of the associates Finsavi and Generale Impianti, and of the subsidiaries Calcestruzzi Palermo, Frigotecnica and Poggio Mondello, decided by court order on May 15, 2002 by the Palermo Court as part of the proceedings for the application of preventive measures.

Disputes regarding the provision of electricity

As part of the commercial relationships of sale and provision of electrical power handled by Edison Energia, there is an ongoing dispute between the company and a former customer which is claiming compensation for damages allegedly caused to the customer's production by frequent blackouts.

Impugnment of the resolutions passed by the shareholders of Sarmato Energia and Consorzio di Sarmato

Proceedings have continued, with nothing new to report, in connection with (i) the impugnment by a shareholder of the resolution with which the ordinary shareholders' meeting of Sarmato Energia changed the amount of the rental of the Sarmato power station stipulated with Consorzio di Sarmato; and (ii) the other two lawsuits brought in the interests of the first, relating to the impugnment by the same shareholder of the resolutions of the shareholders' meeting of Sarmato Energia and Consorzio di Sarmato approving their respective financial statements at December 31, 2001.

Edison Trading and Edipower – Brindisi coal bunker

The expert witness appointed by the Public Prosecutor of Brindisi is continuing to look into the matter, above all to ascertain whether the subsoil and water stratum have been contaminated, following the attachment of the coal bunker used by Edipower's Brindisi Nord power station, ordered by the Public Prosecutor at the Brindisi Court on March 3, 2005, as it created an excessive amount of dust.

Tedesco and Ferro Arbitration

The arbitration proceedings initiated on August 30, 2005 by Messrs. Tedesco and Ferro against Montedison S.r.l. in connection with a preliminary purchase/sale contract worth 2 million euro for an area located at Mazara del Vallo was settled at modest cost to the Company.

* * *

Developments in the main **tax disputes** during the year were as follows:

Former Edison S.p.A. – Direct taxes for the years 1994-1999

Following a tax audit of Edison S.p.A. by the Fiscal Police in 2000 for the period 1994-1999, assessment notices have been issued for the years 1994-1998. Appeals were lodged and are being heard before the Tax Commissions.
The assessments for the years 1994, 1995 and 1996 have been cancelled in their entirety by the Provincial Tax Commission. However, to save time, they were settled in accordance with art. 16 of Law 289/2002 and subsequent extensions at a cost of around 3 million euro. The Tax Authorities have refused simplified definition of the matters in dispute for the years 1995 and 1996, but the company has in turn contested the validity of the refusal.
The Provincial Tax Commission accepted the main points in the appeal filed against the assessment for 1997, but the Tax Authorities have appealed the decision.
The assessment for the year 1998 was settled in court and can therefore be considered closed.

Edison S.p.A. assessment for 2002 following a tax audit

As a result of a tax audit carried out in November 2004-February 2005 by the Lombardy Regional Tax Office on Edison S.p.A.'s tax year 2002, assessments for income tax (IRES and IRAP) and VAT were notified in December 2005. Even if these did not show substantially higher amounts of tax or fines, they did reiterate the comments made in the audit report, reducing the amount of carry-forward tax losses by around 17 million euro.

The appeal filed against these assessments was heard last November before the Provincial Tax Commission of Milan; we are still waiting to know the outcome.

EDF Energia Italia S.r.l. – Customs VAT assessment for 2001, 2002 and 2003

Last December, EDF Energia Italia S.r.l., which was acquired in 2006 and subsequently merged with Edison Energia S.p.A., was notified an assessment for the years 2001, 2002 and 2003, with which the Milan Customs Office claimed 7.5 million euro of VAT and interest.
This assessment originates from a series of checks carried out by the Trieste Fiscal Police, who contested the non-EU nature of the electricity bought by EnBW Italia S.p.A. (and subsequently merged with EDF Energia Italia S.r.l.) and injected into the National Grid for consumption in Italy, without getting Customs clearance and paying VAT.
The Company will take steps to contest this assessment before the competent Tax Commissions as it considers the objections made by the Customs illegitimate and without foundation.
Moreover, any costs that derive from this assessment would in any case be covered by specific contractual guarantees given by the selling company, EDF International SA, at the time of the acquisition of the investment in EDF Energia Italia, which entirely protect the Company.

Attachments to the notes to the consolidated financial statements

1 - Statement of changes in property, plant and equipment

Property, plant and equipment millions of euro	Net book value 12.31.2005 Restated IFRIC 4	Changes during the year	
		Consolida-tion Ecodeco Group	Additions
Land	103	8	
Total land	**103**	**8**	
Buildings	595	2	5
Total buildings	**595**	**2**	**5**
Total land and buildings	**698**	**10**	**5**
Plant and machinery			
Production plant	3,586	113	81
Transport lines	68		
Transformation stations	36		2
Distribution networks	1,168		64
Transferable plant and machinery	730		
Leasehold improvements	2		2
Leased assets	128	35	
Total plant and machinery	**5,718**	**148**	**149**
Industrial and commercial equipment			
Miscellaneous equipment	14		5
Mobile phones			
Total industrial and commercial equipment	**14**		**5**
Other property, plant and equipment			
Furniture and fittings			
Electric and electronic office machines	19	1	2
Vehicles		1	
Fixed assets worth less than 516 euro			
Refuse dumps		14	
Total other property, plant and equipment	**19**	**16**	**2**
Construction in progress and advances			
Buildings	4		5
Production plant	1,021	12	233
Transport lines			
Transformation stations	1		1
Distribution networks	5		12
Miscellaneous equipment			
Other property, plant and equipment			
Advances	1		(1)
Transferable assets in construction	37		10
Total construction in progress and advances	**1,069**	**12**	**260**
Total property, plant and equipment	**7,518**	**186**	**421**

1 - Statement of changes in property, plant and equipment

	Changes during the year						Net book value 12.31.2006
	Changes of category	Other changes	Disposals	Depreciation	Writedowns	Total changes during the year	
	1	9				18	121
	1	**9**				**18**	**121**
	61	(2)	(1)	(36)		29	624
	61	**(2)**	**(1)**	**(36)**		**29**	**624**
	62	**7**	**(1)**	**(36)**		**47**	**745**
	822	(40)	(16)	(369)	(46)	545	4,131
			(68)			(68)	
						2	38
	8		(430)	(51)	(4)	(413)	755
	16	(1)		(19)		(4)	726
				(1)		1	3
		(15)		(1)		19	147
	846	**(56)**	**(514)**	**(441)**	**(50)**	**82**	**5,800**
				(4)		1	15
				(4)		**1**	**15**
				(3)			19
						1	1
						14	14
				(3)		**15**	**34**
	(14)					(9)	(5)
	(843)					(598)	423
						1	2
	(6)		(2)			4	9
	1	1				2	2
						(1)	
	(46)					(36)	1
	(908)	**1**	**(2)**			**(637)**	**432**
		(48)	**(517)**	**(484)**	**(50)**	**(492)**	**7,026**

