Separated Financial Statements 2006

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This is a translation of the Italian original "Bilancio separato 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:

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AEM S.p.A.

Results

millions of euro	01.01.2006 12.31.2006	% of sales	01.01.2005 12.31.2005	% of sales	Changes	% 06/05
Revenues						
Services	145.3	45.1	141.2	47.8	4.1	2.9
Rents to subsidiaries and associates	159.8	49.6	126.7	42.9	33.1	26.1
Sale of electricity	6.8	2.1	1.7	0.6	5.1	300.0
Other revenues	10.4	3.2	26.0	8.8	(15.6)	(60.0)
Total revenues	**322.3**	**100.0**	**295.6**	**100.0**	**26.7**	**9.0**
Operating costs	(125.3)	(38.9)	(136.6)	(46.2)	11.3	(8.3)
Labour costs	(67.0)	(20.8)	(54.0)	(18.3)	(13.0)	24.1
Gross profit from operations	**130.0**	**40.3**	**105.0**	**35.5**	**25.0**	**23.8**
Depreciation and amortisation	(46.2)	(14.3)	(39.3)	(13.3)	(6.9)	17.6
Provisions and writedowns	(10.1)	(3.1)	(40.2)	(13.6)	30.1	(74.9)
Net profit from operations	**73.7**	**22.9**	**25.5**	**8.6**	**48.2**	**189.0**
Income net of financial costs	83.9	26.0	141.8	48.0	(57.9)	(40.9)
Losses on disposals	(2.7)	(0.8)	(2.5)	(0.8)	(0.2)	9.3
Income/loss before taxes	**154.8**	**48.0**	**164.8**	**55.8**	**(10.0)**	**(6.0)**
Taxes for the year	(20.1)	(6.2)	(4.8)	(1.6)	(15.3)	318.7
Net profit of operating activities	**134.7**	**41.8**	**160.0**	**54.1**	**(25.3)**	**(15.8)**
Net result from non-current assets sold or held for sale	42.0	13.0	0	0.0	42.0	n,s,
Net profit	**176.7**	**54.8**	**160.0**	**54.1**	**16.7**	**10.5**

During the year under review, AEM S.p.A. shows revenues totalling 322.3 million euro, an increase of 9% compared with 2005.

In particular, the increase in revenues for rents to subsidiaries and associates is due to the increase in tolling fees as a result of the higher availability provided by the Cassano d'Adda plant thanks to the start-up of the new combined-cycle unit in 2006, as well as higher hydroelectric output. Under the agreements signed by AEM S.p.A. and AEM Trading S.r.l., AEM S.p.A. took on responsibility for managing the generation facilities from a technical point of view, guaranteeing the production of electricity on the basis of the dispatching plans drawn up by AEM Trading S.r.l. and obtaining a fee based on the effective availability of power and agreed levels of energy efficiency. AEM Trading S.r.l., on the other hand, has been delegated responsibility for buying the fuel needed for thermoelectric production and for selling the electricity produced on the market.

Summary of results, assets and liabilities and financial position

The following table summarises the production figures for 2006 compared with the previous year.

millions of kWh	12.31.2006	12.31.2005	Change	Change % 06/05
Net production	4,902.6	3,451.6	1,451.0	42.0
– Thermoelectric	3,405.3	2,135.3	1,270.0	59.5
– Hydroelectric	1,497.3	1,316.3	181.0	13.7

The total net output of electricity at December 31, 2006 amounted to 4,902.6 million kWh, a rise of 42.0% compared with the previous year.
The thermoelectric production of AEM's plants increased by 59.5%, thanks to the start-up of the new combined-cycle unit at the Cassano d'Adda plant, while hydroelectric power generation also increased compared with 2005 (+13.7%) due to higher rainfall and to different drawdown programme, conditioned to a certain extent by release restrictions.

The increase in "other revenues" is mainly attributable to the out-of-period income, booked only in 2005, concerning the equalisation of the hydroelectric yield for 2001, 18.6 million euro, following AEEG's publication of resolution 73/05, which established the reference price of wholesale electricity on the free market in 2001.

Operating costs amounted to 125.3 million euro, a reduction of 8.3% compared with 136.6 million euro the previous year, due to the reduction in costs for completion of the new unit at the Cassano d'Adda power station, relating to the portion recharged to ASM Brescia, which owns 25% of the plant.

The increase in labour costs, up from 54.0 million euro in 2005 to 67.0 million euro in 2006, is attributable to the allowances made during the year to adjust the provisions for future benefits to employees and pensioners, mainly as a result of updating the parameters used for the actuarial calculation.

Gross profit from operations came to 130.0 million euro, an increase of 23.8% compared with last year (105.0 million euro), because of the changes in costs and revenues illustrated above.

Depreciation, amortisation and provisions amount to 46.2 million euro, a rise of 39.3 million euro compared with 2005, thanks to the capital investments that entered service during 2006, in particular the new combined-cycle unit at the Cassano d'Adda power station.

Provisions for risks and charges amount to 10.1 million euro (40.3 million euro at December 31, 2005). The significant decrease is mainly due to the additional amounts set aside in 2005 for disputes with social security institutions and with third parties.

Profit from operations comes to 73.7 million euro (25.5 million euro in 2005), thanks to the increase in gross profit from operations to the lower allowances made to risk provisions.

Financial costs show a positive balance of 83.9 million euro (141.8 million euro in 2005).

The decrease of 57.9 million euro is mainly due to the fact that 2005 benefited from a 50.3 million euro capital gain on sale of the investment in Fastweb S.p.A.; then, in 2006, there was an increase in the positive valuation of financial derivatives for 11.8 million euro offset by higher net financial charges for 19.4 million euro due to higher average annual net debt compared with the previous year as a result of the acquisition of joint control of Transalpina di Energia S.r.l. in September 2005.

Income before taxes amounts to 154.8 million euro (164.8 million euro in 2005).

Income taxes for the year, including deferred taxes, amount to 20.1 million euro (4.8 million euro at December 31, 2005), leading to a net profit of operating activities of 134.7 million euro (160.0 million euro in 2005).

Thanks to the result from non-current assets sold or held for sale of 42 million euro, the net profit amounts to 176.7 million euro (160.0 million euro in 2005).

Capital and financial position

millions of euro	12.31.2006	12.31.2005	Changes	% 06/05
Capital employed				
Net fixed capital employed	**3,850.9**	**3,857.2**	**(6.3)**	**(0.2)**
– Property, plant and equipment	891.8	885.2	6.6	0.7
– Intangible assets	19.7	16.8	2.9	17.3
– Investments and other non-current financial assets	3,187.2	3,172.1	15.1	0.5
– Deferred tax liabilities	(69.5)	(61.4)	(8.1)	13.2
– Provisions for risks	(71.9)	(62.9)	(9.0)	14.3
– Employees benefits	(106.4)	(92.6)	(13.8)	14.9
Working capital	**(129.5)**	**(74.7)**	**(54.8)**	**73.4**
– Inventories	0.7	0.7	0.0	0.0
– Short-term receivables	129.7	251.0	(121.3)	(48.3)
– Other current assets	0.8	0.9	(0.1)	(11.1)
– Trade payables	(63.3)	(82.1)	18.8	(22.9)
– Other payables	(191.2)	(240.4)	49.2	(20.5)
– Other current liabilities	(6.2)	(4.8)	(1.4)	29.2
Assets/liabilities held for sale	**0.5**	**0.0**	**0.5**	**n,s,**
Total capital employed	**3,721.9**	**3,782.5**	**(60.6)**	**(1.6)**
Sources of funding				
Shareholders' equity	**2,250.5**	**2,062.8**	**187.7**	**9.1**
Total financial position beyond one year	1,332.3	1,281.0	51.3	4.0
Total financial position within one year	139.1	438.7	(299.6)	(68.3)
Total net financial position	**1,471.4**	**1,719.7**	**(248.3)**	**(14.4)**
Total sources	**3,721.9**	**3,782.5**	**(60.6)**	**(1.6)**

The net capital employed at December 31, 2006 comes to 3,721.9 million euro (3,782.5 million euro at December 31, 2005) with a decrease of 60.6 million euro compared with the previous year. This reduction is attributable to a combination of lower fixed capital employed (–6.3 million euro) and lower working capital (–54.8 million euro) mainly thanks to fewer short-term receivables, partially offset by an increase in assets/liabilities held for sale (+0.5 million euro).

Among the sources, shareholders' equity, 2,250.5 million euro, shows an increase of 187.7 million euro compared with December 31, 2005, as a result of the following:

- the difference between the net profit for the year, 176.7 million euro, and the dividends distributed during the year by AEM S.p.A., amounting to 107.1 million euro;
- an increase in reserves mainly due to the valuation of financial assets "available for sale" for 120.4 million euro;
- the purchase di treasury shares for 2.3 million euro, which had the effect of reducing shareholders' equity.

The net financial position has improved by 248.3 million euro compared with December 31, 2005.

The financial resources generated by the net profit for the year plus depreciation and amortisation came to 222.9 million euro. The change in assets and liabilities generated additional cash flow of 69.5 million euro thanks to the improvement in working capital.

The cash flow absorbed by investing activities amounted to 57.4 million euro, mainly because of depreciation and amortisation.

The changes in shareholders' equity caused by the increase in reserves mainly because of the fair value measurement of financial assets "available for sale", net of dividends distributed, amounted to 13.3 million euro.

As a result of these movements, the net financial position comes to 1,471.4 million euro (1,719.7 million euro at December 31, 2005).

Summary of results, assets and liabilities and financial position

At December 31, 2006 the gross debt to banks, bondholders and third parties amounts to 1,470.8 million euro, whereas the debt owed to affiliates amounts to 126.9 million euro. Financial receivables from affiliates amount to 94.2 million euro. Net liquidity and current assets for financial derivatives amount in total to 32.1 million euro.

millions of euro	12.31.2006	12.31.2005
Opening net financial position	**(1,719.7)**	**(951.3)**
Net profit for the year	176.7	160.0
Depreciation and amortisation	46.2	39.3
Changes in assets and liabilities	69.5	(43.7)
Cash flow generated by current operations	**292.4**	**155.6**
Net capital expenditure on tangible, intangible and long-term financial assets	**(57.4)**	**(825.2)**
Changes in shareholders' equity	120.4	(4.2)
Earnings distributed	(107.1)	(94.6)
Cash flow generated/absorbed by changes in shareholders' equity	**13.3**	**(98.8)**
Closing net financial position	**(1,471.4)**	**(1,719.7)**

Reference should be made to the cash flow statement for details of these items.

Details of the net financial position are given below:

millions of euro	12.31.2006	12.31.2005
Details of net financial position		
Net liquidity	5.0	13.5
Current assets/liabilities for financial derivatives	27.1	33.2
Current account receivables from affiliates	94.2	275.5
Current account payables to affiliates	(126.9)	(101.7)
Current a/c with parent entity	(24.5)	(70.4)
Due to banks	(908.5)	(1,299.8)
Lease payables	(30.2)	(35.6)
Bond loan	(507.6)	(534.4)
Total net financial position	**(1,471.4)**	**(1,719.7)**

Financial statements

Balance sheet ([1])

Assets

amounts in euro	Notes	12.31.2006	%	12.31.2005	%
NON-CURRENT ASSETS	A)				
Property, plant and equipment	A1)	891,808,644	20.47	885,229,883	19.04
Intangible assets	A2)	19,650,925	0.45	16,782,334	0.36
Investments	A3)	2,736,407,184	62.81	2,853,318,089	61.36
Other non-current financial assets	A4)	381,789,274	8.76	247,543,074	5.32
Deferred tax assets	A5)	69,990,964	1.61	72,167,608	1.55
Other non-current receivables	A6)	240,030	0.01	227,771	0.00
Total non-current assets (A)		4,099,887,022	94.10	4,075,268,759	87.63
CURRENT ASSETS	B)				
Inventories	B1)	715,667	0.02	714,649	0.02
Current financial assets	B2)	93,111,584	2.14	274,477,557	5.90
Current derivatives	B3)	27,168,008	0.62	34,395,033	0.74
Taxes receivable	B4)	3,660,942	0.08	20,126,265	0.43
Trade and other receivables	B5)	126,129,951	2.89	230,898,550	4.97
Cash and cash equivalents	B6)	5,003,549	0.11	13,542,725	0.29
Other current assets	B7)	779,979	0.02	920,896	0.02
Total current assets (B)		256,569,680	5.89	575,075,675	12.37
NON-CURRENT ASSETS HELD FOR SALE	C)	500,000	0.01	–	–
TOTAL ASSETS (A + B + C)		4,356,956,702	100.00	4,650,344,434	100.00

(1) Related party transactions in the financial statements are analysed in Note 17, as required by CONSOB Resolution no. 15519 of July 27, 2006.

Shareholders' equity and liabilities

amounts in euro	Notes	12.31.2006	%	12.31.2005	%
SHAREHOLDERS' EQUITY	D)				
Share capital	D1)	936,024,648	21.48	936,024,648	20.13
(Treasury shares)	D2)	(25,072,459)	(0.58)	(22,756,324)	(0.49)
Legal reserve	D3)	93,559,331	2.15	85,152,316	1.83
Other reserves	D4)	1,069,339,491	24.54	904,420,393	19.45
Net profit for the year	D5)	176,702,774	4.06	159,975,138	3.44
Total shareholders' equity (D)		**2,250,553,785**	**51.65**	**2,062,816,170**	**44.36**
LIABILITIES AND EQUITY	E)				
Non-current liabilities	E1)				
Medium/long-term financial liabilities	E1 - 1)	1,333,407,614	30.60	1,282,014,365	27.57
Deferred tax liabilities	E1 - 2)	69,528,978	1.60	61,410,276	1.32
Employee benefits	E1 - 3)	106,428,768	2.44	92,602,332	1.99
Provisions for risks	E1 - 4)	71,898,694	1.65	62,964,777	1.35
Other non-current liabilities	E1 - 5)	–	–	94,318,058	2.03
Total non-current liabilities (E1)		**1,581,264,054**	**36.29**	**1,593,309,808**	**34.26**
Current liabilities	E2)				
Trade and other payables	E2 - 1)	240,676,674	5.52	179,821,082	3.87
Tax liabilities	E2 - 2)	13,856,190	0.32	48,395,571	1.04
Short-term financial liabilities	E2 - 3)	264,392,274	6.07	761,151,413	16.37
Other current liabilities	E2 - 4)	6,213,725	0.14	4,850,390	0.10
Total current liabilities (E2)		**525,138,863**	**12.05**	**994,218,456**	**21.38**
Total liabilities (E)		**2,106,402,917**	**48.35**	**2,587,528,263**	**55.64**
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE	F)	–	–	–	–
TOTAL LIABILITIES AND EQUITY (D + E + F)		**4,356,956,702**	**100.00**	**4,650,344,434**	**100.00**

Income statement ([1])

amounts in euro	Notes	01.01.2006/12.31.2006	%	01.01.2005/12.31.2005	%
Revenues	1)				
Revenues from sales	1.1)	6,843,701	2.12	1,660,127	0.56
Revenues from services	1.2)	145,263,275	45.07	141,165,078	47.76
Other operating income	1.3)	170,209,248	52.81	134,146,796	45.39
Other non-recurring income	1.4)	–	–	18,598,263	6.29
Total revenues		**322,316,224**	**100.00**	**295,570,264**	**100.00**
Operating costs	2)				
Raw materials and consumables used	2.1)	3,863,071	1.20	5,569,033	1.88
Services used	2.2)	97,298,714	30.19	106,374,055	35.99
Other operating costs	2.3)	24,176,782	7.50	24,680,525	8.35
Total operating costs		**125,338,567**	**38.89**	**136,623,613**	**46.22**
Labour costs	3)	**66,951,213**	**20.77**	**54,004,570**	**18.27**
Gross profit from operations	4)	**130,026,444**	**40.34**	**104,942,081**	**35.50**
Amortisation, depreciation, provisions and writedowns	5)	**56,373,827**	**17.49**	**79,505,124**	**26.90**
Net profit from operations	6)	**73,652,617**	**22.85**	**25,436,957**	**8.61**
Gains (losses) on revaluation of financial assets available for sale	7)	**–**	**–**	**471,740**	**0.16**
Other gains (losses) on derivatives	8)	**23,598,469**	**7.32**	**11,722,324**	**3.97**
Non-recurring gains (losses) on disposal of financial assets available for sale	9)	**337,290**	**0.10**	**50,272,446**	**17.01**
Financial charges	10)	**75,746,692**	**23.50**	**61,616,580**	**20.85**
Income (losses) from financial assets	11)	**135,675,137**	**42.09**	**140,951,214**	**47.69**
Dividend income	11.1)	126,860,851	39.36	126,808,137	42.90
Income from receivables/securities included in non-current assets	11.2)	419,349	0.13	564,125	0.19
Income from receivables/securities included in current assets	11.3)	8,402,835	2.61	13,759,290	4.66
Exchange gains and losses	11.4)	(7,898)	(0.00)	(180,338)	(0.06)
Total financial costs	12)	**83,864,204**	**26.02**	**141,801,144**	**47.98**
Gains (losses) on disposal of property, plant and equipment	13)	**(2,733,010)**	**(0.85)**	**(2,461,964)**	**(0.83)**
Profit before tax		**154,783,811**	**48.02**	**164,776,137**	**55.75**
Income tax expense	14)	**20,083,358**	**6.23**	**4,800,999**	**1.62**
Profit (loss) of ongoing operations net of tax		**134,700,453**	**41.79**	**159,975,138**	**54.12**
Net result from non-current assets sold or held for sale	15)	**42,002,321**	**13.03**	**–**	**–**
Net profit (loss)	16)	**176,702,774**	**54.82**	**159,975,138**	**54.12**

(1) Related party transactions in the financial statements are analysed in Note 17, as required by CONSOB Resolution no. 15519 of July 27, 2006.

Cash flow statement (note G)

amounts in euro	Notes	12.31.2006	12.31.2005
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		13,542,725	208,613,164
Operating activities			
Net result for the year	D5)	176,702,774	159,975,138
Non-monetary flows:			
Depreciation of property, plant and equipment	5)	41,395,089	35,192,947
Amortisation of intangible assets	5)	4,792,930	4,106,751
Writedowns (Writebacks) of investments		6,151,983	(471,740)
Change in provisions for employee benefit provisions	E1 - 3)	13,826,436	985,031
Change in other risk provisions	E1 - 4)	8,933,917	26,609,843
Change in deferred tax liabilities	E1 - 2)	8,118,702	21,009,708
Change in working capital:			
Change in trade receivables and other short-term receivables		5,224,920	(16,373,885)
Change in inventories of materials	B1)	(1,018)	47,256
Change in trade payables and other short-term payables		(73,795,133)	19,989,468
Change in liabilities to related parties		7,156,620	(38,209,359)
Change in assets to related parties		93,895,404	(57,285,240)
Net cash flows from operating activities		**292,402,623**	**155,575,918**
Investing activities			
Capital expenditure in property, plant and equipment	A1)	(51,301,860)	(73,071,662)
Capital expenditure in intangible assets	A2)	(7,661,521)	(6,171,029)
Disposal of property, plant and equipment	A1)	3,328,010	3,369,514
Purchase of equity investments		(147,742,000)	(1,005,554,777)
Sale of investments		147,754,713	243,951,559
Other changes in investments	C)	500,000	–
Purchase and sale of treasury shares	D2)	(2,316,135)	12,268,530
Net cash flows absorbed by investment activities		**(57,438,793)**	**(825,207,865)**
Free cash flow		**234,963,830**	**(669,631,948)**
Financing activities			
Due to banks		(391,247,382)	549,818,501
Financial receiables from related parties		181,284,886	52,973,989
Assets for financial derivatives	B3)	7,227,025	(3,853,035)
Liabilities for financial derivatives		(1,157,203)	1,157,203
Financial payables to related parties		25,146,269	(17,923,539)
Bonds		(26,700,000)	2,550,000
Payables in current a/c to parent entity		(45,948,031)	(6,342,704)
Payment of liabilities for finance leases		(5,459,545)	(5,027,794)
Changes in shareholders' equity		120,463,308	(4,175,220)
Dividends paid		(107,112,333)	(94,615,894)
Net cash flows absorbed by financing activities		**(243,503,006)**	**474,561,508**
CHANGE IN LIQUID FUNDS		(8,539,177)	(195,070,439)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	B6)	5,003,549	13,542,725

Statement of changes in shareholders' equity

Description thousands of euro	Share Capital Note D1	Treasury Shares Note D2	
FTA equity at 01.01.2005	936,025	(35,025)	
Changes in:			
Legal reserve			
Other reserves			
Treasury shares		12,269	
Adjustments deriving from the application of IAS 39			
Dividends distributed to shareholders			
Net profit for the year			
Equity at 12.31.2005	936,025	(22,756)	
Changes in:			
Legal reserve			
Other reserves			
Treasury shares		(2,316)	
Adjustments deriving from the application of IAS 39			
Dividends distributed to shareholders			
Net profit for the year			
Equity at 12.31.2006	936,025	(25,072)	
Possible uses			

Key:
A: for increase in capital - (*) availability for 838,284 thousand euro.
B: for loss coverage.
C: for distribution to shareholders - (**) distributable up to 460,602 thousand euro.

	Legal Reserve Note D3	Other Reserves Note D4	Net profit for the year Note D5	Total equity
	77,466	**946,879**	**82,955**	**2,008,300**
	7,686		(7,686)	–
		(17,890)	19,347	1,457
				12,269
		(24,569)		(24,569)
			(94,616)	(94,616)
			159,975	159,975
	85,152	**904,420**	**159,975**	**2,062,816**
	8,407		(8,407)	–
		46,165	(44,456)	1,709
				(2,316)
		118,754		118,754
			(107,112)	(107,112)
			176,703	176,703
	93,559	**1,069,339**	**176,703**	**2,250,554**
	B	A(*) – B – C(**)		

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

amounts in euro	Notes	12.31.2006	of which Related Parties (note no. 17)	12.31.2005	of which Related Parties (note no. 17)
NON-CURRENT ASSETS	A)				
Intangible assets	A1)	891,808,644	–	885,229,883	–
Property, plant and equipment	A2)	19,650,925	–	16,782,334	–
Investments	A3)	2,736,407,184	2,736,407,184	2,853,318,089	2,853,318,089
Other non-current financial assets	A4)	381,789,274	1,055,062	247,543,074	1,055,062
Deferred tax assets	A5)	69,990,965	–	72,167,608	–
Other non-current receivables	A6)	240,030	–	227,771	–
Total non-current assets (A)		4,099,887,022	–	4,075,268,759	–
CURRENT ASSETS	B)				
Inventories	B1)	715,667	–	714,649	–
Current financial assets	B2)	93,111,584	93,108,878	274,477,557	274,474,851
Current derivatives	B3)	27,168,008	–	34,395,033	–
Taxes receivable	B4)	3,660,942	–	20,126,265	–
Trade and other receivables	B5)	126,129,951	116,253,852	230,898,550	210,149,256
Cash and cash equivalents	B6)	5,003,549	–	13,542,725	–
Other current assets	B7)	779,979	–	920,896	–
Total current assets (B)		256,569,680	–	575,075,675	–
NON-CURRENT ASSETS HELD FOR SALE	C)	500,000	500,000	–	–
TOTAL ASSETS (A + B + C)		4,356,956,702	–	4,650,344,434	–

Equity and liabilities

amounts in euro	Notes	12.31.2006	of which Related Parties (note no. 17)	12.31.2005	of which Related Parties (note no. 17)
EQUITY	**D)**				
Share capital	D1)	936,024,648		936,024,648	
(Treasury shares)	D2)	(25,072,459)		(22,756,324)	
Legal reserve	D3)	93,559,331		85,152,316	
Other reserves	D4)	1,069,339,491		904,420,393	
Net profit for the year	D5)	176,702,774		159,975,138	
Total equity (D)		2,250,553,785		2,062,816,170	
LIABILITIES	E)				
Non-current liabilities	E1)				
Medium/long-term financial liabilities	E1 - 1)	1,333,407,614		1,282,014,365	
Deferred tax liabilities	E1 - 2)	69,528,978		61,410,276	
Employee benefits	E1 - 3)	106,428,768		92,602,332	
Provisions for risks	E1 - 4)	71,898,694		62,964,777	
Other non-current liabilities	E1 - 5)	–		94,318,058	
Total non-current liabilities (E1)		1,581,264,054		1,593,309,808	
Current liabilities	E2)				
Trade and other payables	E2 - 1)	240,676,674	54,560,606	179,821,082	47,403,986
Tax liabilities	E2 - 2)	13,856,190		48,395,571	
Short-term financial liabilities	E2 - 3)	264,392,274	151,434,294	761,151,413	172,236,056
Other current liabilities	E2 - 4)	6,213,725		4,850,390	
Total current liabilities (E2)		525,138,863		994,218,456	
Total liabilities (E)		2,106,402,917		2,587,528,263	
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE	F)	–		–	
TOTAL LIABILITIES AND EQUITY (D + E + F)		**4,356,956,702**		**4,650,344,434**	

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

amounts in euro	Notes	01.01.2006/12.31.2006	of which Related Parties (note no.17)	01.01.2005/12.31.2005	of which Related Parties (note no.17)
Revenues	1)				
Revenues from sales	1.1)	6,843,701	855,080	1,660,127	1,203,728
Revenues from services	1.2)	145,263,275	135,431,412	141,165,078	123,062,510
Other operating income	1.3)	170,209,248	164,153,050	134,146,796	127,803,686
Other non-recurring income	1.4)	–	–	18,598,263	–
Total revenues		322,316,224	–	295,570,264	–
Operating costs	2)				
Raw materials and consumables used	2.1)	3,863,071	237,697	5,569,033	123,197
Services used	2.2)	97,298,714	54,154,138	106,374,055	54,104,594
Other operating costs	2.3)	24,176,782	168,066	24,680,525	122,488
Total operating costs		125,338,567	–	136,623,613	–
Labour costs	3)	66,951,213	–	54,004,570	–
Gross profit from operations	4)	130,026,444	–	104,942,081	–
Amortisation, depreciation, provisions and writedowns	5)	56,373,827	–	79,505,124	–
Net profit from operations	6)	73,652,617	–	25,436,957	–
Gains (losses) on revaluation of financial assets available for sale	7)	–	–	471,740	–
Other gains (losses) on derivatives	8)	23,598,469	–	11,722,324	–
Non-recurring gains (losses) on disposal of financial assets available for sale	9)	337,290	–	50,272,446	–
Financial charges	10)	75,746,692	5,440,982	61,616,580	9,273,214
Income (losses) from financial assets	11)	135,675,137	–	140,951,214	–
Dividend income	11.1)	126,860,851	123,369,796	126,808,137	123,921,453
Income from receivables/securities included in non-current assets	11.2)	419,349	–	564,125	–
Income from receivables/securities included in current assets	11.3)	8,402,835	1,587,507	13,759,290	10,549,960
Exchange gains and losses	11.4)	(7,898)	–	(180,338)	–
Total financial costs	12)	83,864,204	–	141,801,145	–
Gains (losses) on disposal of property, plant and equipment	13)	(2,733,010)	–	(2,461,964)	–
Profit before tax		154,783,811	–	164,776,137	–
Income tax expense	14)	20,083,358	–	4,800,999	–
Profit (loss) of ongoing operations net of tax		134,700,453	–	159,975,138	–
Net result from non-current assets sold or held for sale	15)	42,002,321	–	–	–
Net profit (loss)	16)	176,702,774	–	159,975,138	–

Notes

General information

AEM S.p.A. is a company incorporated under Italian law and operates mainly in Italy.
The Company is responsible for business development, strategic planning, control, financial management and coordination of the activities of the AEM Group. It also provides the subsidiaries and some of its associated companies with administrative, tax, legal, personnel management, procurement and communication services in order to optimise the resources that are available within the Group and to use its know-how in the best way possible and as economically as possible. It is the owner of 75% of the thermoelectric power station at Cassano d'Adda and of certain hydroelectric plants in Valtellina, handling their capital investments and technical operations.
The Company's registered office is in Corso di Porta Vittoria 4, Milan, Italy.
The individual annual financial statements of AEM S.p.A. are expressed in euro, which is also the functional currency of the economies in which it operates, whereas the notes are presented in thousands of euro.
The individual financial statements of AEM S.p.A. at December 31, 2006, consisting of the balance sheet, income statement, cash flow statement, statement of changes in equity and explanatory notes, 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. 9 of D.Lgs. 38/2005; AEM adopted International Financial Reporting Standards (IFRS) from 2006, following the introduction of EU Regulation no. 1606 of July 19, 2002. The transition date was January 1, 2005 and the effects of the transition are explained in an attachment to these financial statements.

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

The regulatory framework and the adoption of International Financial Reporting Standards (IAS/IFRS)

IFRS 1 provides that at the date of transition to international accounting standards, namely January 1, 2005, an opening balance sheet has to be prepared (so-called "First-Time Adoption") in which:

- only assets and liabilities recognised under international standards are shown;
- the assets and liabilities are shown at the values that would have applied if the new standards had been adopted retrospectively (limited to a reasonable period of time);
- the items previously indicated in the financial statements in ways other than those prescribed by IAS/IFRS are reclassified.

The impact of this adjustment of the opening balances of assets and liabilities to the new body of accounting standards has been booked to an equity reserve net of the tax effect.

On first-time adoption, re-elaboration of the balance sheet at the date of transition to the new standards required certain choices to be made among the voluntary exemptions foreseen by IFRS 1. The following is an explanation of the main options provided by IFRS 1 and adopted in preparing the individual financial statements of AEM S.p.A., which are the same as those already adopted in the transition of the consolidated financial statements to IAS/IFRS:

- IFRS 3 was not applied retrospectively to business combinations prior to January 1, 2004;
- property, plant and equipment are booked at historical cost, including any additional charges directly attributable to the asset and needed to bring it into service, but excluding financial charges which are not capitalised.
- the cumulative effect of valuing post-retirement employee benefits, mainly severance indemnities and energy and discounts, according to actuarial methods on first-time application of IAS 19 was all booked on transition;
- the application of IAS 32 and 39 on the reclassification, measurement and valuation of financial instruments were applied from January 1, 2005;
- IFRS 5 was applied from January 1, 2005.