2 - Statement of changes in intangible assets

Intangibile assets millions of euro	Net book value 12.31.2005 Restated IFRIC 4	Changes during the year		
		Consolida-tion Ecodeco Group	Additions	
Industrial patents and intellectual property rights	19		4	
Concessions, licences, trademarks and similar rights	247	1	2	
Goodwill	1,936	28	6	
Assets in process of formation	4	1	3	
Other intangible assets	391		18	
Total intangible assets	**2,597**	**30**	**33**	

Changes during the year					Net book value 12.31.2006
Other changes	Disposals	Amortisation	Writedowns	Total changes during the year	
		(5)		(1)	18
1	(10)	(14)		(20)	227
(51)				(17)	1,919
(1)				3	7
1		(48)	(1)	(30)	361
(50)	**(10)**	**(67)**	**(1)**	**(65)**	**2,532**

3 - List of companies included in the consolidated financial statements and of other investments

Name figures are expressed in thousands of euro	Registered office	Currency	Share capital (*)	% held consolidation Group 12.31.2006
Scope of consolidation				
AEM Elettricità S.p.A.	Milan	Euro	520,000	99.99%
AEM Gas S.p.A.	Milan	Euro	572,000	99.99%
AEM Energia S.p.A.	Milan	Euro	104	99.99%
AEM Service S.r.l.	Milan	Euro	12,405	100.00%
AEM Trading S.r.l.	Milan	Euro	99	100.00%
AEM Calore & Servizi S.p.A.	Milan	Euro	1,800	100.00%
Delmi S.p.A.	Milan	Euro	1,466,868	51.00%
Proaris S.r.l.	Milan	Euro	10	100.00%
Valdisotto Energia S.r.l.	Valdisotto (So)	Euro	52	100.00%
Ecodeco S.r.l.	Milan	Euro	7,468	30.00%
Plurigas S.p.A.	Milan	Euro	800	40.00%
Edipower S.p.A.	Milan	Euro	1,441,300	20.00% (1)
Transalpina di Energia S.r.l. (2)	Milan	Euro	3,146,000	50.00%
Investments				
Mestni Plinovodi d.o.o. (8)	Capodistria (Slovenia)	Euro	15,964	
Malpensa Energia S.r.l.	Segrate (Mi)	Euro	5,200	
Società Servizi Valdisotto S.p.A.	Valdisotto (So)	Euro	6,420	
e-Utile S.p.A. (7)	Milan	Euro	1,000	
Zincar S.r.l.	Milan	Euro	100	
Alagaz S.p.A.	St. Petersburg (Russa)	USD	24,000	
AEM–Bonatti S.c.a.r.l. (in liquidation)	Milan	Euro	10	
Burano S.p.A.	Milan	Euro	10,200	
ACSM S.p.A.	Como	Euro	46,871	
Utilia S.p.A. (3)	Rimini	Euro	900	
Consolidation of the Delmi Group (6)				
Consolidation of the Ecodeco Group (6)				
Total investments				
Financial assets available for sale				
Atel Aare - Tessin AG fur Elektrizitat	Olten (CH)	CHF	303,600,000	
A.G.A.M. S.p.A.	Monza	Euro	46,482	
ASM S.p.A.	Sondrio	Euro	5,834	
Consorzio DIX.IT (in liquidation)	Milan	Euro	5,165	
CESI S.p.A.	Milan	Euro	8,550	
Emittenti Titoli S.p.A.	Milan	Euro	5,200	
Consorzio Milanosistema	Milan	Euro	250	
AvioValtellina S.p.A.	Sondrio	Euro	2,880	
Bluefare Ltd.	London	LST	1,000	
CO.GE.R. 2004 S.p.A. in liquidation (4)	Sant'Antimo (NA)	Euro	150	
CESI S.p.A. (5)	Milan	Euro	8,550	
Consolidation of the Delmi Group (6)				
Consolidation of the Ecodeco Group (6)				
Total investments in other companies				

(*) Share capitals are expressed in thousands of euro.
(1) The percentage shown here assumes that all of the put option rights are exercised.
(2) AEM S.p.A. owns 50% of Transalpina di Energia S.r.l. indirectly through DELMI S.p.A..
(3) AEM S.p.A. owns 20% of Utilia S.p.A. indirectly through AEM Service S.r.l..
(4) AEM S.p.A. owns 5% of CO.GE.R. 2004 S.p.A. in liquidation indirectly through its subsidiary AEM Calore & Servizi S.p.A..
(5) Edipower S.p.A. holds 7% of CESI S.p.A.; the book value shown here represents the 20% that belongs to the AEM Group.
(6) Reference should be made to attachments 4-5-6-7 for information on the investments of the Delmi Group;
(7) The financial statement figures of the company refer to the financial statements as of September 30, 2006.
(8) The investments in these companies have been reclassified in caption C - NON-CURRENT ASSETS HELD FOR SALE.

Portions held %	Shareholder	Securities held with voting rights % (a)	Exercisable voting rights (b)	Book value at 12.31.2006	Valuation method
99.99%	AEM S.p.A.	–	–		Line-by-line consolidation
99.99%	AEM S.p.A.	–	–		Line-by-line consolidation
99.99%	AEM S.p.A.	–	–		Line-by-line consolidation
100.00%	AEM S.p.A.	–	–		Line-by-line consolidation
100.00%	AEM S.p.A.	–	–		Line-by-line consolidation
100.00%	AEM S.p.A.	–	–		Line-by-line consolidation
51.00%	AEM S.p.A.	–	–		Line-by-line consolidation
100.00%	AEM S.p.A.	–	–		Line-by-line consolidation
100.00%	AEM S.p.A.	–	–		Line-by-line consolidation
30.00%	AEM S.p.A.	–	–		Line-by-line consolidation
40.00%	AEM S.p.A.	–	–		Proportional consolidation
16.00%	AEM S.p.A.	–	–		Proportional consolidation
50.00%	Delmi S.p.A.	–	–		Proportional consolidation
41.11%	AEM S.p.A.	–	–	–	Net equity
49.00%	AEM S.p.A.	–	–	3,982	Net equity
35.45%	AEM S.p.A.	–	–	2,624	Net equity
49.00%	AEM S.p.A.	–	–	1,712	Net equity
27.00%	AEM S.p.A.	–	–	155	Net equity
35.00%	AEM S.p.A.	–	–	8	Net equity
50.00%	AEM S.p.A.	–	–	5	Net equity
23.53%	AEM S.p.A.	–	–	7,232	Net equity
20.00%	AEM S.p.A.	–	–	23,080	Net equity
20.00%	AEM Service S.r.l.	–	–	240	Net equity
				22,195	See attachment 5
				259	See attachment 8
				61,492	
5.76%	AEM S.p.A.	–	–	337,327	Fair value
17.49%	AEM S.p.A.	–	–	17,439	Fair value
3.99%	AEM S.p.A.	–	–	874	Fair value
14.28%	AEM S.p.A.	–	–	738	Fair value
1.87%	AEM S.p.A.	–	–	165	Fair value
1.85%	AEM S.p.A.	–	–	78	Fair value
10.00%	AEM S.p.A.	–	–	25	Fair value
0.19%	AEM S.p.A.	–	–	5	Fair value
20.00%	AEM S.p.A.	–	–	2	Fair value
5.00%	AEM Calore & Servizi S.p.A.	–	–	2	Fair value
7.00%	Edipower S.p.A.	–	–	271	Fair value
				60,892	See attachment 7
				199	See attachment 8
				418,017	