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:

- 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 AEM S.p.A. report.;
- IAS 39 Financial instruments: Recognition and Measurement – Amendment relating to financial guarantee contracts. The impact was immaterial for AEM S.p.A.;
- IAS 39 - Amendment relating to the hedging of intercompany transactions. Not applicable to AEM S.p.A.;
- 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). IFRIC 4 is not applicable to AEM S.p.A.;
- IAS 21, which introduces and modifies certain paragraphs on investments in foreign operations, does not affect AEM S.p.A..

Interpretations of IFRS and IFRIC not yet in force

AEM 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 Company 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. AEM S.p.A. has not applied this amendment in this report.

Accounting policies

Financial statements

In line with the consolidated financial statements, AEM S.p.A. 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 Company 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.
The results of normal operations are shown in the income statement separately from income or costs deriving from non-recurring transactions that form part of the business's normal operations, such as gains or losses on the sale of investments and other non-recurring income or charges; this makes it easier to measure the effective results of normal operating activities, while also providing detailed information on the income and charges deriving from non-recurring transactions. The definition of unusual transactions adopted by AEM S.p.A. is the one provided by CONSOB Communication of July 28, 2006, which says that unusual transactions are those that because of their size, nature of the counterparties, object of the transaction, method of determining the transfer price and timing of the event (close to the year-end) could give rise to doubts in terms of: the fairness or completeness of the information provided in the financial statements, conflict of interest, protection of the Company's assets and the protection of minority shareholders. No unusual transactions took place in 2005 and 2006

Basis of preparation

The annual report 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.

Translation of foreign currency items

The functional and presentation currency adopted by AEM S.p.A. 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.

Property, plant and equipment

Property, plant and equipment are booked at historical cost, including any additional charges directly attributable 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. 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 AEM S.p.A., are recognised as AEM S.p.A. 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. Depreciated 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 (CGU) 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 Company 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 AEM S.p.A. 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 following amortisation rates are applied to intangible assets with a definite useful life:
- industrial patents and intellectual property rights ______ 12.5% - 33.3%
- concessions, licences, trademarks and similar rights ______ 6.7% - 33.3%
- leasehold improvements ______ 12.5% - 33.3%

Impairment of assets

At least once a year, AEM S.p.A. verifies the recoverability of the book value of intangible assets with an indefinite useful life, so as to establish whether there are any signs that these assets may have suffered a loss in value. 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 Company 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 Company 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.

Investments

The investments in subsidiaries and associates are booked at cost and written down in the event of losses. The positive difference between the purchase cost and the share of the company's equity at current values that arose on acquisition is therefore included in the carrying value of the investment. Any writedowns of this positive difference are not reinstated in subsequent periods, even if the conditions that led to the writedown no longer exist. If the Company's share of the affiliate's losses is greater than the book value of the investment, the value of the investment is cancelled and the share of any further losses is booked as a provision if the Company is obliged to cover them.
Investments in other companies, made up of non-current financial assets that are not destined to be used for trading purposes, are valued at fair value, if this can be determined, and the gains and losses deriving from changes in fair value are booked directly to equity until such time that the investments are sold or a loss in value is suffered; At that moment, all of the gains and losses previously booked to equity are charged to income for the period. Investments in other minor companies for which the fair value is not available are booked at cost and written down for any impairment losses.

Dividends are booked to income at the time that the right to receive payment is established, but only if they derive from earnings distributed after the acquisition. If, on the other hand, they derive from the distribution of reserves prior to the acquisition, such dividends are booked as a reduction of the cost of the investment.

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

AEM S.p.A. has adopted IAS 32 and 39 from January 1, 2005.

IAS 39 provides for the following types of financial instruments:
- assets 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 S.p.A. makes a commitment to buy the asset.

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

- 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 is more than one market that can provide a price for the object to be valued, the most convenient one is chosen.

- Prices of similar assets or liabilities
  If a market price is not available, the prices of similar assets and liabilities are used.

- 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.

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

Subsequent valuation depends on the class 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.
AEM S.p.A. 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, booking at gain or loss to the income statement. 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 the effects being reflected in the income statement; 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 Company 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 Company 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 Company 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 AEM S.p.A. 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 Company 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 Company 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.

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 directly associated with non-current 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: assets held for sale and liabilities directly associated with assets held for sale; in one specific income statement item: 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, again under "Results of non-current assets held for sale and discontinued operations (IFRS 5)" any gain or loss deriving from the sale.

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; AEM S.p.A. 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;
- 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 so-called 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 financial statements and notes according to IFRS, the Company 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.

"Non-current assets held for sale" also include the investment in Mestni Plinovodi d.o.o. held by the company as prescribed by IFRS 5.

The balance sheet at December 31, 2006 shows total assets of 4,356,957 thousand euro and total liabilities of 2,106,403 thousand euro; shareholders' equity amounts to 2,250,554 thousand euro.
Net profit for the year came to 176,703 thousand euro.

ASSETS

A) Non-current assets

A 1) Property, plant and equipment

thousands of euro	Net book value 12.31.2005	Cap. expend.	Other changes	Disposals	Depreciation and writedowns	Net book value 12.31.2006
Land	16,142	–	530	–	–	16,672
Buildings	76,266	1,562	4,579	–	(2,707)	79,700
Transferable plant and machinery	261,287	236	46,227	–	(14,012)	293,738
Non-transferable plant and machinery	289,547	1,392	135,331	(2,718)	(18,904)	404,648
Industrial and commercial equipment	3,504	241	–	(8)	(670)	3,067
Other property, plant and equipment	9,450	1,330	–	–	(2,174)	8,606
Construction in progress and advances	176,630	44,500	(186,667)	(602)	–	33,861
Leasehold improvements	2,464	2,041	–	–	(1,502)	3,003
Leased assets	49,940	–	–	–	(1,426)	48,514
Total	**885,230**	**51,302**	**–**	**(3,328)**	**(41,395)**	**891,809**

Property, plant and equipment thousands of euro	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other property, plant and equipment	Construction in progress and advances	Leasehold improvements	Leased assets	Total
Balance at 12.31.2006	**96,372**	**698,386**	**3,067**	**8,606**	**33,861**	**3,003**	**48,514**	**891,809**
Of which:								
– historical cost	112,070	703,987	9,165	22,784	176,630	5,437	56,184	1,086,257
– acquisitions	1,562	1,628	241	1,330	44,500	2,041	–	51,302
– disposals	–	(2,718)	(8)	–	(602)	–	–	(3,328)
– writedowns	–	–	–	–	–	–	–	
– other changes	5,109	181,558	–	–	(186,667)	–	–	
– depreciation	(22,369)	(186,069)	(6,331)	(15,508)	–	(4,475)	(7,670)	(242,422)
Net book value	**96,372**	**698,386**	**3,067**	**8,606**	**33,861**	**3,003**	**48,514**	**891,809**

Property, plant and equipment, amounting to 891,809 thousand euro (885,230 thousand euro at December 31, 2005), increase by 6,579 thousand euro for the effect of:

- an increase of 51,302 thousand euro due to capital expenditure and advances paid to suppliers during the year;
- a decrease of 3,328 thousand euro resulting from the sale of assets, net of accumulated depreciation;
- a decrease of 41,395 thousand euro in depreciation for the period.

Capital expenditure during the year related to:

- buildings (1,562 thousand euro) for capital expenditure on buildings in Bormio (SO) and Fusino (SO), as well as those of the Grosio (SO) and Cassano d'Adda (MI) power stations, the Trento and Caracciolo substations, the warehouse in via Gonin, the building in via Orobia, and the West Receiver station;
- transferable plant and machinery (236 thousand euro) for work on the Lovero (SO), Grosotto (SO) and Premadio (SO) plants;
- non-transferable plant and machinery (1,392 thousand euro) for work on the Grosio, Lovero, Grosotto, Premadio, Stazzona (SO) and Cassano d'Adda (MI) power stations, as well as work on the extension of medium and low voltage power and telephone lines in Valtellina and the ITC networks at the Milan office;
- equipment and mobile phones (241 thousand euro);
- furniture, fittings, office machines and assets with a unit value not exceeding 516 euro (1,330 thousand euro);
- leasehold improvements on the building in Corso di Porta Vittoria (2,041 thousand euro).

The overall value of property, plant and equipment includes 33,861 thousand euro (176,630 thousand euro at December 31, 2005) of construction in progress and advance payments with changes during the year of 142,769 thousand euro, detailed as follows:

- an increase of 44,500 thousand euro for capital expenditure during the period, principally for continuation of the work on buildings in piazza Trento, the warehouse in via Gonin, the Cassano d'Adda, Grosio and Premadio power stations and the Caracciolo substations. In addition, work continued on the Grosio, Premadio and Cassano d'Adda plants, the new Viola Canal and consolidation of the San Giacomo dam;
- a decrease of 186,667 thousand euro due to the start-up during the year of the new Viola Canal, the hydroelectric control panels at Conca Fallata and the San Giacomo dam, in addition to the new Group 6 and the district heating network at Cassano d'Adda;

- the decrease of 602 thousand euro is due to elimination of capitalised costs relating to development of the hub in via Cavriana.

Property, plant and equipment include 48,514 thousand euro of leased assets. The total value of residual debt included in "payables and other financial liabilities" amounts to 30,170 thousand euro.

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

A 2) Intangible assets

thousands of euro	Net book value 12.31.2005	Cap. expend.	Other changes	Amort.	Net book value 12.31.2006
Industrial patents and intellectual property rights	14,871	2,692	46	(3,477)	14,132
Concessions, licences, trademarks and similar rights	1,287	1,528	888	(1,316)	2,387
Goodwill	–	–	–	–	–
Assets in process of formation	624	1,861	(934)	–	1,551
Other intangible assets	–	–	1,581	–	1,581
Total	**16,782**	**6,081**	**1,581**	**(4,793)**	**19,651**

Intangible assets thousands of euro	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Goodwill	Construction in progress and advances	Other intangible assets	Total
Balance at 12.31.2006	**14,132**	**2,387**	**–**	**1,551**	**1,581**	**19,651**
Of which:						
– historical cost	26,390	9,862	–	624	608	37,484
– acquisitions	2,692	1,528	–	1,861	–	6,081
– writedowns	–	–	–	–	–	–
– amortisation	(14,996)	(9,891)	–	–	(608)	(25,495)
– other changes	46	888	–	(934)	1,581	1,581
Net book value	**14,132**	**2,387**	**–**	**1,551**	**1,581**	**19,651**

Intangible assets at December 31, 2006 amount to 19,651 thousand euro and show an increase compared with December 31, 2005 of 2,869 thousand euro resulting from the following items:

- an increase of 6,081 thousand euro due to capital expenditure during the year;

- an increase of 1,581 thousand euro due to the valuation of emission rights;
- a decrease of 4,793 thousand euro due to the amortisation charge for the year.

A 3) Investments

thousands of euro	12.31.2006	12.31.2005
Investments in subsidiaries	2,226,918	2,372,152
Investments in associates	509,489	481,165
Total investments	**2,736,407**	**2,853,317**

Investments in subsidiaries

Investments in subsidiaries amount to 2,226,918 thousand euro (2,372,152 thousand euro at December 31, 2005).

The following tables shows changes of the year:

Investments in subsidiaries thousands of euro	
Amount at December 31, 2005	**2,372,152**
Changes during the year:	
– acquisitions	409
– sales	(133,723)
– revaluations	–
– writedowns	–
– reclassifications	(11,920)
– other changes	–
Total changes for the period	**(145,234)**
Amount at December 31, 2006	**2,226,918**

These investments have decreased in value by 145,234 thousand euro compared with the end of the previous year, mainly due to the sale of the investments in AEM Trasmissione S.p.A., Serenissima Gas S.p.A., Serenissima Energia S.r.l. and Metroweb S.p.A., partly offset by the acquisition of the investment in Valdisotto Energia S.r.l. and the incorporation of Proaris S.r.l. Note that the sale of the investment in Metroweb S.p.A. involved selling all of AEM's shares in that company and, at the same time, buying a 23.53% stake in Burano S.p.A..

At the end of the year, investments in directly held subsidiaries, are:

- **AEM Elettricità S.p.A.**
  The investment, amounting to 568,205 thousand euro, represents 99.99% of its share capital. At December 31, 2006 its net profit for the year comes to 2,256 thousand euro while total shareholders' equity is 578,025 thousand euro. This is 9,762 thousand euro higher than the cost shown in the AEM S.p.A.'s financial statements;
- **AEM Gas S.p.A.**
  The investment, amounting to 643,825 thousand euro, represents 99.99% of the share capital. The amount shown at cost in the financial statements is 6,541 thousand euro lower than AEM's share of its net equity; this change is due to the positive results achieved by the company, which closed the financial statements at December 31, 2006 with net profit of 3,241 thousand euro and shareholders' equity of 650,431 thousand euro;
- **AEM Energia S.p.A.**
  The investment, amounting to 58,761 thousand euro, represents 99.99% of the share capital. 2006 shows a loss of 1,264 thousand euro and a shareholders' equity of 65,135 thousand euro. As a result, the cost of the investment shown in the financial statements is 6,367 thousand euro lower than the portion of shareholders' equity;
- **AEM Service S.r.l.**
  The investment totals 12,405 thousand euro and represents 100% of its share capital. 2006 shows a net profit of 306 thousand euro and a shareholders' equity of 11,924 thousand euro. The cost figure shown in the financial statements is 481 thousand euro higher than the AEM's portion of its net equity as a result of the losses made in 2004 and 2005 partly offset by the result for 2006. Maintaining this higher value is justified by reasonable expectations of future super profits according to the business plans that the company has already drawn up;
- **AEM Trading S.r.l.**
  This investment amounts to 99 thousand euro and represents 100% of the share capital. At December 31, 2006 its net profit for the year comes to 92,597 thousand euro while total shareholders' equity is 103,832 thousand euro. This amount is 103,733 thousand euro higher than the figure shown in the financial statements of AEM S.p.A.;
- **AEM Calore & Servizi S.p.A.**
  This investment amounts to 8,099 thousand euro and represents 100% of the share capital. At the end of the year, the company shows a loss of 336 thousand euro, while shareholders' equity amounts to 2,070 thousand euro. As a result,

the cost of the investment shown in the financial statements is 6,029 thousand euro higher than AEM's share of its net equity Maintaining this higher value is justified by reasonable expectations of future super profits according to the business plans that the company has already drawn up;

- **Delmi S.p.A.**
  At December 31, 2006, AEM S.p.A. holds 51% of Delmi S.p.A.; this investment is shown in the balance sheet at 935,115 thousand euro. The company closed 2006 with a net profit of 12,188 thousand euro and shareholders' equity of 1,848,053 thousand euro. The carrying value shown in the balance sheet is therefore 7,392 thousand euro lower than AEM's portion of its net equity;
- **Valdisotto Energia S.r.l.**
  This investment amounts to 399 thousand euro following AEM's purchase of the entire share capital during the year. At December 31, 2006 net profit totals 490 thousand euro and shareholders' equity 879 thousand euro. This figure is 480 thousand euro higher than the one shown in the financial statements of AEM S.p.A., again thanks to the positive results achieved by the company during the current year;
- **Proaris S.r.l.**
  This investment amounts to 10 thousand euro and represents 100% of the share capital of the company incorporated during the year under review.