(9) Reference should be made to attachments 8 for information on the investments of the Ecodeco Group.

(a) The percentage of securities held with voting rights is given by the ratio between the total number of securities representing share capital with voting rights held directly (whoever holds the voting right) and total share capital with voting rights (e.g. ordinary and preference shares).
Percentages are given only if they differ from the percentage of capital held.

(b) The percentage of the voting rights that can be exercised is given by the ratio between the number of voting rights at an ordinary shareholders' meeting of which the investing company is effectively the direct holder, and the total number of voting rights that exist at an ordinary shareholders' meeting.
Percentages are given only if they differ from the percentage of capital held.
Note that on December 15, 2006 AEM S.p.A. was involved in setting up Società Cooperativa Polo dell'Innovazione della Valtellina, subscribing for 5 shares of par value euro 50 each.

4 - Investments of the Delmi Group - List of investments

(figures reflect 100% of the Edison Group, which is consolidated 50% through the Delmi Group)

Name	Registered office	Currency	Share capital	Consolidated portion of the Group (a)	
				12.31.2006	12.31.2005
A) Companies included in the scope of consolidation					
A.1) Companies consolidated line-by-line					
Consorzio di Sarmato Soc. Cons. P.A.	Milan (I)	Euro	200,000	36.430	36.430
Ecofuture S.r.l. (Sole shareholder)	Milan (I)	Euro	10,200	69.390	69.390
Gever S.p.A.	Milan (I)	Euro	10,500,000	35.390	35.390
Hydro Power Energy S.r.l. – Hpe S.r.l. (Sole shareholder)	Bolzano (I)	Euro	50,000	69.390	69.390
Jesi Energia S.p.A.	Milan (I)	Euro	5,350,000	48.570	48.570
Sarmato Energia S.p.A.	Milan (I)	Euro	14,420,000	42.330	42.330
Sondel Dakar BV	Rotterdam (Nl)	Euro	18,200	69.390	69.390
Termica Boffalora S.r.l.	Milan (I)	Euro	14,220,000	48.570	48.570
Termica Celano S.r.l.	Milan (I)	Euro	259,000	48.570	48.570
Termica Cologno S.r.l.	Milan (I)	Euro	9,296,220	45.100	45.100
Termica Milazzo S.r.l.	Milan (I)	Euro	23,241,000	41.630	41.630
Edison Energie Speciali S.p.A. (Sole shareholder)	Milan (I)	Euro	4,200,000	69.390	69.390
Monsei Esco S.r.l. (Sole shareholder)	Milan (I)	Euro	100,000	69.390	69.390
Edison D.G. S.p.A. (Sole shareholder)	Selvazzano Dentro (Pd) (I)	Euro	460,000	69.390	69.390
Edison International S.p.A.	Milan (I)	Euro	17,850,000	69.390	69.390
Edison Stoccaggio S.p.A. (Sole shareholder)	Milan (I)	Euro	81,497,301	69.390	69.390
Euroil Exploration Ltd	London (GB)	GBP	9,250,000	69.390	69.390
Edison Trading S.p.A. (Sole shareholder)	Milan (I)	Euro	30,000,000	69.390	69.390
Volta S.p.A.	Milan (I)	Euro	130,000	35.390	35.390
Edison Energia S.p.A. (Sole shareholder)	Milan (I)	Euro	22,000,000	69.390	69.390
Eneco Energia S.p.A.	Bolzano (I)	Euro	300,000	69.390	–
Atema Limited	Dublin 2 (Irl)	Euro	1,500,000	69.390	69.390
Edison Hellas SA	Athens (Gr)	Euro	263,700	69.390	69.390
Edison S.p.A.	Milan (I)	Euro	4,273,139,453	69.390	69.390
Finanziaria di Partecipazioni Elettriche Finel S.p.A.	Milan (I)	Euro	194,000,000	69.390	69.390
Montedison Finance Europe NV	Amsterdam (Nl)	Euro	4,537,803	69.390	69.390
Selm Holding International SA	Luxembourg (l)	Euro	24,000,000	69.390	69.390
Montedison S.r.l. (Sole shareholder)	Milan (I)	Euro	2,583,000	69.390	69.390
Nuova Alba S.r.l. (Sole shareholder)	Milan (I)	Euro	2,016,457	69.390	69.390
Edison Treasury Services S.r.l. (Sole shareholder)	Conegliano (I)	Euro	10,000	69.390	–
A.2) Companies consolidated on a proportional basis					
Bluefare Ltd	London (GB)	GBP	1,000	34.690	34.690
Ibiritermo SA	Ibiritè - Estado De Minas Gerais (BR)	BRL	7,651,814	34.690	34.690
Sel - Edison S.p.A.	Castelbello (Bz) (I)	Euro	84,798,000	29.140	29.140
Seledison Net S.r.l. (Sole shareholder)	Castelbello - Ciardes (Bz) (I)	Euro	200,000	29.140	29.140
Parco Eolico Castelnuovo S.r.l.	Castelnuovo di Conza (Sa) (I)	Euro	10,200	34.690	34.690
Edipower S.p.A.	Milan (I)	Euro	1,441,300,000	34.690	34.690
Ed-ina d.o.o.	Zagabria (Hr)	HRK	20,000	34.690	34.690
Ascot S.r.l.	Bressanone (Bz) (I)	Euro	10,330	34.690	–
Internat. Water Serv. (Guayaquil) Interagua C. Ltda	Guayaquil (ec)	USD	20,890,000	31.220	18.420
International Water (Uk) Limited	London (GB)	GBP	1,001	34.690	34.690
					99.900
International Water Holdings BV	Amsterdam (Nl)	Euro	40,000	34.690	34.690
International Water Services (Guayaquil) BV	Amsterdam (Nl)	Euro	20,000	34.690	20.470
International Water Services Ltd	Zug (CH)	CHF	100,000	34.690	34.690
Assets held for sale					
Serene S.p.A.	Milan (I)	Euro	25,800,000	46.020	46.020

	% of capital held		Securities held with voting rights %	Exercisable voting rights %	Type of investment
	% (b)	Shareholder	(c)	(d)	(e)
	52.500	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	51.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	70.000	Edison S.p.A.	–	–	SUB
	61.000	Edison S.p.A.	–	–	SUB
	100.000	Montedison Finance Europe NV	–	–	SUB
	70.000	Edison S.p.A.	–	–	SUB
	70.000	Edison S.p.A.	–	–	SUB
	65.000	Edison S.p.A.	–	–	SUB
	60.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	70.000	Edison S.p.A.	–	–	SUB
	30.000	Selm Holding International SA			
	100.000	Edison S.p.A.	–	–	SUB
	0.000	Edison S.p.A.	–	–	SUB
	100.000	Selm Holding International SA			
	100.000	Edison S.p.A.	–	–	SUB
	51.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	70.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	69.390	Transalpina di Energia S.r.l.	71.230	71.230	SUB
	80.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	99.950	Edison S.p.A.	–	–	SUB
	0.050	Montedison S.r.l. (Sole shareholder)	–	–	
	100.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	100.000	Edison S.p.A.	–	–	SUB
	50.000	Edison S.p.A.	–	–	JV
	50.000	Edison S.p.A.	–	–	JV
	42.000	Edison S.p.A.	–	–	JV
	100.000	Sel - Edison S.p.A.	–	– (i)	JV
	50.000	Edison Energie Speciali S.p.A. (Sole shareholder)	–	–	JV
	40.000	Edison S.p.A.	–	–	JV
	50.000	Edison International S.p.A.	–	–	JV
	50.000	Eneco Energia S.p.A.	–	–	JV
	90.000	International Water Services (Guayaquil) BV	–	–	JV
	0.100	International Water Holdings BV	0.000	0.000	JV
		Iwl Corporate Limited (in liquidation)	100.000	100.000	
	50.000	Edison S.p.A.	–	–	JV
	59.000	International Water Holdings BV	–	–	JV
	100.000	International Water Holdings BV	–	–	JV
	66.320	Edison S.p.A.	–	– (g)	JV

5 - Investments of the Delmi Group - List of investments

(figures reflect 100% of the Edison Group, which is consolidated 50% through the Delmi Group)

Name	Registered office	Currency	Share capital	Consolidated portion of the Group (a) 12.31.2005	
B) Companies carried at equity					
Consorzio Barchetta	Jesi (An) (I)	Euro	2,000		
Consorzio Montoro	Narni (I)	Euro	4,000		
Consorzio Vicenne	Celano (I)	Euro	1,000		
Gti Dakar Ltd	George Town - Gran Caiman (GBC)	Euro	14,686,479		
Kraftwerke Hinterrhein AG	Thusis (CH)	CHF	100,000,000		
Rome Energia S.r.l.	Rome (I)	Euro	50,000		
Sistemi Di Energia S.p.A.	Milan (I)	Euro	10,475,000		
Soc. Svil. Rea. Gest. Gasdot. Alg - Itav. Sardeg.	Milan (I)	Euro	838,000	12.490	
Galsi S.p.A. (formerly Soc. Stud. Prom. Gasdot. Alg - Ita V. Sardeg. Galsi S.p.A.)					
Blumet S.p.A.	Reggio Emilia (I)	Euro	7,600,000		
Eta 3 S.p.A.	Arezzo (I)	Euro	2,000,000		
Gasco S.p.A.	Bressanone (Bz) (I)	Euro	350,000		
Prometeo S.p.A.	Osimo (An) (I)	Euro	1,938,743		
S.A.T. Finanziaria S.p.A.	Sassuolo (Mo) (I)	Euro	1,000,000		
Utilità S.p.A.	Milan (I)	Euro	2,307,692		
Iniziativa Universitaria 1991 S.p.A.	Varese (I)	Euro	16,120,000		
Soc. per la gest. del Palazzo Centro Congressi S.r.l.	Assago (Mi) (I)	Euro	10,200		

% of capital held % (b)	Shareholder	Securities held with voting rights (c)	Exercisable voting rights (d)	Book value in millions of euro (f)	Type of investment (e)
50.000	Jesi Energia S.p.A.	–	–		ASS
25.000	Edison S.p.A.	–	–		ASS
50.000	Termica Celano S.r.l.	–	–		ASS
30.000	Sondel Dakar BV	–	–	3.7	ASS
20.000	Edison S.p.A.	–	–	15.5	ASS
35.000	Edison S.p.A.	–	–	0.4	ASS
40.570	Edison S.p.A.	–	–	4.0	ASS
18.000	Edison S.p.A.	–	–	1.3	ASS
28.320	Edison S.p.A.	–	–	3.7	ASS
33.010	Edison S.p.A.	–	–	1.3	ASS
40.000	Edison S.p.A.	–	–	0.1	ASS
21.000	Edison S.p.A.	–	–	0.5	ASS
40.000	Edison S.p.A.	–	–	0.8	ASS
35.000	Edison S.p.A.	–	–	0.8	ASS
32.260	Montedison S.r.l. (Sole shareholder)	–	– (m)	3.9	ASS
44.820	Montedison S.r.l. (Sole shareholder)	–	–		ASS

6 - Investments of the Delmi Group - List of investments

(figures reflect 100% of the Edison Group, which is consolidated 50% through the Delmi Group)