Investments in associates

Investments in associates amount to 509,489 thousand euro (481,165 thousand euro at December 31, 2005).

The following tables shows changes of the year:

Investments in associates thousands of euro	
Amount at December 31, 2005	**481,165**
Changes during the year:	
– acquisitions	23,079
– sales	(23)
– revaluations	–
– writedowns	(6,152)
– reclassifications	11,420
– other changes	–
Total changes for the period	**28,324**
Amount at December 31, 2006	**509,489**

The investments in associates at December 31, 2006 show a net increase compared with December 31, 2005 of 28,324 thousand euro due to the following transactions:

- the acquisition of 20% of the share capital of ACSM S.p.A. for 23,079 thousand euro;
- the writedown of 6,152 thousand euro, and subsequent reclassification, for 500 thousand euro, of the investment in Mestni Plinovodi d.o.o. to non-current assets held for sale, as required by IFRS 5;
- the sale of 10% of the investment in Zincar S.r.l. for 23 thousand euro;
- the acquisition of 23.53% of Burano S.p.A., for 11,920 thousand euro following the sale of Metroweb S.p.A., shown under reclassifications.

In addition:

- no associate is quoted, with the exception of ACSM S.p.A.;
- these financial statements include all of the significant figures of the investments held directly in associates.

A 4) Other non-current financial assets

The other non-current financial assets total 381,789 thousand euro (247,543 thousand euro at December 31, 2005) and are made up of:

- securities held for trading amount to 24,000 thousand euro and relate to the convertible bond loan issued by Metroweb S.p.A., which was fully subscribed by AEM S.p.A. in accordance with the sale agreement for this investment; at December 31, 2005 this caption had a zero balance;
- financial assets held to maturity for 81 thousand euro (unchanged at December 31, 2005);
- loans and receivables resulting from operations of 1,055 thousand euro (unchanged at December 31 2005); This item relates to the loan granted to the associated company Alagaz S.p.A. to carry out the “Methanisation of Porgolovo” project in St Petersburg;

- financial assets available for sale amounting to 356,653 thousand euro (246,407 thousand euro at December 31, 2005) the changes of which are reported in the following table:

Financial assets available for sale thousands of euro	
Amount at December 31, 2005	**246,407**
Changes during the year:	
– acquisition and capital increases	–
– sales	(14,007)
– revaluations (*)	124,253
– writedowns (*)	–
– reclassifications	–
– other changes	–
Total changes for the period	**110,246**
Amount at December 31, 2006	**356,653**

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

Changes during the year mainly concerned:

- the sale of the investment in AEM Torino S.p.A. for 14,007 thousand euro, including its purchase cost and revaluations at fair value;
- the increase in the valuation at fair value of the investment in ATEL SA., positive for 124,253 thousand euro.

Investments in subsidiaries and associates are summarised in attachment no. 3 of the notes. It indicates for each item opening balances, changes for the year, writedowns and writebacks carried out in. As required to be disclosed by Art. 2427 no.5 of the Italian Civil Code, attachment no. 4 of these notes lists investments in subsidiaries and associates). A table listing relevant investments is also attached, pursuant to article 126 of CONSOB resolution 11971 dated May 14, 1999 (attachment no. 5).

A 5) Deferred tax assets

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Deferred tax assets	**72,168**	**(2,177)**	**69,991**

This caption amounts to 69,991 thousand euro (72,168 thousand euro at December 31, 2005) and 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 6) Other non-current receivables

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other non-current receivables	**228**	**12**	**240**

Other non-current receivables amount to 240 thousand euro (228 thousand euro at December 31, 2005) and relate principally to guarantee deposits and amounts due from personnel for loans granted.

B) Current assets

B 1) Inventories

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Inventories	**715**	**1**	**716**
– *Materials*	*901*	*23*	*924*
– *Inventory obsolescence reserve*	*(186)*	*(22)*	*(208)*
– *Fuel*	–	–	–
– *Other*	–	–	–
Raw, ancillary and consumable materials	**715**	**1**	**716**
– *Finished products and goods for resale*	–	–	–
– *Contract work in progress*	–	–	–
– *Advance payments*	–	–	–

At December 31, 2006 inventories total 716 thousand euro (715 thousand euro at December 31, 2005), and refer to inventories of materials at the end of 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 208 thousand euro, increased by 22 thousand euro at December 31,

2005, it was set aside to write down materials that are slow-moving in the medium term, as well as those that are considered obsolete.

The weighted average cost of materials in inventory does not differ substantially from their current value at the end of the period.
Fuel inventories are valued at the lower of weighted average cost and market.

B 2) Current financial assets

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Trading investments (HFT)	–	–	–
Financial assets held to maturity (HTM)	3	–	3
Loans and receivables (L&R)	–	–	–
Financial assets available for sale	–	–	–
Other financial assets	–	–	–
Financial assets due from related parties	274,475	(181,366)	93,109
Total	**274,478**	**(181,366)**	**93,112**

This caption shows a balance of 93,112 thousand euro at December 31 2006; the decrease of 181,366 thousand euro compared with December 31, 2005 is due to lower financial receivables from subsidiaries, partly due to the investment disposals during 2006.

B 3) Current derivatives

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Current derivatives	**34,395**	**(7,227)**	**27,168**

At December 31, 2006 this caption totals 27,168 thousand euro (34,395 thousand euro at December 31, 2005) and is made up of:
– 11,400 thousand euro from the valuation at fair value of derivatives hedging the interest rate risk on the bond loan;
– 15,439 thousand euro from the valuation at fair value of derivatives hedging the interest rate risk on revolving bank lines of credit;
– 329 thousand euro from the valuation at fair value of derivatives hedging the interest rate risk on the loan granted to AEM Elettricità S.p.A. by Cassa Depositi e Prestiti. The derivative contract was stipulated by AEM S.p.A. in its quality of parent company.

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 partly offset by the rise in the value of the derivatives hedging committed bank credit lines.

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

B 4) Taxes receivable

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Tax receivables	20,126	(16,465)	3,661

At December 31, 2006 this item amounts to 3,661 thousand euro (20,126 thousand euro at December 31, 2005) and refers mainly to VAT receivable 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 16,465 thousand euro, is mainly due to a reduction in VAT receivables.

B 5) Trade and other receivables

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Receivables from customers			
Receivables from customers	14,626	(7,680)	6,946
Reserve for bad and doubtful accounts	(465)	(4)	(469)
Total receivables from customers	**14,161**	**(7,684)**	**6,477**
Receivables from affiliates			
– parent entity	49,672	(25,800)	23,872
– subsidiaries	159,841	(74,349)	85,492
– associates	636	6,254	6,890
Total receivables from affiliates	**210,149**	**(93,895)**	**116,254**
Other receivables			
– advances to suppliers	645	952	1,597
– due from personnel	73	(29)	44
– miscellaneous receivables	5,871	(4,113)	1,758
Total other receivables	**6,589**	**(3,190)**	**3,399**
Total	**230,899**	**(104,769)**	**126,130**

At December 31, 2006 trade and other receivables amount to 126,130 thousand euro (230,899 thousand euro at December 31, 2005) and decrease by 104,769 thousand euro mainly due to:

- 7,684 thousand euro, a decrease in trade receivables, essentially lower receivables for services, especially from ASM Brescia S.p.A.;
- 93,895 thousand euro, a decrease in receivables from affiliates, due to lower receivables from the parent entity (because of sales of investments during the year) and a decline in receivables from the parent entity (for lower supplies of services, partly offset by the increase in amounts due from affiliates);
- 3,190 thousand euro, to a decrease in other receivables in particular in receivables for damage compensation.

At December 31, 2006 the reserve for bad and doubtful accounts amounted to 469 thousand euro, an increase of 4 thousand 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:

thousands 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	465	84	(74)	(6)	469

B 6) Cash and cash equivalents

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Bank and postal deposits	13,377	(8,558)	4,819
Cash and cash equivalents	166	19	185
Receivables for financial transactions	–	–	–
Total	**13,543**	**(8,539)**	**5,004**

Liquid funds at December 31, 2006 amount to 5,004 thousand euro (13,543 thousand euro at December 31, 2005) and decrease by 8,539 thousand euro compared with the end of the previous year.
Bank deposits include interest accrued but not yet credited at the year-end.

B 7) Other current assets

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other non-current receivables	921	(141)	780

The total of 780 thousand euro (921 thousand euro at December 31, 2005) refers to accrued revenues collectible in future years and costs already incurred but pertaining to future years.

C) Non-current assets held for sale

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Non-current assets held for sale	–	500	500

These amount to 500 thousand euro and refer to non-current assets held for sale and, in particular, to the 41.11% investment in Mestni Plinovodi d.o.o. which was valued at the lower of book value on reclassification and the fair value, net of selling costs This led to them being written down by 6,152 thousand euro.

LIABILITIES AND EQUITY

D) Shareholders' equity

Shareholders' equity, which at December 31, 2006 amounts to 2,250,554 thousand euro (2,062,816 thousand euro at December 31, 2005), is detailed in the table below:

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Share capital	936,025	–	936,025
(Treasury shares)	(22,756)	(2,316)	(25,072)
Legal reserve	85,152	8,407	93,559
Other reserves	904,420	164,919	1,069,339
Retained earnings	–	–	–
Net profit for the year	159,975	16,728	176,703
Total shareholders' equity	2,062,816	187,738	2,250,554

D 1) Share capital

At December 31, 2006 the share capital totals 936,025 thousand 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 total 25,072 thousand euro and refer to 16,159,850 treasury shares held by the company (14,841,850 treasury 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 93,559 thousand euro. The increase compared with the financial statements for the year ended at December 31, 2005 is equal to 8,407 thousand 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

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other reserves	904,420	164,919	1,069,339

Other reserves, amounting to 1,069,339 thousand euro at December 31, 2006 (904,420 thousand euro at December 31, 2005), include the cumulative effects of revaluations of prior periods. The increase for the year came to 164,919 thousand euro and concerned, for 46,165 thousand euro, the net profit allocation and the IAS adjustments of the previous year and, for 118,754 thousand euro, the change in reserves under IAS no. 39, net of the related tax effect.
Other reserves include:

- 377,682 thousand euro, of the undistributable reserve deriving from the spin-off that took place in 1999. This reserve becomes available for distribution as the transferee companies amortise the higher values that led to the gain on transfer;

- 231,055 thousand euro, of the restricted and undistributable reserve under arts. 6,1, letter b), and 7 of Decree 38 of February 28, 2005, for the valuation of the available for sale captions;
- 23,015 thousand euro, relating to application of the fair value option (IAS no. 39), net of the tax effect.

D 5) Net profit for the year

Net profit amounts to 176.703 thousand euro.

Please note that total provisions, amortisation, depreciation and value adjustments made pursuant to art. 109.4 letter B of the Income Tax Consolidation Act amount to 76,008 thousand euro, net of the reserve for deferred taxation for the amounts that have been deducted.

E) Liabilities

E 1) Non-current liabilities

E1 – 1) Medium/long term financial liabilities

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Non-convertible bonds	534,350	(26,700)	507,650
Convertible bonds	–	–	–
Payables to shareholders for loans	–	–	–
Due to banks	717,309	83,794	801,103
Due to other providers of finance	–	–	–
Derivatives	–	–	–
Finance lease payables	30,355	(5,700)	24,655
Securities issued	–	–	–
Total	1,282,014	51,394	1,333,408

Medium/long-term financial liabilities amount to 1,333,408 thousand euro (1,282,014 thousand euro at December 31, 2005) and increase by 51,394 thousand euro, as detailed below:

- a decrease of 26,700 thousand 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;

thousands of euro	Expiry	Nominal value in circulation	Amortised cost	Fair value
AEM S.p.A.	2013	500,000	498,074	507,650

- the increase in medium/long-term payables to banks of 83,794 thousand euro because of an increase in the portion of the drawdowns of revolving lines of credit falling due beyond 12 months, as a result of their renegotiation, partly offset by the reclassification to current liabilities of the portion of amounts due to banks falling due in the short term;
- the decrease of 5,700 thousand euro in lease payables mainly due to the reclassification under financial liabilities - current portion of payables to leasing companies for sale and lease-back transactions made by AEM S.p.A. in 2001 on the building located in Corso di Porta Vittoria, in Milan.

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

E1 – 2) Deferred tax liabilities

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Deferred tax liabilities	61,410	8,119	69,529

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

E1 – 3) Employee benefits

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Employee benefits	92,602	13,827	106,429

At December 31, 2006 this caption amounts to 106,429 thousand euro (92,602 thousand 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 22,120 thousand euro (19,635 thousand 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 decrease compared with the previous year amounts to 2,485 thousand euro and is due to the difference between provisions for the year, utilisations and other changes.

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 amounts to 84,309 thousand euro (72,967 thousand euro at December 31, 2005) and is made up of:
  - 40,641 thousand euro (33,118 thousand 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;
  - 39,942 thousand euro (36,316 thousand 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;

– 3,726 thousand euro (3,533 thousand 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%

Changes during the year are shown in the following table:

thousands of euro	Balance at 12.31.2005	Provision	Utilisations	Reclassification	Other changes	Balance at 12.31.2006
Severance indemnities	19,366	1,558	(1,783)	–	2,718	21,859
Payments in lieu of notice	269	–	–	28	(36)	261
Employee benefits	72,967	17,255	(4,932)	(28)	(953)	84,309
Total	**92,602**	**18,813**	**(6,715)**	**–**	**1,729**	**106,429**

E1 – 4) Provisions for risks

thousands of euro	Balance at 12.31.2005	Provision	Utilisations	Other changes	Balance at 12.31.2006
Provisions for risks	62,965	10,102	(810)	(358)	71,899

At December 31, 2006 these provisions amount to 71,899 thousand euro (62,965 thousand December 31, 2005) and refer to:

– potential charges relating to an outstanding dispute with local entities regarding local taxes, outstanding disputes with social security institutions and contingencies relating to water off-take surcharges, for a total of 71,824 thousand euro (62,385 thousand euro at December 31, 2005);

– provisions for outstanding disputes with personnel for 75 thousand euro (580 thousand euro at December 31, 2005).

E1 – 5) Other non-current liabilities

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other non-current liabilities	94,318	(94,318)	–

At December 31, 2006 this caption amounts to zero (94,318 thousand euro at December 31, 2005); The decrease 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%) exercisable in 2007.

E 2) Current liabilities

E2 – 1) Trade and other payables

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Advances	28,510	(26,055)	2,455
Trade payables	82,123	(18,756)	63,367
Trade payables to related parties:	47,404	7,157	54,561
– parent entity	342	50	392
– subsidiaries	44,099	7,644	51,743
– associates	2,963	(537)	2,426
Payables to social security institutions	8,417	123	8,540
Other payables	13,367	98,387	111,754
Total	**179,821**	**60,856**	**240,677**

Trade and other payables amount to 240,677 thousand euro (179,821 thousand euro at December 31, 2005) and report an increase of 60,856 thousand euro as a result of the following:

- the decrease, 26,055 thousand euro, in advances from customers mainly due to a decline in advance payments paid by the Municipality of Milan;
- the decrease, 18,756 thousand euro, in the exposure to suppliers;
- the increase, 50 thousand euro, in payables to the Municipality of Milan;
- the increase, 7,644 thousand euro, in payables to subsidiaries;
- the decrease, 537 thousand euro, in payables to associates;
- the increase, 123 thousand euro, in payables to social security institutions;

- the increase, 98,387 thousand euro, in other payables mainly due to reclassification of the payable to the shareholders of Edipower S.p.A. relating to AEM's share of the "put & call" options (4%) from "Other non-current liabilities".