Name	Registered office	Currency	Share capital	Consolidated portion of the Group (a) 12.31.2005	
C) Investments in companies in liquidation or subject to permanent restrictions					
Auto Gas Company S.A.E. (in liquidation)	Il Cairo (Et)	Egp	1,700,000		
Codest S.r.l.	Pavia di Udine (Ud) (I)	Euro	15,600		
Consorzio Friulano per il Tagliamento	Udine (I)	Euro	10,330		
C.F.C. Consorzio Friulano Costruttori (in liquidation)	Udine (I)	LIT	100,000,000		
Calbiotech S.r.l. (in bankruptcy)	Ravenna (I)	LIT	90,000,000		
Calcestruzzi Palermo S.r.l. (in liquidation) (in Amministrazione Giudiziaria) (Sole shareholder)	Palermo (I)	Euro	108,360		
Cempes S.c.r.l. (in liquidation)	Villa Adriana - Tivoli (Rm) (I)	Euro	15,492		
Ci.Far. S.c.a.r.l. (in bankruptcy)	Udine (I)	LIT	20,000,000		
Compo Chemical Company (in liquidation)	Wilmington, Delaware (USA)	USD	1,000		
Compo Shoe Machinery Corp. of Canada (in liquidation)	Montreal – Quebec (CDN)	CAD	500		
Coniel S.p.A. (in liquidation)	Rome (I)	Euro	1,020		
Consorzio Carnia S.c.r.l. (in liquidation)	Rome (I)	Euro	45,900		
Convolci S.c.n.c. (in liquidation)	Sesto San Giovanni (I)	Euro	5,165		
Ferruzzi Trading France SA (in liquidation)	Paris (F)	Euro	7,622,451		
Finimeg S.p.A. (Sole shareholder) (in liquidation)	Milan (I)	Euro	2,425,200		
Finsavi S.r.l. in Amministrazione Giudiziaria	Palermo (I)	Euro	18,698		
Frigotecnica S.r.l. (Sole shareholder) in Amministrazione Giudiziaria (in liquidation)	Palermo (I)	Euro	76,500		
Groupement Gambogi-Cisa (in liquidation)	Dakar (Sn)	XAF	1,000,000		
Inica S.a.r.l. (in liquidation)	Lisbona (P)	PTE	1,000,000		
Nuova C.I.S.A. S.p.A. (in liquidation) (Sole shareholder)	Milan (I)	Euro	1,549,350		
Nuova I.S.I. Impianti Selez, Inerti S.r.l. (in bankruptcy)	Vazia (Ri) (I)	LIT	150,000,000		
Poggio Mondello S.r.l. (Sole shareholder) in Amministrazione Giudiziaria	Palermo (I)	Euro	364,000		
Sistema Permanente di Servizi S.p.A. (in bankruptcy)	Rome (I)	Euro	154,950		
Soc. Gen. per Progr. Cons. e Part. S.p.A. (in Amm. Straordinaria)	Rome (I)	LIT	300,000,000		
Sorrentina S.c.a.r.l. (in liquidation)	Rome (I)	Euro	46,480		
Stel S.p.A. (in liquidation)	Milan (I)	Euro	520,000	52.040	
Trieste Tre S.r.l. (in liquidation)	Ravenna (I)	Euro	10,400		
International Water Services Limited (in liquidation)	George Town - Grand Cayman (GBC)	USD	45,100	34.620	
Iwl (Asia Pacific) Pte Ltd (in liquidation)	Singapore (SGP)	SGD	2	34.690	
Iwl Adelaide Pty Ltd (in liquidation)	Sydney - Nsw (AUS)	AUD	1,020,460	34.690	
Iwl Corporate Limited (in liquidation)	London (GB)	GBP	1	34.690	
Iwl Services Holdings (UK) Limited (in liquidation)	London (GB)	GBP	2	34.690	

% of capital held % (b)	Shareholder	Securities held with voting rights % (c)	Exercisable voting rights % (d)	Book value in millions of euro (f)	Type of investment (e)
30.000	Edison International S.p.A.	–	–	0.2	ASS
33.330	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		ASS
16.300	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		TP
20.000	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		ASS
55.000	Edison S.p.A.	–	–		SUB
100.000	Edison S.p.A.	–	(l) 0.000		SUB
33.330	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		ASS
60.000	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		SUB
100.000	Nuova Alba S.r.l. (Sole shareholder)	–	–		SUB
100.000	Nuova Alba S.r.l. (Sole shareholder)	–	–		SUB
35.250	Edison S.p.A.	–	–		ASS
17.000	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		TP
27.370	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		ASS
100.000	Edison S.p.A.	–	–	5.9	SUB
100.000	Edison S.p.A.	–	–	2.0	SUB
50.000	Edison S.p.A.	–	(l) 0.000		ASS
100.000	Edison S.p.A.	–	(l) 0.000		SUB
50.000	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		ASS
20.000	Edison S.p.A.	–	–		ASS
100.000	Edison S.p.A.	–	–	0.4	SUB
33.330	Montedison S.r.l. (Sole shareholder)	–	–		ASS
100.000	Finimeg S.p.A. (in liq.) (Sole shareholder)	–	(l) 0.000		SUB
12.600	Edison S.p.A.	–	–		TP
59.330	Edison S.p.A.	–	–		SUB
25.000	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		ASS
75.000	Edison S.p.A.	–	–		SUB
50.000	Nuova C.I.S.A. S.p.A. (in liq.) (Sole shareholder)	–	–		ASS
100.000	International Water Holdings BV	–	–		JV
100.000	International Water Holdings BV	–	–		JV
100.000	International Water Holdings BV	–	–		JV
100.000	Iwl Services Holdings (UK) Limited (in liq.)	–	–		JV
100.000	International Water Holdings BV	–	–		JV

7 - Investments of the Delmi Group - List of investments

(figures reflect 100% of the Edison Group, which is consolidated 50% through the Delmi Group)

Name	Registered office	Currency	Share capital	Consolidated portion of the Group (a) 12.31.2005
D) Investments in other companies shown at fair value				
D.1) Trading				
ACSM S.p.A.	Como (I)	Euro	46,870,625	
ACEGAS - APS - S.p.A.	Trieste (I)	Euro	282,983,213	
AMSC - American Superconductor	N/A (USA)	USD	19,128,000	
D.2) Available for sale				
Terminale GNL Adriatico S.r.l.	Milan (I)	Euro	200,000,000	
Global Power S.p.A.	Verona (I)	Euro	500,000	
RCS MediaGroup S.p.A.	Milan (I)	Euro	762,019,050	
Emittenti Titoli S.p.A.	Milan (I)	Euro	4,264,000	
European Energy Exchange AG - Eex	Leipzig (D)	Euro	40,050,000	
Istituto Europeo di Oncologia S.r.l.	Milan (I)	Euro	79,071,770	
Mb Venture Capital Fund I Participating Comp. e NV	Amsterdam (Nl)	Euro	50,000	
Syremont S.p.A.	Messina (I)	Euro	750,000	
Other unlisted investments				

NOTES

(a) The consolidated portion of the Delmi Group is calculated taking into account the portions of share capital held by the parent company or by subsidiaries consolidated on a line-by-line basis and by joint ventures consolidated proportionally.

(b) The portion held is given by the ratio between the nominal value of all securities representing share capital held directly and total share capital. In calculating this ratio, any treasury shares have to be deducted from the denominator (total share capital).

(c) The percentage of securities held with voting rights is given by the ratio between the total number of securities representing share capital with voting rights held directly (whoever holds the voting right) and total share capital with voting rights (e.g. ordinary and preference shares). Percentages are given only if they differ from the percentage of capital held.

(d) The percentage of the voting rights that can be exercised is given by the ratio between the number of voting rights at an ordinary shareholders' meeting of which the investing company is effectively the direct holder, and the total number of voting rights that exist at an ordinary shareholders' meeting. Percentages are given only if they differ from the percentage of capital held.

(e) SUB = subsidiary; JV = joint venture; ASS = associate; TP = third parties.

(f) The book value is only given for companies valued at net equity or at cost and held directly by the parent company or by other companies consolidated on a line-by-line or proportional basis, and only in the event that this value is equal to or higher than 1 million euro.

(g) Subsidiary in accordance with art. 2359 of the Italian Civil Code.

(h) Company subject to management control and coordination by Edison S.p.A..

(i) Company subject to management control and coordination by Sel Edison S.p.A..

(l) Company whose assets and quotas or shares have been seized with attribution of the voting right to the special administrator appointed by the Palermo Court – Prevention Measures Section – on July 7, 1998.

(m) Investment subject to attachment. The voting right is held by the Attachment Custodian. On May 5, 2006 the Milan Court accepted Montedison S.r.l. plea against the attachment. The Court's decision has still not been announced.

% of capital held % (b)	% of capital held Shareholder	Securities held with voting rights % (c)	Exercisable voting rights % (d)	Book value in millions of euro (f)	Type of investment (e)
3.170	Edison S.p.A.	–	–	3.7	TP
1.300	Edison S.p.A.	–	–	6.1	TP
0.840	Edison S.p.A.	–	–	1.1	TP
10.000	Edison S.p.A.	–	–	84.4	TP
12.250	Eneco Energia S.p.A.	–	–	0.2	TP
0.970	Edison S.p.A.	1.010	1.010	28.2	TP
3.890	Edison S.p.A.	–	–	0.2	TP
0.750	Edison S.p.A.	–	–	0.7	TP
4.370	Edison S.p.A.	–	–	3.5	TP
7.000	Montedison Finance Europe NV	–	–	3.4	TP
40.000	Edison S.p.A.	–	–	1.2	ASS

8 - Investments of the Ecodeco Group

Name Euro figures are expressed in thousands	Registered office	Currency	Share capital (*)	% Group holding-at 12.31.2006
Scope of consolidation				
Ecodeco S.r.l.	Milan	Euro	7,469.0	
Ecolombardia 18 S.r.l.	Milan	Euro	1,940.0	85.49%
Ecolombardia 4 S.p.A.	Milan	Euro	17,727.0	68.55%
Sicura S.r.l.	Milan	Euro	1,040.0	92.77%
Fertilvita S.r.l.	Milan	Euro	3,752.0	95.84%
Sistema Ecodeco UK Ltd	Essex (UK)	LST	250,002.0	100.00%
Ecoenergia S.r.l.	Milan	Euro	1,550.0	95.84%
Amica S.r.l.	Cavaglia (BI)	Euro	75.0	96.83%
Cavaglià S.p.A.	Milan	Euro	306.6	95.65%
Vespia S.r.l.	Turin	Euro	10.0	94.60%
A.S.R.A.B. S.p.A.	Biella	Euro	2,582.0	66.00%
Amica Villafalletto S.r.l.	Cavaglia (BI)	Euro	75.0	96.83%
CMT Ambiente S.r.l.	Milan	Euro	93.0	48.78%
Nicosiambiente S.r.l.	Nicosia (EN)	Euro	50.0	80.34%
Ecoair S.r.l.	Milan	Euro	10.0	100.00%
SED S.r.l.	Turin	Euro	1,250.0	50.00%
Bergamo Pulita S.r.l.	Bergamo	Euro	10.0	50.00%
Bellisolina S.r.l.	Montanaso	Euro	52.0	47.92%
Biotecnica	Varese	Euro	10.0	50.00%
Investments in associated companies				
Bonifica Sieroterapico S.c.a.r.l.	Giussago	Euro	10.5	
Presidio Ambiente S.r.l. in liquidazione	Bergamo	Euro	153.0	
Azienda Agricola Verde S.r.l.(**)	Brescia	Euro	55.0	
Old River Ranch S.c.a.r.l.	Reggio Emilia	Euro	40.0	
Tecno Acque Cusio S.r.l.	Omegna	Euro	206.0	
Total investments in associated companies				
Investments in other companies				
Broni Stradella S.p.A.	Stradella (PV)	Euro	8,069.0	
Tirreno Ambiente S.p.A.	Mazzarà S. Andrea (ME)	Euro	1,032.9	
Consorzio Polieco	Roma	Euro	n,d,	
Consorzio Italiano Compostatori	Bologna	Euro	215.3	
Guglionesi Ambiente S.c.r.l.	Guglionesi (MC)	Euro	10.0	
Total investments in other companies				

(*) Share capitals are expressed in thousands of euro.
The share capital of Sistema Ecodeco UK is in pounds sterling.
(**) Available for sale

% held	Shareholder	Securities held with voting right % (a)	Exercisable voting rights (b)	Book value at 12.31.2006 thousands of euro	Valuation method
					Line-by-line consolidation
85.49%	Ecodeco				Line-by-line consolidation
68.56%	Ecodeco				Line-by-line consolidation
96.80%	Fertilvita				Line-by-line consolidation
95.84%	Ecodeco				Line-by-line consolidation
100.00%	Ecodeco				Line-by-line consolidation
100.00%	Fertilvita				Line-by-line consolidation
100.00%	Fertilvita. Ecodeco. Cavaglià				Line-by-line consolidation
99.80%	Fertilvita				Line-by-line consolidation
98.90%	Cavaglià				Line-by-line consolidation
69.00%	Cavaglià				Line-by-line consolidation
100.00%	Fertilvita. Ecodeco. Cavaglià				Line-by-line consolidation
51.00%	Cavaglià				Line-by-line consolidation
84.00%	Cavaglià. Ecodeco				Line-by-line consolidation
100.00%	Ecodeco				Line-by-line consolidation
50.00%	Ecodeco				Proportional consolidation
50.00%	Ecodeco				Proportional consolidation
50.00%	Fertilvita				Proportional consolidation
50.00%	Ecodeco				Proportional consolidation
50.00%	Ecodeco			5	Fair value
49.90%	Fertilvita			0	Fair value
50.00%	Ecodeco			190	Fair value
25.00%	Ecodeco			10	Fair value
25.00%	Cavaglià			243	Net equity
				448	
0.01%	Fertilvita	–	–	1.0	Fair value
3.00%	Ecodeco. Cavaglià	–	–	2.5	Fair value
0.00%	Ecodeco	–	–	2.5	Fair value
0.00%	Fertilvita	–	–	3.0	Fair value
1.00%	Cavaglià	–	–	–	Fair value
				9.0	

9 - Remuneration of the Board of Directors

Attachments 8 and 9 provide information on the remuneration of directors and statutory auditors for the year paid by AEM S.p.A. and its direct subsidiaries. This is pursuant to article 78 of CONSOB Resolution 11971 of May 14, 1999, which laid down the rules for implementation of Decree no. 58 February 24, 1998 on Issuers. Remuneration means total emoluments paid for the position held, even for part of the year, as well as other non-monetary benefits, bonuses and other incentives, including those paid by subsidiaries of AEM S.p.A..