E2 – 2) Tax liabilities

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Tax liabilities	48,396	(34,540)	13,856

Taxes payables amount to 13,856 thousand euro (48,396 thousand euro at December 31, 2005) and show a decrease of 34,540 thousand euro, mainly due to lower payables to the tax authorities for current taxes due to advances paid during the year.
These taxes are all due within one year.

E2 – 3) Short-term financial liabilities

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Non-convertible bonds	–	–	–
Convertible bonds	–	–	–
Payables to shareholders for loans	–	–	–
Due to banks	582,483	(475,040)	107,443
Due to other providers of finance	–	–	–
Derivatives	1,157	(1,157)	–
Finance lease payables	5,275	240	5,515
Securities issued	–	–	–
Financial payables to related parties	172,236	(20,802)	151,434
Total	**761,151**	**(496,759)**	**264,392**

Short-term financial liabilities amount to 264,392 thousand euro (761,151 thousand euro at December 31, 2005) and decrease by 496,759 thousand euro due to:

- a decrease of 475,040 thousand euro in amounts due to banks mainly for lower payables for revolving credit lines, mainly as a result of the reduction in net debt;
- a decrease amounting to 1,157 thousand euro, in the amount of derivatives which at December 31, 2006 show a zero balance;

- an increase of 240 thousand euro in financial lease payables mainly because of reclassification of the current portion of the residual payable, net of the repayments made in 2006;
- the decrease of 20,802 thousand 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, partly offset by the increase in financial payables to subsidiaries.

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

E2 – 4) Other liabilities

thousands of euro	Balance at 12.31.2005	Changes during the year	Balance at 12.31.2006
Other liabilities	4,850	1,364	6,214

At December 31, 2006 this caption amounted to 6,214 thousand euro (4,850 thousand 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.

G) Net financial debt

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

The following table gives details of net financial debt:

thousands of euro	12.31.2006	12.31.2005	Changes
Bonds - non-current portion	507,650	534,350	(26,700)
Bank loans - non-current portion	801,103	717,309	83,794
Finance leases - non-current portion	24,655	30,355	(5,700)
Total medium/long-term debt	**1,333,408**	**1,282,014**	**51,394**
Non-current financial assets to related parties	(1,137)	(1,055)	(82)
Medium/long-term loans	**(1,137)**	**(1,055)**	**(82)**
Total net non-current debt	**1,332,271**	**1,280,959**	**51,312**
Bank loans - current portion	107,443	582,484	(475,041)
Finance leases - current portion	5,515	5,275	240
Financial liabilities - parent entity	24,526	70,474	(45,948)
Financial liabilities - current portion		1,157	(1,157)
Current financial liabilities to related parties	126,908	101,762	25,146
Total short-term debt	**264,392**	**761,152**	**(496,760)**
Current financial assets	(27,168)	(34,395)	7,227
Current financial assets to related parties	(93,109)	(274,475)	181,366
Total short-term financial receivables	**(120,277)**	**(308,870)**	**188,593**
Cash and cash equivalents	**(5,003)**	**(13,543)**	**8,540**
Total net current debt	**139,112**	**438,739**	**(299,627)**
Net debt	**1,471,383**	**1,719,698**	**(248,315)**

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. 17.

As required by IFRS 5, the net results of the sale of the investments in Metroweb S.p.A., Serenissima Gas S.p.A. and Serenissima Energia S.r.l. and the valuation of the investment in Mestni Plinovodi d.o.o. are shown under the heading "Net result of non-current assets sold or held for sale".

1) Revenues

Revenues at December 31, 2006 amount to 322,316 thousand euro (295,570 thousand euro at December 31, 2005). The breakdown of the more important revenue items is as follows.

1.1 Revenues from sales

Revenues from sales thousands of euro	12.31.2006	12.31.2005
Sale of electricity	5,989	456
Sales of electricity to subsidiaries	855	1,127
Sales of materials to subsidiaries	–	77
Total revenues from sales	**6,844**	**1,660**

Revenues from sales amount to 6,844 thousand euro (1,660 thousand euro at December 31, 2005) and relate to:

- revenues from the sale to the Sole Buyer of power produced by the Boscaccia, Braulio, Grosotto and the new Viola Canal plants, for 77 million kWh, for 5,989 thousand euro (456 thousand euro at the end of the previous year);
- 855 thousand euro (1,127 thousand euro at December 31, 2005), revenues for sale of heat to AEM Calore & Servizi S.p.A. for 13.7 million thermal kWh (9.3 million thermal kWh at December 31, 2005). In the previous year this caption also included the sale of electricity, amounting to 12.4 million kWh, to AEM Trading S.r.l..

At December 31, 2006 there are no revenues for sales of materials to subsidiaries, which at December 31, 2005 showed a balance of 77 thousand euro.

1.2 Revenues from services

Revenues from services thousands of euro	12.31.2006	12.31.2005
Services on behalf of customers and third parties	9,832	18,102
Services rendered to the parent entity	25,560	24,917
Services to subsidiaries	109,134	97,008
Services to associates	737	1,138
Total revenues from services	**145,263**	**141,165**

Revenues from services amount to 145,263 thousand euro (141,165 thousand euro at December 31, 2005) and relate to:

- revenues for services on behalf of third parties which mainly comprise the recharge to ASM Brescia S.p.A. of the portion of operating costs and capital expenditure on the Cassano d'Adda power station, 9,832 thousand euro (18,102 thousand euro at December 31, 2005). The decrease compared with December 31, 2005 amounts to 8,270 thousand euro and is due to a decrease in revenues from ASM Brescia S.p.A., partly offset by an increase in revenues from services to third parties;
- revenues from services in favour of the Municipality of Milan which essentially refer to the installation and management of public illumination plants and urban traffic light systems, 25,560 thousand euro (24,917 thousand euro at December 31, 2005);
- revenues from services to subsidiaries for administrative, tax, legal, management and technical services provided by AEM S.p.A. to Group companies, in relation to the contracts signed with them and the sale of green certificates to AEM Trading S.r.l. for 109,134 thousand euro (97,008 thousand euro at December 31, 2005). The increase of 12,126 thousand euro is mainly due to higher revenues from AEM Trading S.r.l. for the sale of green certificates relating to hydroelectric plants, partly offset by a decrease in services to other subsidiaries, also because of the sale of investments during the year;
- revenues for services to associates for 737 thousand euro (1,138 thousand euro at the end of the previous year), for services rendered to the associates Malpensa Energia S.r.l., Plurigas S.p.A. and e-Utile S.p.A..

1.3 Other operating income

Other operating income thousands of euro	12.31.2006	12.31.2005
Rents paid by subsidiaries	158,854	125,892
Rents paid by associates	969	865
Excess risk provisions	535	655
Other revenues	5,521	5,688
Other revenues from subsidiaries	4,330	1,047
Total other revenues and income	**170,209**	**134,147**

Other operating income amounts to 170,209 thousand euro (134,147 thousand euro at December 31, 2005) and refers to:

- rents paid by subsidiaries, 158,854 thousand euro (125,892 thousand euro at December 31, 2005), essentially refer to the rent of the hydroelectric and thermoelectric plants to AEM Trading S.r.l.;
- rents paid by associates of 969 thousand euro (865 thousand euro at December 31, 2005);
- overprovision of certain reserves for specific risks, 535 thousand euro (655 thousand euro at December 31, 2005);
- miscellaneous revenues and income, which amount to 5,521 thousand euro (5,688 thousand euro at December 31, 2005), essentially refer to out-of-period income for overprovisions in prior years, to the sale of emission rights to third parties, to reimbursements for damages and penalties recognised by users, insurance companies and individuals and to sales of appliances and materials;
- revenues and miscellaneous income from subsidiaries relating principally to the sale of emission rights to AEM Trading S.r.l., as well as out-of-period income for differences in prior-year intercompany provisions for 4,330 thousand euro (1,047 thousand euro at December 31, 2005).

1.4 Other non-recurring income

Other non-recurring income thousands of euro	12.31.2006	12.31.2005
Other non-recurring income	–	18,598

At December 31, 2006 this caption shows a zero balance, whereas at December 31, 2005 it had a balance of 18,598 thousand euro, which related to reimbursement of the tax on hydroelectric yield for 2001 following publication of resolution 73/05 by the Authority for Electricity and Gas.

2) Operating costs

Operating costs at December 31, 2006 amount to 125,339 thousand euro (136,624 thousand euro at December 31, 2005). The main items in this caption are commented on below.

2.1 Raw materials and consumables used

Raw materials and consumables used thousands of euro	12.31.2006	12.31.2005
Purchases of other fuel	891	901
Purchases of materials	2,735	4,497
Purchases of materials from subsidiaries	238	123
Change in inventories of materials	(1)	48
Total raw materials and consumables used	**3,863**	**5,569**

The cost for purchasing raw and other materials and goods amounted to 3,863 thousand euro (5,569 thousand euro at December 31, 2005) and relate to:

- 891 thousand euro (901 thousand euro in 2005), for purchases of other fuel;
- 2,735 thousand euro (4,497 thousand euro in 2005) for the purchase of materials, shown in the financial statements net of capitalised costs relating to investments made during the year;
- 238 thousand euro (123 thousand euro at December 31, 2005) for the purchase of materials from the subsidiary AEM Elettricità S.p.A.;
- changes in inventories of materials show a negative balance of 1 thousand euro (positive for 48 thousand euro at December 31, 2005).

2.2 Services

Services thousands of euro	12.31.2006	12.31.2005
Electricity delivering and transmission charges	33	24
Subcontracted work	13,182	23,267
Services	29,930	28,979
Services from subsidiaries	39,979	39,975
Services from associates	14,175	14,129
Total services used	**97,299**	**106,374**

Services amount to 97,299 thousand euro (106,374 thousand euro at December 31, 2005) and relate to:

- 33 thousand euro (24 thousand euro at December 31, 2005) for the delivery of electricity;
- 13,182 thousand euro (23,267 thousand euro at December 31, 2005) for subcontracted work net of capitalised expenses, mainly on maintenance and repairs of Company assets;
- 29,930 thousand euro (28,979 thousand euro at December 31, 2005) for other costs, net of capitalised expenses, on professional services, mostly referring to legal, fiscal and technical consulting, and to the cost of surveillance services, communication activities, insurance coverage and other services, as well as statutory auditors' fees (for details, see attachment 7 to this report);
- 39,979 thousand euro (39,975 thousand euro at December 31, 2005) for services from subsidiaries, net of capitalised expenses, relating to:
  - 28,077 thousand euro (28,312 thousand euro in the previous year) for services received from AEM Elettricità S.p.A. for construction and maintenance work on urban illumination and traffic light systems in the Municipality of Milan, ordered from the subsidiary after this business had been transferred to it;
  - 6,088 thousand euro (6,217 thousand euro at December 31, 2005) of services received from AEM Calore & Servizi S.p.A. for management and maintenance of the company's buildings;
  - 532 thousand euro (726 thousand euro in 2005) of services received from AEM Energia S.p.A. and the purchase of natural gas for internal consumption from the same subsidiary;
  - 45 thousand euro (383 thousand euro at December 31, 2005) for various services received from AEM Gas S.p.A.;

– 232 thousand euro (427 thousand euro at the end of the previous year) for services received from AEM Service S.r.l. including credit recovery and front-office and back-office activities;
– 5,005 thousand euro (3,494 thousand euro at December 31, 2005) for various services received from AEM Trading S.r.l., principally relating to recharges of negative mismatches for the electricity produced by AEM S.p.A.'s power stations and injected into the network.

In the previous year, this caption included 416 thousand euro of services from Metroweb S.p.A. and AEM Trasmissione S.p.A., both of which were sold during the year.

- 14,175 thousand euro (14,129 thousand euro at December 31, 2004) for services from associates, net of capitalised expenses, for IT services provided by the associate e-Utile S.p.A..

2.3 Other operating costs

Other operating costs thousands of euro	12.31.2006	12.31.2005
Use of third-party assets	1,818	2,197
Use of assets of subsidiaries	–	89
Water taxes, duties and fees	17,565	13,680
Other expenses	4,626	8,682
Other expenses from subsidiaries	168	33
Total other operating costsi	**24,177**	**24,681**

Other operating costs at December 31, 2006 amount to 24,177 thousand euro (24,681 thousand euro at December 31, 2005) and are made up as follows:

- use of third-party assets for 1,818 thousand euro (2,197 thousand euro at December 31, 2005) which mainly relate to the annual licence fee for applications software and car rentals;
- taxes and water fees of 17,565 thousand euro (13,680 thousand euro at December 31, 2005) which essentially refer to the water fees paid to other entities and other taxes, which mainly consist of ICI and COSAP;
- other operating expenses of 4,626 thousand euro (8,682 thousand euro at December 31, 2005) which are general expenses mainly relating to membership fees paid to various entities, contributions and gifts to various recipients, as well as out-of-period expenses and underprovisions from prior years;

- out-of-period expenses from subsidiaries of 168 thousand euro (33 thousand euro at December 31, 2005).

At December 31, 2005 this caption included 89 thousand euro of rental expenses from the subsidiary AEM Elettricità S.p.A..

3) Labour costs

At December 31, 2006 labour cost, net of capitalised expenses, came to 66,951 thousand euro (54,005 thousand euro at December 31, 2005), made up as follows:

Labour costs thousands of euro	12.31.2006	12.31.2005
Wages and salaries	30,767	27,276
Social security charges	9,380	8,852
Severance indemnities	2,068	2,337
Retirement benefits and similar provisions	–	–
Other costs	24,736	15,540
Total labour costs	**66,951**	**54,005**

The increase in labour cost of 12,946 thousand euro is essentially due to the provisions made during the year to the Premungas pension fund, the discount granted to employees on gas and electricity, and the increase in costs deriving from new hires, promotions and contractual renewals.

The average number of employees is analysed below by grade:

	2006			2005		
	Electricity	Gas	Total	Electricity	Gas	Total
Managers	24	–	24	21	–	21
Supervisors	53	19	72	53	19	72
White-collar workers	449	172	621	392	146	538
Blue-collar workers	133	1	134	149	2	151
Total	**659**	**192**	**851**	**615**	**167**	**782**

This item also includes the directors' fees paid by AEM S.p.A., as detailed in attachment 6 to these notes.

4) Gross profit from operations

In light of these movements, the gross profit from operations at December 31, 2006 amounts to 130,026 thousand euro (104,942 thousand euro at December 31, 2005).

5) Depreciation and amortisation, provisions and writedowns

Depreciation and amortisation, provisions and writedowns thousands of euro	12.31.2006	12.31.2005
Amortisation of intangible assets	4,793	4,107
Depreciation of property, plant and equipment, of which:	41,395	35,193
– *1. ordinary depreciation*	*27,383*	*21,933*
– *2. depreciation of transferable assets*	*14,012*	*13,260*
Other writedowns of non-current assets	–	173
Writedown of receivables included among current assets and liquid funds	84	10
Provisions for risks and charges	10,102	40,022
Total depreciation and amortisation, provisions and writedowns	**56,374**	**79,505**

Depreciation and amortisation, provisions and writedowns amount to 56,374 thousand euro (79,505 thousand euro at December 31, 2005) and are made up as follows:

- amortisation of 4,793 thousand euro (4,107 thousand euro at December 31, 2005); this is the amortisation charge for the year of the costs incurred to purchase applications software;
- depreciation of 41,395 thousand euro (35,193 thousand euro at December 31, 2005), of which 14,012 thousand euro (13,260 thousand euro at December 31, 2005) for depreciation of freely transferable assets. The increase in depreciation compared over the year is attributable to the start-up of the new plants during 2006. 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, based on current regulations. The depreciation relates to leasehold improvements, such as maintenance on the building in Corso di Porta Vittoria, Milan, which are amortised over the duration of the lease-back contract;
- the writedown of receivables included in current assets, for 84 thousand euro (10 thousand euro at December 31, 2005), in order to adjust receivables from customers to their estimated realisable value;

- provisions for risks and charges of 10,102 thousand euro (40,022 thousand euro at December 31, 2005) mainly for disputes with social security institutions and local government entities.

At December 31, 2005 this caption included writedowns of property, plant and equipment of 173 thousand euro.

6) Profit from operations

As a result of the above, profit from operations amounts to 73,653 thousand euro (25,437 thousand euro at December 31, 2005).

12) Financial costs

Financial costs show a positive balance of 83,864 thousand euro (141,801 thousand euro at December 31, 2005). At December 31, 2005 financial costs included the gain of 50,272 thousand euro realised on the sale of the investment in Fastweb S.p.A..

Significant items are analysed in notes 7, 8, 9, 10 and 11 below.

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

Gains/losses on revaluation of financial assets available for sale thousands of euro	12.31.2006	12.31.2005
Income from revaluations of financial assets	–	472
a) Of investments	–	472
Losses from revaluations of financial assets	–	–
a) Of investments	–	–
Total gains/losses on revaluation of financial assets available for sale	**–**	**472**

Gains/losses on revaluation of financial assets show a zero balance at December 31, 2006 (a positive balance of 472 thousand euro at December 31, 2005), for the valuation of the investment in Aem Torino S.p.A..

8) Other gains/losses on derivatives

Other gains (losses) from derivatives thousands of euro	12.31.2006	12.31.2005
Income on financial derivatives	23,994	12,194
Charges on financial derivatives	396	472
Total other gains/losses on derivatives	**23,598**	**11,722**

This caption shows a positive balance amounting to 23,598 thousand euro (11,722 thousand euro at December 31, 2005), made up as follows:

- gains on derivatives for 23,994 million euro (12,194 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;
- charges on derivatives for 396 thousand euro (472 thousand euro at December 31, 2005) which essentially relate to the fair value of the derivative subscribed by AEM S.p.A. on the loan granted by Cassa Depositi e Prestiti to AEM Elettricità S.p.A..

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

9) Non-recurring gains/losses on the elimination of financial assets available for sale

Non-recurring gains/losses on the elimination of financial assets available for sale thousands of euro	12.31.2006	12.31.2005
Gains on disposal of financial assets	337	50,272
Losses on disposal of financial assets	–	–
Total non-recurring gains/losses on the elimination of financial assets available for sale	**337**	**50,272**

At December 31, 2006 the gains on disposal of financial assets amount to 337 thousand euro (50,272 thousand euro at December 31, 2005) and relate to gains realised on the sale of another portion of the investment in Zincar S.r.l. and the investment in AEM Torino S.p.A..
At December 31, 2005 this caption, which showed a balance of 50,272 thousand euro, related to the gains realised on the disposal of the investments in Fastweb S.p.A. and Zincar S.r.l..

10) Financial charges

Financial charges thousands of euro	12.31.2006	12.31.2005
Interest on current account with subsidiaries	3,956	7,469
Interest on current account with associates	–	11
Interest expense on current account with the parent entity	1,485	1,793
Other:	70,306	52,344
Interest on bond loan	*24,375*	*24,375*
Miscellaneous	*45,931*	*27,969*
Total financial charges	**75,747**	**61,617**

Financial charges total 75,747 thousand euro (61,617 thousand euro at December 31, 2005) and relate principally to:

- interest on current account with subsidiaries of 3,956 thousand euro (7,469 thousand euro in 2005) for interest accrued on intercompany current accounts;
- interest on current account with the parent entity of 1,485 thousand euro (1,793 thousand euro at the end of the previous year) for 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 70,306 thousand euro (52,344 thousand euro at December 31, 2005), mainly bond loan interest, as well as interest for the year on the revolving lines of credit arranged with various banks; the increase of 17,962 thousand euro is due to the higher average level of debt during the year, compared with the previous year.

At December 31, 2005, this caption included 11 thousand euro of interest on current account with the associate Zincar S.r.l. for financial charges relating to the current account contract that applied up to June 2005.

11) Income/losses from financial assets

Income (losses) from financial assets thousands of euro	12.31.2006	12.31.2005
11.1) Dividend income	126,861	126,808
11.2) Income from receivables/securities included in non-current assets	419	564
11.3) Income from receivables/securities included in current assets	8,403	13,759
11.4) Exchange gains and losses	(8)	(180)
Total income (losses) from financial assets	**135,675**	**140,951**

Income from financial assets, at December 31, 2006, total 135,675 thousand euro (140,951 thousand euro at December 31, 2005) and relates to:

- dividend income of 126,861 thousand euro (126,808 thousand euro at December 31, 2005) which relates to dividends distributed by the subsidiaries for 111,260 thousand euro, by the associates for 12,110 thousand euro and from certain other investments held by AEM S.p.A. for 3,491 thousand euro;
- income from receivables/securities included in current assets of 419 million euro (564 thousand euro at December 31, 2005), and relates to interest on fixed-income securities and other receivables;
- income from receivables/securities included in current assets for 8,403 thousand euro (13,759 thousand euro at December 31, 2005), which concern interest on current account with subsidiaries of 1,588 thousand euro (10,550 thousand euro at December 31, 2005) and interest on bank deposits and miscellaneous receivables of 6,815 thousand euro (3,209 thousand euro at December 31, 2005);
- exchange gains/losses which show a negative balance of 8 thousand euro (a negative balance of 180 thousand euro at December 31, 2005) deriving from the difference between exchange gains of 519 thousand euro and losses of 527 thousand euro.

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

thousands of euro	12.31.2006	12.31.2005
Gains (losses) on disposal of property, plant and equipment	(2,733)	(2,462)

At December 31, 2006 they show a negative balance of 2,733 thousand euro (negative balance of 2,462 thousand euro at December 31, 2005) and relate to losses on disposal of fixed assets, mainly plant parts at the Grosio and Premadio power stations.

14) Income tax expense

Income tax expense thousands of euro	12.31.2006	12.31.2005
Current taxes	13,511	2,821
Deferred tax assets	956	(18,315)
Deferred tax liabilities	5,616	20,295
Total income tax expense	**20,083**	**4,801**
Current taxes allocated to caption 15	1,804	–
Total taxes during the year	**21,887**	**4,801**

The following table shows the breakdown of deferred tax assets and liabilities:

thousands of euro	Financial statements 12.31.2006
Deferred tax liabilities:	
Value differences in property, plant and equipment	42,779
Adoption of the finance lease standard (IAS 17)	5,855
Adoption of the financial instruments standard (IAS 39)	9,494
Other deferred tax liabilities	11,401
Total reserve for deferred taxation (A)	**69,529**
Deferred tax assets	
Prior year tax losses	–
Taxed risk provisions	48,907
Depreciation, amortisation and writedowns of non-current assets	5,422
Adoption of the financial instruments standard (IAS 39)	12,244
Other deferred tax assets	3,417
Total deferred tax assets (B)	**69,991**

Note that for IRES purposes, the following companies file for tax on a consolidated basis, together with AEM S.p.A., in accordance with arts. 117-129 of Decree 917/86: AEM Gas S.p.A., AEM Calore e 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.
As regards changes in the scope of consolidation, note that from 2006 the following companies no longer file for tax on a consolidated basis: Metroweb S.p.A., Serenissima Gas S.p.A., Serenissima Energia S.r.l. and AEM Trasmissione S.p.A., as they are no longer controlled by AEM S.p.A..

Deferred tax assets and liabilities determined at the time subsidiaries calculate their taxable income, again only for IRES purposes, are not transferred to the parent company, AEM S.p.A., but booked to the income statement of the individual subsidiary every time there is a real divergence between their taxable income and statutory pre-tax income due to the presence of temporary differences. The deferred tax assets and liabilities shown in the income statement of AEM S.p.A. have therefore been calculated exclusively on the temporary differences between its own taxable income and statutory pre-tax income.
In accordance with the interpretation contained in OIC 2 issued in May 2006, the current income tax (IRES) of AEM S.p.A. is calculated on its own taxable income, net of the adjustments for the Group tax return.
Also in compliance with OIC 2, the "income/charges from the consolidated tax filing system", which constitute, respectively, the remuneration/contra-entry for the transfer of a tax loss or taxable income to the parent company AEM, are shown in the balance sheet, unlike at December 31, 2005.
The method of booking income taxes adopted by Plurigas S.p.A. as per art. 115, Finance Consolidation Act, has changed compared with the previous year, in the interests of fiscal transparency.
In fact, based on the instructions given in OIC 2, the taxes calculated on income booked for transparency have all been recognised in the financial statements of the "transparent company" and no longer in those of the member companies.
Regional tax on business activities (IRAP) is not affected by the consolidated tax filing system and has therefore been calculated at a rate of 4.25% on the net production value, suitably adjusted as required by tax law. Deferred tax assets and liabilities are recorded in the income statement to provide a better representation of the tax charge for the period, taking into account the fiscal effects of temporary differences between book net profit and taxable income.
Deferred taxation has been taken into consideration for both IRES and IRAP purposes and deferred tax assets and liabilities are booked according to the balance sheet method.
At December 31, 2006 the income taxes for the year (IRES and IRAP) amount to 21,887 thousand euro (4,801 thousand euro at the end of the previous year), made up as follows:

- 10,222 thousand euro of current IRES;
- 5,094 thousand euro of current IRAP;
- 4,300 thousand euro of deferred tax liabilities for IRES purposes;
- 1,315 thousand euro of deferred tax liabilities for IRAP purposes;
- 1,114 thousand euro of deferred tax assets for IRES purposes;
- as a further adjustment of the previous items, 158 thousand euro of deferred tax assets for IRAP purposes.

The Company has made deductions for tax purposes (i.e. off-the-books) for 2006, pursuant to art. 109.4. b) of Decree 917/86, of 36,816 thousand euro, for higher depreciation and amortisation and higher provisions for bad and doubtful accounts.

Of the main permanent add-backs for IRES purposes we would mention in particular the non-deductible out-of-period expenses of 1,112 thousand euro, the loss on the sale of an investment of 7,775 thousand euro, the costs relating to the sale of investments of 5,152 thousand euro and payments of ICI for 3,310 thousand euro.

The following schedules are reconciliations between the theoretical tax charge and the effective tax charge for IRES and IRAP purposes.

IRES – Reconciliation between the effective tax charge and the theoretical tax charge

figures in euro		
Income before taxes	195,443,151	–
Theoretical tax charge	–	64,496,388
Permanent differences	(141,397,151)	–
Income before taxes adjusted for permanent differences	54,046,448	–
Temporary differences deductible in future years	29,424,814	–
Temporary differences deductible in future years	(47,177,299)	–
Reversal of prior year temporary differences	(5,319,619)	–
Taxable income	30,974,344	–
Current income taxes for the year	–	10,221,534

IRAP – Reconciliation between the effective tax charge and the theoretical tax charge

figures in euro		
Difference between production value and production costs	133,780,603	–
Irrelevant costs for IRAP purposes	22,765,733	–
Total	**156,546,336**	**–**
Theoretical tax charge (at 4.25%)	–	6,653,219
Temporary differences deductible in future years	4,377,707	–
Temporary differences deductible in future years	(36,334,535)	–
Reversal of prior year temporary differences	(4,730,085)	–
Taxable income for IRAP purposes	119,859,423	–
Current IRAP on income for the year	–	5,094,025

They analyse deferred tax assets and liabilities, together with the movements on equity reserves, as required by IFRS.

IRES - Deferred tax assets and liabilities pertaining to AEM S.p.A.

Taxable temporary differences

Description figures in euro	Deferred tax liabilities of the previous year			Reversals during current year			
	Taxable income	Rate	Tax	Taxable income	Rate	Tax	
Deferred capital gains (assets) relevant for IRAP purposes	9,666,167	33%	3,189,835	3,394,895	33%	1,120,315	
Deferred extraordinary capital gains	462,185	33%	152,521	231,093	33%	76,261	
Deductions made off-the-books as per art. 109 ITCA: prior year portion	86,023,935	33%	28,387,898	1,990,972	33%	657,021	
Deductions made off-the-books as per art. 109 ITCA: current year portion	–	33%	–	–	–	–	
	–	33%	–	–	33%	–	
Total	96,152,287	–	31,730,254 (*)	5,616,960	–	1,853,597	
Elimination of lease instalments	14,629,909	33%	4,827,870	–	33%	–	
Elimination of depreciation on land	2,596,491	33%	856,842	–	33%	–	
Severance indemnities	2,413,436	33%	796,433	–	33%	–	
Fair value of bond derivative	28,148,821	33%	9,289,111	–	33%	–	
Plurigas fiscal transparency	12,491,036	33%	4,122,042	11,724,812	33%	3,869,188	
Derivatives	5,367,648	33%	1,771,324	5,367,648	33%	1,771,324	
Elimination of bond related charges and deficit	620,739	33%	204,844	–	33%	–	
PEX (participation exemption) effect on investments	5,748,636	33%	1,897,050	–	33%	–	
	–	–	–	–	33%	–	
Total	72,016,716	–	23,765,516	17,092,460	–	5,640,512	

(*) Following the publication of Interpretation Document OIC 2, euro 916,392 of deferred tax liabilities provided for unremunerated consolidated losses was reclassified to payables for consolidated tax filing.