Name	Position	Duration of the position		Emoluments for the position	Bonuses and other incentives	Other remuneration		Total
		From	To					
Zuccoli Giuliano	Chairman	01.01.2006	12.31.2006	540,000.00	790,000.00	147,000.00	(A)	1,477,000.00
	Director	01.01.2006	12.31.2006	39,496.00				39,496.00
Sciumè Alberto	Deputy Chairman	01.01.2006	12.31.2006	60,000.00		69,000.00	(B)	129,000.00
	Director	01.01.2006	12.31.2006	39,496.00				39,496.00
Randazzo Francesco	Director	01.01.2006	12.31.2006	39,496.00		115,000.00	(C)	154,496.00
Oberti Paolo	Director	01.01.2006	12.31.2006	39,496.00		102,361.64	(D)	141,857.64
Scarselli Aldo	Director	01.01.2006	12.31.2006	39,496.00		106,500.00	(E)	145,996.00
Mauri Mario	Director	01.01.2006	12.31.2006	39,496.00		61,000.00	(F)	100,496.00
Taormina Antonio	Director	01.01.2006	12.31.2006	39,496.00				39,496.00
Cassinelli Dario	Director	01.01.2006	12.31.2006	39,496.00		69,500.00	(G)	108,996.00
Galassi Luigi	Director	01.01.2006	12.31.2006	39,496.00		10,000.00	(H)	49,496.00
TOTAL				**955,464.00**	**790,000.00**	**680,361.64**		**2,425,825.64**
Monetary remuneration of managers with strategic responsibilities					80,000.00	525,481.00		605,481.00
Non-monetary benefits to managers with strategic responsibilities						2,892.00		2,892.00

(A) Of which euro 57,000.00 as other remuneration received from AEM S.p.A.; euro 90,000.00 received as a member of the Board of Directors of Delmi S.p.A. (euro 50,000.00), AEM Trading S.r.l. (euro 37,500.00) and AEM Calore & Servizi S.p.A. (euro 2,500.00).

(B) Of which euro 54,000.00 as other remuneration received from AEM S.p.A.; euro 15,000.00 of fees received as members of the Board of Directors of Delmi S.p.A..

(C) Of which euro 45,000.00 as other remuneration received from AEM S.p.A.; euro 70,000.00 received as a member of the Board of Directors of AEM Elettricità S.p.A. (euro 55,000.00) and Delmi S.p.A. (euro 15,000.00).

(D) Received as a member of the Board of Directors of AEM Calore & Servizi S.p.A. (euro 37,500.00), AEM Service S.r.l. (euro 37,361.64), Delmi S.p.A. (euro 15,000.00), AEM Trading S.r.l. (euro 2,500.00), AEM Gas S.p.A. (euro 5,000.00), AEM Energia S.p.A. (euro 2,500.00) and Valdisotto Energia S.r.l. (euro 2,500.00).

(E) Of which euro 49,000.00 as other remuneration received from AEM S.p.A.; euro 57,500.00 received as a member of the Board of Directors of AEM Gas S.p.A. (euro 55,000.00) and AEM Service S.r.l. (euro 2,500.00).

(F) Of which euro 46,000.00 as other remuneration received from AEM S.p.A.; euro 15,000.00 of fees received as members of the Board of Directors of Delmi S.p.A..

(G) Of which euro 12,000.00 as other remuneration received from AEM S.p.A.; euro 57,500.00 received as member of the Board of Directors of AEM Energia S.p.A. (euro 37,500.00), Delmi S.p.A. (euro 15,000.00) and AEM Elettricità S.p.A. (euro 5,000.00).

(H) Other remuneration received from AEM S.p.A..

10 - Remuneration of the Board of Statutory Auditors

Name	Position	Duration of the position from	to	Emoluments for the position	Total
	AEM S.p.A.				
Fossati Alfredo	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	48,035.00	48,035.00
Spadacini Luigi Carlo	Acting Statutory Auditor	01.01.2006	12.31.2006	32,024.00	32,024.00
Messina Salvatore Rino	Acting Statutory Auditor	01.01.2006	12.31.2006	32,024.00	32,024.00
	AEM Calore & Servizi S.p.A.				
Torio Livio	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	8,100.00	8,100.00
Cioccarelli Andrea	Acting Statutory Auditor	01.01.2006	12.31.2006	5,400.00	5,400.00
Zuppini Patrizia	Acting Statutory Auditor	01.01.2006	12.31.2006	5,400.00	5,400.00
	AEM Elettricità S.p.A.				
Grimaldi Francesco	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	61,974.00	61,974.00
Consoli Carlin Giorgio Giuseppe	Acting Statutory Auditor	01.01.2006	12.31.2006	41,316.00	41,316.00
Stano Salvatore Doriano	Acting Statutory Auditor	01.01.2006	12.31.2006	41,316.00	41,316.00
	AEM Energia S.p.A.				
Arizzi Lucia	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	18,600.00	18,600.00
Tavernar Eros Ambrogio	Acting Statutory Auditor	01.01.2006	12.31.2006	12,400.00	12,400.00
Fomasina Alessandro	Acting Statutory Auditor	01.01.2006	12.31.2006	12,400.00	12,400.00
	AEM Gas S.p.A.				
Dell'Acqua Marco Antonio	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	61,974.00	61,974.00
Ascer Guetta Guido	Acting Statutory Auditor	01.01.2006	12.31.2006	41,316.00	41,316.00
De Luigi Maria Adalgisa	Acting Statutory Auditor	01.01.2006	12.31.2006	41,316.00	41,316.00
	AEM Service S.r.l.				
Frattini Achille	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	13,028.22	13,028.22
Cioccarelli Andrea	Acting Statutory Auditor	01.01.2006	12.31.2006	8,685.48	8,685.48
Lo Presti Beniamino	Acting Statutory Auditor	01.01.2006	12.31.2006	8,685.48	8,685.48
	AEM Trading S.r.l.				
Spadacini Luigi Carlo	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	19,767.12	19,767.12
Pozzi Andrea	Acting Statutory Auditor	01.01.2006	12.31.2006	13,178.08	13,178.08
Schettini Domenico	Acting Statutory Auditor	01.01.2006	12.31.2006	13,178.08	13,178.08
	Delmi S.p.A.				
Spadacini Luigi Carlo	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	61,974.83	61,974.83
Frattini Achille	Acting Statutory Auditor	01.01.2006	12.31.2006	41,316.55	41,316.55
Guarna Luca Aurelio	Acting Statutory Auditor	01.01.2006	12.31.2006	41,316.55	41,316.55
Casale Marco	Acting Statutory Auditor	01.01.2006	12.31.2006	41,316.55	41,316.55
Merler Marco	Acting Statutory Auditor	01.01.2006	12.31.2006	41,316.55	41,316.55
	Valdisotto Energia S.r.l.				
Cioccarelli Andrea	Chairman of the Board of Statutory Auditors	01.01.2006	12.31.2006	6,000.00	6,000.00
Romagnoli Rosanna	Acting Statutory Auditor	01.01.2006	12.31.2006	4,000.00	4,000.00
Schiantarelli Antonio	Acting Statutory Auditor	01.01.2006	12.31.2006	4,000.00	4,000.00
Total				**781,358.49**	**781,358.49**

Statutory Auditors' Report

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006 OF THE AEM GROUP

Shareholders,

The Board of Directors gave us a copy of the AEM Group's consolidated financial statements on March 19, 2007.