Increases during the year			Increases/utilisations - equity			Total deferred tax liabilities		
Taxable income	Rate	Tax	Taxable income	Rate	Tax	Taxable income	Rate	Tax
–	33%	–	–	33%	–	6,271,272	33%	2,069,520
–	33%	–	–	33%	–	231,092	33%	76,260
–	33%	–	–	33%	–	84,032,963	33%	27,730,878
36,815,660	33%	12,149,168	–	33%	–	36,815,660	33%	12,149,168
–	33%	–	–	33%	–	–	33%	–
36,815,660		**12,149,168**	**–**	**–**	**–**	**127,350,987**	**–**	**42,025,826**
–	33%	–	–	33%	–	14,629,909	33%	4,827,870
–	33%	–	–	33%	–	2,596,491	33%	856,842
–	33%	–	–	33%	–	2,413,436	33%	796,434
–	33%	–	–	33%	–	28,148,821	33%	9,289,111
–	33%	–	(766,224)	33%	(252,854)	–	33%	–
–	33%	–	–	33%	–	–	33%	–
–	33%	–	–	33%	–	620,739	33%	204,844
–	33%	–	11,127,863	33%	3,672,195	16,876,499	33%	5,569,245
–	33%	–	–	33%	–	–	33%	–
–	**–**	**–**	**10,361,639**	**–**	**3,419,341**	**65,285,895**	**–**	**21,544,345**

Deductible temporary differences

Description figures in euro	Prior year deferred tax assets			Reversals during current year			
	Taxable income	Rate	Tax	Taxable income	Rate	Tax	
Entertainment expenses	196,844	33%	64,959	94,519	33%	31,191	
Statutory depreciation in excess of fiscal depreciation	3,647,732	33%	1,203,752	–	33%	–	
Provision for inventory obsolescence	186,475	33%	61,537	–	33%	–	
Writedowns of property, plant and equipment	7,511,492	33%	2,478,792	–	33%	–	
Provision for bad and doubtful accounts in excess	478,770	33%	157,994	69,712	33%	23,005	
Productivity bonus and related charges	1,001,855	33%	330,612	1,001,855	33%	330,612	
Back pay and related charges	243,994	33%	80,518	243,994	33%	80,518	
Unpaid remuneration to directors	766,290	33%	252,876	766,290	33%	252,876	
Writedown of investments D.L. 209/2002	3,371,999	33%	1,112,760	1,995,762	33%	658,601	
Provision for employment risks	85,272,400	33%	28,139,892	541,561	33%	178,715	
Provision for risks	4,238,680	33%	1,398,764	–	33%	–	
Total	**106,916,531**	**–**	**35,282,455**	**4,713,693**	**–**	**1,555,519**	
Interest on Edipower debt	14,318,058	33%	4,724,959	14,220,764	33%	4,692,852	
Employee benefits	34,857,336	33%	11,502,921	–	33%	–	
Application of finance lease method	5,186,962	33%	1,711,697	–	33%	–	
Higher depreciation for component approach	1,579,727	33%	521,310	–	33%	–	
Fair value of bond	36,928,655	33%	12,186,456	–	33%	–	
Plurigas fiscal transparency	12,092,664	33%	3,990,579	11,724,812	33%	3,869,188	
Amortised cost on loans	400,721	33%	132,238	–	–	–	
Derivatives	1,157,203	33%	381,878	233,942	33%	77,201	
	–	33%	–	–	33%	–	
	106,521,326	**–**	**35,152,038**	**26,179,518**	**–**	**8,639,241**	

	Increases during the year			Increases/utilisations - equity			Total deferred tax assets		
	Taxable income	Rate	Tax	Taxable income	Rate	Tax	Taxable income	Rate	Tax
	18,850	33%	6,221	–	33%	–	121,176	33%	39,988
	1,810,703	33%	597,532	–	33%	–	5,458,435	33%	1,801,284
	21,551	33%	7,112	–	33%	–	208,026	33%	68,649
	–	33%	–	–	33%	–	7,511,492	33%	2,478,792
	–	33%	–	–	33%	–	409,058	33%	134,989
	1,106,819	33%	365,250	–	33%	–	1,106,819	33%	365,250
	557,357	33%	183,928	–	33%	–	557,357	33%	183,928
	931,992	33%	307,557	–	33%	–	931,992	33%	307,557
	–	33%	–	–	33%	–	1,376,237	33%	454,158
	14,235,770	33%	4,697,804	–	33%	–	98,966,609	33%	32,658,981
	625,790	33%	206,511	–	33%	–	4,864,470	33%	1,605,275
	19,308,832	**–**	**6,371,915**	**–**	**–**	**–**	**121,511,671**	**–**	**40,098,851**
	–	33%	–	(97,294)	33%	(32,10)	–	33%	–
	10,115,982	33%	3,338,274	(2,090,231)	33%	(689,776)	42,883,087	33%	14,151,419
	–	33%	–	–	33%	–	5,186,962	33%	1,711,697
	–	33%	–	5,900	33%	1,947	1,585,627	33%	523,257
	–	33%	–	(225,832)	33%	(74,525)	36,702,823	33%	12,111,932
	–	33%	–	(367,852)	33%	(121,391)	–	33%	–
	–		–	–	–	–	400,721	33%	132,238
	–	33%	–	(923,261)	33%	(304,676)	–	–	–
	–	33%	–	–	33%	–	–	33%	–
	10,115,982	**–**	**3,338,274**	**(3,698,570)**	**–**	**(1,220,528)**	**86,759,220**	**–**	**28,630,543**

The following table summarises the utilisations of deferred tax assets and liabilities for IRES purposes relating to Plurigas S.p.A. ("transparent company"), which are now accounted for in the books of the company in accordance with the interpretation contained in OIC 2.

IRES - Timing difference relating to plurigas s.p.a. under the fiscal transparency regime

Taxable temporary differences

Description figures in euro	Deferred tax liabilities of the previous year			
	Taxable income	Rate	Tax	Q. AEM (40%)
Deductions made off-the-books as per art. 109 ITCA: prior year portion	2,686,559	33%	886,564	354,626
Deductions made off-the-books as per art. 109 ITCA: current year portion	–	–	–	–
Total	2,686,559	–	886,564	354,626

Deductible temporary differences

Description figures in euro	Prior year deferred tax assets			
	Taxable income	Rate	Tax	Q. AEM (40%)
Entertainment expenses	2,229	33%	736	294
Provision for specific risks	4,095,220	33%	1,351,423	540,569
Productivity bonus and related charges	4,956	33%	1,635	654
Back pay and related charges	321,013	33%	105,934	42,374
Unpaid remuneration to directors	34,000	33%	11,220	4,488
Unrealised exchange losses	187,680	33%	61,934	24,774
Risk provision for personnel costs	127,456	33%	42,060	16,824
Total	4,772,554	–	1,574,943	629,977

Reversals during current year				Total deferred tax liabilities			
Taxable income	Rate	Tax	Q. AEM (40%)	Taxable income	Rate	Tax	Q. AEM (40%)
2,686,559	33%	886,564	354,626	–	33%	–	–
–	–	–	–	–	33%	–	–
2,686,559	**–**	**886,564**	**354,626**	**–**	**–**	**–**	**–**

Reversals during current year				Total deferred tax assets			
Taxable income	Rate	Tax	Q. AEM (40%)	Taxable income	Rate	Tax	Q. AEM (40%)
2,229	33%	736	294	–	33%	–	–
4,095,220	33%	1,351,423	540,569	–	33%	–	–
4,956	33%	1,635	654	–	33%	–	–
321,013	33%	105,934	42,374	–	33%	–	–
34,000	33%	11,220	4,488	–	33%	–	–
187,680	33%	61,934	24,774	–	33%	–	–
127,456	33%	42,060	16,824	–	33%	–	–
4,772,554	**–**	**1,574,943**	**629,977**	**–**	**–**	**–**	**–**

IRAP - Deferred tax assets and liabilities pertaining to AEM S.p.A.

Taxable temporary differences

Description figures in euro	Deferred tax liabilities of the previous year			Reversals during current year		
	Taxable income	Rate	Tax	Taxable income	Rate	Tax
Deferred capital gains (assets) relevant for IRAP purposes	9,666,166	4.25%	410,812	3,394,895	4.25%	144,283
Deductions made off-the-books as per art. 109 ITCA: prior year portion	82,365,988	4.25%	3,500,554	1,990,972	4.25%	84,616
Deductions made off-the-books as per art. 109 ITCA: current year portion	–	–	–	–	–	–
	–	4.25%	–	–	4.25%	–
Total	**92,032,154**	**–**	**3,911,366**	**5,385,867**	**–**	**228,899**
Elimination of lease instalments	14,629,909	4.25%	621,772	–	4.25%	–
Elimination of depreciation on land	2,596,491	4.25%	110,351	–	4.25%	–
	–	4.25%	–	–	4.25%	–
Total	**17,226,400**	**–**	**732,122**	**–**	**–**	**–**

Deducible temporary differences

Description figures in euro	Prior year deferred tax assets			Reversals during current year		
	Taxable income	Rate	Tax	Taxable income	Rate	Tax
Entertainment expenses	196,843	4.25%	8,366	94,519	4.25%	4,017
Statutory depreciation in excess of fiscal depreciation	3,647,732	4.25%	155,029	–	4.25%	–
Provision for inventory obsolescence	186,475	4.25%	7,925	–	4.25%	–
Writedowns of property, plant and equipment	7,511,492	4.25%	319,238	–	4.25%	–
Provision for risks	9,593,049	4.25%	407,705	561,263	4.25%	23,854
Total	**21,135,591**	**–**	**898,263**	**655,782**	**–**	**27,871**
Application of finance lease method	3,240,871	4.25%	137,737	–	4.25%	–
Higher depreciation for component approach	1,579,727	4.25%	67,138	–	4.25%	–
	–	4.25%	–	–	4.25%	–
	4,820,598	**–**	**204,875**	**–**	**–**	**–**

	Increases during the year			Increases/utilisations - equity			Total deferred tax liabilities		
	Taxable income	Rate	Tax	Taxable income	Rate	Tax	Taxable income	Rate	Tax
	–	4.25%	–	–	4.25%	–	6,271,271	4.25%	266,529
	–	4.25%	–	–	4.25%	–	80,375,016	4.25%	3,415,938
	36,334,535	4.25%	1,544,218	–	4.25%	–	36,334,535	4.25%	1,544,218
		4.25%	–	–	4.25%	–	–	4.25%	–
	36,334,535	–	1,544,218	–		–	122,980,822	–	5,226,685
	–	4.25%	–	–	4.25%	–	14,629,909	4.25%	621,772
	–	4.25%	–	–	4.25%	–	2,596,491	4.25%	110,351
	–	4.25%	–	–	4.25%	–	–	4.25%	–
	–	–	–	–	–	–	17,226,400	–	732,122

	Increases during the year			Increases/utilisations - equity			Total deferred tax assets		
	Taxable income	Rate	Tax	Taxable income	Rate	Tax	Taxable income	Rate	Tax
	18,850	4.25%	801	–	4.25%	–	121,175	4.25%	5,150
	1,810,703	4.25%	76,955	–	4.25%	–	5,458,435	4.25%	231,983
	21,551	4.25%	916	–	4.25%	–	208,026	4.25%	8,841
	–	4.25%	–	–	4.25%	–	7,511,492	4.25%	319,238
	2,526,603	4.25%	107,381	–	4.25%	–	11,558,389	4.25%	491,232
	4,377,707		186,053	–		–	24,857,517		1,056,444
	–	4.25%	–	–	4.25%	–	3,240,871	4.25%	137,737
	–	4.25%	–	5,900	4.25%	251	1,585,627	4.25%	67,389
	–	4.25%	–	–	4.25%	–	–	4.25%	–
	–	–	–	5,900	–	251	4,826,498	–	205,126

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

Positive balance of 42,002 thousand euro, which relates to the after-tax result deriving from the sale of the investments in Metroweb S.p.A., Serenissima Gas S.p.A., Serenissima Energia S.r.l. and AEM Trasmissione S.p.A., as laid down in IFRS 5 “Non-current assets held for sale and discontinued operations”, as well as from the writedown of the 41.11% investment in Mestni Plinovodi d.o.o., held for sale, which has been valued at fair value , net of selling costs.

See the section entitled “Other information” for further details.

16) Net profit for the year

The net profit for the year amounts to 176,703 thousand euro (159,975 thousand euro at December 31, 2005).

17) 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 and AEM S.p.A. relate to public illumination and traffic light services.
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.

Note on related party transactions

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. files for tax on a consolidated basis, as per articles 117 - 129 of Decree 917/86, together with its 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.

AEM S.p.A. also holds 24,000 thousand euro of the bonds issued by Metroweb S.p.A., which is now controlled by Burano S.p.A..

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

Balance sheet thousands of euro	Total 2006	Of which with related parties				
		Subsidiary (1) companies	Associated (1) companies	Parent (2) company	Total related parties	% of caption
Assets:	**3,337,938**	**2,405,518**	**517,435**	**23,872**	**2,946,825**	**88.3%**
a) *Non-current assets*	*3,118,196*	*2,226,918*	*510,544*	–	*2,737,462*	*87.8%*
a3) Investments	2,736,407	2,226,918	509,489	–	2,736,407	100.0%
a4) Other non-current financial assets	381,789	–	1,055	–	1,055	0.3%
b) *Current assets*	*219,242*	*178,600*	*6,891*	*23,872*	*209,363*	*95.5%*
b2) Current financial assets	93,112	93,108	1	–	93,109	100.0%
b5) Trade receivables	126,130	85,492	6,890	23,872	116,254	92.2%
– Of which for consolidated tax filing	11,414	9,943	1,471	–	11,414	100.0%
c) *Non-current assets held for sale*	*500*	–	*500*	–	*500*	*100.0%*
Liabilities:	**505,069**	**178,651**	**2,426**	**24,918**	**205,995**	**40.8%**
e2) *Current liabilities*	*505,069*	*178,651*	*2,426*	*24,918*	*205,995*	*40.8%*
e2-1) Trade payables	240,677	51,743	2,426	392	54,561	22.7%
– Of which for consolidated tax filing	15,707	15,707	–	–	15,707	100.0%
e2-3) Short-term loans	264,392	126,908	–	24,526	151,434	57.3%

(1) Dealings between AEM S.p.A. and its direct subsidiaries and associates.

(2) Dealings between AEM S.p.A. and the Municipality of Milan.

Income statement millions of euro	Total 2006	Of which with related parties				
		Subsidiary (1) companies	Associated (1) companies	Parent (2) companies	Total related parties	% of caption
1) REVENUES	**322,316**	**273,173**	**1,706**	**25,560**	**300,439**	**93.2%**
1.1) Revenues from sales	6,844	855	–	–	855	12.5%
1.2) Revenues for services	145,263	109,134	737	25,560	135,431	93.2%
1.3) Other operating income	170,209	163,184	969	–	164,153	96.4%
2) OPERATING COSTS	**125,339**	**40,385**	**14,175**	**–**	**54,560**	**43.5%**
2.1) Raw materials and consumables used	3,863	238	–	–	238	6.2%
2.2) Services	97,299	39,979	14,175	–	54,154	55.7%
2.3) Other operating costs	24,177	168	–	–	168	0.7%
10) Financial charges	**75,747**	**3,956**	**–**	**1,485**	**5,441**	**7.2%**
11) Income from financial assets	**135,675**	**112,847**	**12,110**	**–**	**124,957**	**92.1%**

(1) Dealings between AEM S.p.A. and its direct subsidiaries and associates.

(2) Dealings between AEM S.p.A. and the Municipality of Milan.

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 62,375 thousand euro (73,261 thousand euro in the previous year).

Guarantees and commitments with third parties

These amount to 518,595 thousand euro (514,076 thousand euro at December 31, 2005) and refer to guarantee deposits lodged as security for commitments to third parties and to sureties given.
In particular, AEM S.p.A. guaranteed a 275,272 thousand euro loan made by Cassa Depositi e Prestiti S.p.A. to the subsidiary AEM Elettricità S.p.A.
As regards the investment in Edipower S.p.A., these guarantees include:

- 24,449 thousand euro, for the counter-guarantee to the associated company Blufare Ltd. for compliance with the obligations versus the Royal Bank of Scotland plc, which has a put right to sell the Edipower shares that it holds (1% of the share capital of Edipower S.p.A.). This right can be exercised from the fifth year after signing the co-investment agreement;
- 170,000 thousand euro, for the commitment by AEM S.p.A. to pay in capital and/or make a subordinated loan to guarantee the refinancing of Edipower S.p.A.