The consolidated financial statements for 2006 include eleven companies (including AEM S.p.A.) that are consolidated on a line-by-line basis, one less than last year because of the exclusion from the scope of consolidation of Metroweb S.p.A., AEM Trasmissione S.p.A., Serenissima Gas S.p.A. and Serenissima Energia S.r.l. and the inclusion of Valdisotto Energia S.r.l., Ecodeco S.r.l. and Proaris S.r.l.

The following subsidiaries are consolidated on a line-by-line basis: AEM Elettricità S.p.A., AEM Gas S.p.A., AEM Energia S.p.A., AEM Service s.r.l., AEM Trading S.r.l., AEM Calore & Servizi S.p.A., Delmi S.p.A., Valdisotto Energia S.r.l., Ecodeco S.r.l. and Proaris S.r.l..

As regards Ecodeco S.r.l., AEM S.p.A. has a 30% interest in its share capital and a call option to buy the other 70% at certain conditions. The Ecodeco Group is consolidated on a line-by-line basis from April 1, 2006 as the rights deriving from this call option, which can be exercised from April 22, 2006, have been considered "potential voting rights" in accordance with IAS 27. This means that the AEM Group consolidation includes the Ecodeco Group's asset and liability balances at December 31, 2006 and its income statement balances (line by line) from April 1, 2006, recognising the portions of net result and equity pertaining to minority interests, as well as 30% of the Ecodeco Group's net result from January 1 to March 31, 2006.

The companies over which the parent company has joint control with other shareholders (joint ventures) have been consolidated on a proportional basis: they were already included in the previous consolidated financial statements, namely:

(i) the Edison Group through its parent company Transalpina d'Energia S.r.l. ("TdE"), which is owned jointly by the Eléctricitè de France Group and by Delmi S.p.A., which is held 51% by AEM S.p.A.; TdE's figures are included on a proportional basis (50%) in the consolidated financial statements of the AEM Group, recognising the portions pertaining to the minority interests of Delmi S.p.A.;

(ii) Edipower S.p.A. included on a proportional basis (20%), as AEM S.p.A. owns 16% of the share capital and has a 4% call option to buy the shares held by various banks (Edipower S.p.A. is also included proportionally (50%) in the Edison Group consolidation);

(iii) Plurigas S.p.A., included on a proportional basis for the 40% interest held by AEM S.p.A.;

The other associates of AEM S.p.A. (Malpensa Energia S.r.l., Società Servizi Valdisotto S.p.A., Mestni Plinovodi d.o.o., Alagaz S.p.A., e-Utile S.p.A., AEM-Bonatti S.c.a.r.l. (in liquidation), Zincar S.r.l., Burano S.p.A., ACSM S.p.A.) are carried in the financial statements at equity, as is Utilia S.p.A., which is held 20% by AEM Service S.r.l..

Investments in other companies are shown at fair value, as explained in the notes to the consolidated financial statements.

The investment in Edipower S.p.A. has been pledged as security for bank loans, while the voting rights have been maintained by AEM S.p.A..

The financial statements of the subsidiaries, associates and joint ventures consolidated by the AEM Group have been prepared at each period-end using the same accounting principles as the parent company and using the financial statements approved by their respective shareholders' meetings or, if these are not available, the draft financial statements prepared by their respective boards of directors.

These consolidated financial statements have been prepared in compliance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board ("IASB") and approved by the European Union.

The AEM Group began applying IFRS in its 2005 consolidated financial statements, with the transition commencing on January 1, 2004.

The consolidated financial statements at December 31, 2006 show a net profit of 302 million euro, after deducting minority interests, total assets of 13,094 million euro and consolidated shareholders' equity of 1,963 million euro, net of minority interests.

We note that the independent auditors, Reconta Ernst & Young S.p.A., issued as of today's date an unqualified report pursuant to art. 156 of Decree 58/1998, in which they state that the consolidated financial statements at December 31, 2006 have been prepared in a clear manner and give a true and fair view of the assets and liabilities, financial position and results of the Group.

We can also assure you that we have checked that the consolidated financial statements agree with the facts and information that we have been made aware of as a result of taking part in board meetings in the exercise of our duties of supervision and our powers of inspection and control.

Lastly, we ascertained that the report agrees and is consistent with the data and results of the statutory and consolidated financial statements, helped in certain cases by the information received from the Independent Auditors.

Milan, April 10, 2007

The Board of Statutory Auditors

Alfredo Fossati	Chairman
Salvatore Messina	Acting Statutory Auditor
Luigi Carlo Spadacini	Acting Statutory Auditor

Indipendent Auditors' Report

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INDEPENDENT AUDITORS' REPORT
pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders of
AEM S.p.A.

We have audited the consolidated financial statements of AEM S.p.A. and its subsidiaries (the AEM Group) as of and for the year ended December 31, 2006, comprising the balance sheet, the statements of income, changes in shareholders' equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For comparative purposes, the consolidated financial statements include the corresponding information for the prior year. As illustrated in the explanatory notes to the consolidated financial statements, in order to consider the application of IFRIC 4, which only regarded one power station consolidated through Delmi Group, the Company's management modified the prior year's consolidated financial statements, which we examined and on which we issued our auditors' report on April, 11 2006. We have examined the method used to re-determine the corresponding amounts of the prior year and the disclusures given in the notes to the consolidated financial statements for the purposes of expressing our opinion on the consolidated financial statements as of December 31, 2006.

In our opinion, the consolidated financial statements present clearly and give a true and fair view of the financial position, the result of operations, the changes in shareholders' equity and the cash flows of AEM Group as of December 31, 2006, and for the year then ended in accordance with IFRS as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Milan, April 10, 2007

Reconta Ernst & Young S.p.A
Signed by: Alberto Coglia, Partner

Reconta Ernst & Young S.p.A.
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AEM Group 2006

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