On January 29, 2007 Edipower S.p.A. stipulated a new line of credit for 2,000,000,000 euro with a pool of Italian and international banks to refinance the line stipulated in 2003, originally for 2,300,000,000 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 (1,406 thousand 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

As regards the Equity Swap and Forward Flexible on Edison's ordinary shares, AEM S.p.A. has issued a Deed of Guarantee and Indemnity, guaranteeing the performance of Delmi S.p.A.'s obligations.

Other information

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. and Metroweb S.p.A. were sold during the year, whereas the investments in Mestni Plinovodi d.o.o is 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. are shown under "Net result from non-current assets sold or held for sale".

The carrying value of Mestni Plinovodi d.o.o., has been booked to "Non-current assets held for sale and discontinued operations".

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

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.

100% of Metroweb S.p.A. was bought by Burano S.p.A., an Italian company, indirectly held 76.47% by Stirling Square Capital Partners, in which AEM also has a 23.53% interest (having invested 8,000 thousand euro).
AEM has also subscribed 24,000 thousand 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 232,000 thousand euro (including its net debt, which at December 31, 2005 amounted to around 200,000 thousand 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 200,000 thousand 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 118,000 thousand euro, AEM S.p.A. received proceeds of 123,000 thousand 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.

Figures at december 31, 2006

Assets and liabilities of companies held for sale thousands of euro	Investments in Mestni Plinovodi d.o.o.
Non-current assets	500
Current assets	–
Total assets	**500**
Non-current liabilities	–
Current liabilities	–
Total liabilities	**–**

Figures at december 31, 2006

Net result of non-current assets due to be sold thousands of euro	Investments in Mestni Plinovodi d.o.o.
Revenues from sales	–
Gross profit from operations	**–**
Depreciation, amortisation and provisions	–
Profit from operations	**–**
Financial charges, net	(6,152)
Income before taxes	**–**
Income taxes	–
Net result	**(6,152)**

Figures at december 31, 2006

Net result of non-current assets sold thousands of euro	Metroweb S.p.A.	Serenissima Gas S.p.A.	Serenissima Energia S.r.l.	AEM Trasmissione S.p.A.	Total
Gains	–	5,767	5,277	41,801	52,845
Losses	(10,045)	–	–	–	(10,045)
Dividends	–	1,943	457	2,954	5,354
Net result of non-current assets sold	**(10,045)**	**7,710**	**5,734**	**44,755**	**48,154**

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.

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. AEM S.p.A. did not take out any commodity hedges.

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 2,510,000 thousand 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 Finance and Administration Department to identify and propose suitable strategies to limit these types of risk.

At December 31, 2006, the structure of the AEM's medium and long-term debt was as follows, excluding financial debt to subsidiaries:
- 24% consisted of floating-rate loans,
- 1% consisted of fixed-rate loans,
- 75% 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 500,000 thousand euro with an annual fixed coupon of 4.875%;
- 600,000 thousand euro of revolving lines of credit at a 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, AEM S.p.A. 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 December 31, 2006, the valuation at fair value of the derivative is positive for 11,400 thousand euro.

The fair value of the bond loan, applying the “fair value option”, at December 31, 2006, came to 507,650 thousand 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 329 thousand euro.

With reference to the revolving committed lines of credit falling due on 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 15,439 thousand euro.

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.

In thousands of euro	Notional value maturity within 1 year		Notional value maturity in 1 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	–	–	–	–	–
– not considered hedges as per IAS 39	–	42,300	–	169,400	1,163,500
Total derivatives on interest rates	**–**	**42,300**	**–**	**169,400**	**1,163,500**

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

thousands of euro	
ASSETS	
A) NON-CURRENT ASSETS	**–**
A6) Non-current derivatives	–
B) CURRENT ASSETS	**27,168**
B1) Inventories	–
B3) Current derivatives	27,168
TOTAL ASSETS	**27,168**
E) LIABILITIES	
E1) NON-CURRENT LIABILITIES	**–**
E1- 1) Medium/long-term financial liabilities	–
– Amounts due to banks	–
– Derivatives	–
E2) CURRENT LIABILITIES	**–**
E2- 3) Short-term financial liabilities	–
– Amounts due to banks	–
– Derivatives	–
TOTAL LIABILITIES AND EQUITY	**–**

Income statement

The following table includes an analysis of the economic results for the year relating to the management of derivatives, as well as the effects of the fair value option applied to the bond loan from January 1, 2005.

thousands of euro	Realised	Change in *fair value* during the period	Amounts booked to the income statement
8) OTHER GAINS (LOSSES) FROM DERIVATIVES			
Interest rate and equity risk management, including:			
A. Financial income			
– considered hedges as per IAS 39	–	–	–
– not considered hedges as per IAS 39	4,850	19,144	23,994
Total financial income (A)	**4,850**	**19,144**	**23,994**
B. Financial charges			
– considered hedges as per IAS 39	–	–	–
– not considered hedges as per IAS 39	(959)	563	(396)
Total financial charges (B)	**(959)**	**563**	**(396)**
Margin on interest rate and equity management (A + B)	**3,891**	**19,707**	**23,598**
Total booked to financial costs	**3,891**	**19,707**	**23,598**

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 (excluding subsidiaries):

amounts in thousands of euro	Book balance 12.31.2006	Portions maturing within 12 months	Portions maturing beyond 12 months	Portions maturing at				
				12.31.2008	12.31.2009	12.31.2010	12.31.2011	beyond
Bonds	507,650	–	507,650	–	–	–	–	507,650
Non-banking loans	54,696	30,041	24,655	5,790	17,964	281	291	329
Bank loans	908,546	107,443	801,103	131,250	30,732	30,181	30,194	578,746
Total	**1,470,892**	**137,484**	**1,333,408**	**137,040**	**48,696**	**30,462**	**30,485**	**1,086,725**

Comparison between nominal balance and fair value

amounts in thousands of euro	*Fair value* 12.31.2006	Book balance 12.31.2006	*Fair value* 12.31.2005	Book balance 12.31.2005
Bonds	507,650	507,650	534,350	534,350
Non-banking loans	54,696	54,696	106,104	106,104
Bank loans	908,546	908,546	1,299,793	1,299,793
Total	**1,470,892**	**1,470,892**	**1,940,247**	**1,940,247**

Changes in the nominal value of the debt

amounts in thousands of euro	Book balance 12.31.2005	Change	Book balance 12.31.2006
Bonds	534,350	(26,700)	507,650
Non-banking loans	106,104	(51,408)	54,696
Bank loans	1,299,793	(391,247)	908,546
Total	**1,940,247**	**(469,355)**	**1,470,892**

Medium/long-term loans (excluding current portions)

amounts in thousands of euro	Book balance 12.31.2006	12.31.2006 Portions maturing beyond 12 months	12.31.2005 Portions maturing beyond 12 months	Variazione
Bonds	507,650	507,650	534,350	(26,700)
Non-banking loans	54,696	24,655	30,355	(5,700)
Bank loans	908,546	801,103	717,309	83,794
Total	**1,470,892**	**1,333,408**	**1,282,014**	**51,394**

Medium/long-term loans: current portions

amounts in thousands of euro	12.31.2006 Portions maturing within 12 months	12.31.2005 Portions maturing within 12 months
Non-banking loans	30,041	75,749
Bank loans	107,443	582,484
Total	**137,484**	**658,233**

At December 31, 2006 AEM S.p.A.'s financial statements include financial receivables and payables with subsidiaries and associates, as follows:

- financial receivables due from affiliates for 94,245 thousand euro;
- financial payables due to subsidiaries for 126,908 thousand euro.

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 which requires it to maintain a "BBB" rating for the entire duration of the 100,000 thousand euro loan and an investment grade rating for the entire duration of the 85,000 thousand euro 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 2,510,000 thousand euro.
These lines are not subject to any covenants nor does a specific level of rating have to be maintained.

Concessions

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

Concessions	Expiry	
	from	to
10 Concessions for hydroelectric plants.	2007	2043
AEM S.p.A. holds the concession for the urban illumination and traffic lights service in the Municipality of Milan.		

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.

Attachments

1 - Statement of changes in property, plant and equipment

Fixed assets materials thousands of euro	Net book value 12.31.2005	Changes during the year	
		Additions	
Land	16,142		
Total land	**16,142**		
Buildings	76,266	1,562	
Total buildings	**76,266**	**1,562**	
Total land and buildings	**92,408**	**1,562**	
Plant and machinery			
Production plant	266,086	509	
Transport lines			
Transformation stations	201		
Distribution networks	23,260	883	
Transferable plant and machinery	261,287	236	
Total plant and machinery	**550,834**	**1,628**	
Industrial and commercial equipment			
Miscellaneous equipment	3,504	240	
Mobile phones		1	
Total industrial and commercial equipment	**3,504**	**241**	
Other property, plant and equipment			
Furniture and fittings	1,275	278	
Electric and electronic office machines	8,083	1,031	
Vehicles	92		
Fixed assets worth less than 516 euro		21	
Total other property, plant and equipment	**9,450**	**1,330**	
Leasehold improvements	**2,464**	**2,041**	
Leased assets	**49,940**		
Construction in progress and advances			
Buildings	1,437	1,153	
Production plant	137,061	34,282	
Transport lines			
Transformation stations			
Distribution networks		275	
Miscellaneous equipment			
Other property, plant and equipment		281	
Advances	1,085	(1,085)	
Transferable assets in construction	37,047	9,594	
Total construction in progress and advances	**176,630**	**44,500**	
Total property, plant and equipment	**885,230**	**51,302**	

Changes during the year				Net book value 12.31.2006
Other changes	Disposals	Depreciation	Total changes during the year	
530			530	16,672
530			**530**	**16,672**
4,579		(2,707)	3,434	79,700
4,579		**(2,707)**	**3,434**	**79,700**
5,109		**(2,707)**	**3,964**	**96,372**
132,641	(2,718)	(17,747)	112,685	378,771
				–
		(20)	(20)	181
2,690		(1,137)	2,436	25,696
46,227		(14,012)	32,451	293,738
181,558	**(2,718)**	**(32,916)**	**147,552**	**698,386**
	(8)	(669)	(437)	3,067
		(1)		
	(8)	**(670)**	**(437)**	**3,067**
		(243)	35	1,310
		(1,885)	(854)	7,229
		(25)	(25)	67
		(21)		
		(2,174)	**(844)**	**8,606**
		(1,502)	**539**	**3,003**
		(1,426)	**(1,426)**	**48,514**
(617)	(602)		(66)	1,371
(139,747)			(105,465)	31,596
				–
				–
(56)			219	219
				–
			281	281
			(1,085)	
(46,247)			(36,653)	394
(186,667)	**(602)**		**(142,769)**	**33,861**
–	**(3,328)**	**(41,395)**	**6,579**	**891,809**

2 - Statement of changes in intangible assets

Fixed assets intangible thousands of euro	Net book value 12.31.2005	Changes during the year	
		Additions	
Industrial patents and intellectual property rights	14,871	2,692	
Concessions, licences, trademarks and similar rights	1,287	1,528	
Goodwill			
Assets in process of formation	624	1,861	
Other intangible assets			
Total intangible assets	**16,782**	**6,081**	

Changes during the year				Net book value 12.31.2006
Other changes	Changes of category	Amortisation	Total changes during the year	
	46	(3,477)	(739)	14,132
	888	(1,316)	1,100	2,387
				–
	(934)		927	1,551
1,581			1,581	1,581
1,581	**–**	**(4,793)**	**2,869**	**19,651**

3 - Statement of changes in investments in subsidiaries and associates

Investments in thousands of euro	Book Value 12.31.2005	Changes during the year 2006	
		Increases	Decreases
Long-term financial assets			
Subsidiaries:			
Metroweb S.p.A.	50,656		(38,736)
AEM Elettricità S.p.A.	568,205		
AEM Gas S.p.A.	643,825		
AEM Trasmissione S.p.A.	77,566		(77,566)
AEM Energia S.p.A.	58,761		
AEM Service S.r.l.	12,405		
AEM Trading S.r.l.	99		
AEM Calore & Servizi S.p.A.	8,099		
Serenissima Gas S.p.A.	16,700		(16,700)
Serenissima Energia S.r.l.	721		(721)
Delmi S.p.A.	935,115		
Valdisotto Energia S.r.l.		399	
Proaris S.r.l.		10	
Total subsidiaries	**2,372,152**	**409**	**(133,723)**
Associates:			
Aem-Bonatti S.c.a.r.l. (in liquidation) (1)	5		
Malpensa Energia S.r.l.	2,531		
e-Utile S.p.A. (2)	268		
Mestni Plinovodi d.o.o.	6,652		
Plurigas S.p.A.	320		
Zincar S.r.l. (6)	86		(23)
Società Servizi Valdisotto S.p.A. (4)	2,073		
Alagaz S.p.A. (1)	8		
Ecodeco S.r.l.	70,454		
Edipower S.p.A. (3)	398,768		
Burano S.p.A.			
ACSM S.p.A. (5)		23,079	
Total associates	**481,165**	**23,079**	**(23)**
Other companies:			
Bluefare Ltd.	2		
AGAM S.p.A.	17,439		
Consorzio DIX.IT (in liquidation)	738		
Consorzio Milano Sistema	25		
Atel Aare - Tessin AG für Elektrizität	213,074		
Asm Sondrio S.p.A.	874		
CESI (Italian Electrotechnical Testing Centre)	165		
Emittenti Titoli S.p.A.	78		
AEM Torino S.p.A.	14,007		(14,007)
AVIO Valtellina S.p.A.	5		
Total other companies	**246,407**	**–**	**(14,007)**
Total	**3,099,724**	**23,488**	**(147,753)**

(1) Figures at December 31, 2006 not available.
(2) Figures at September 30, 2006.
(3) The percentage shown here assumes that all of the put option rights are exercised.
(4) Half-year figures at June 30, 2006.
(5) Quarterly figures at September 30, 2006 including the increase in capital of October 2006.
(6) Quarterly figures at September 30, 2006.

Changes during the year 2006		Book Value 12.31.2006	Portion of equity		
Writedowns	Other changes		% held	Equity 12.31.2006	Amount pro quota
	(11,920)				–
		568,205	99.99%	578,025	577,967
		643,825	99.99%	650,431	650,366
					–
		58,761	99.99%	65,135	65,128
		12,405	100.00%	11,924	11,924
		99	100.00%	103,832	103,832
		8,099	100.00%	2,070	2,070
					–
					–
		935,115	51.00%	1,848,053	942,507
		399	100.00%	879	879
		10	100.00%	9	9
	(11,920)	**2,226,918**		**3,260,358**	**2,354,683**
		5	50.00%		–
		2,531	49.00%	8,127	3,982
		268	49.00%	3,494	1,712
(6,152)	(500)		41.11%	16,198	6,659
		320	40.00%	26,272	10,509
		63	27.00%	611	165
		2,073	35.45%	7,340	2,602
		8	35.00%		–
		70,454	30.00%	100,955	30,287
		398,768	20.00%	2,032,806	406,561
	11,920	11,920	23.53%	33,925	7,983
		23,079	20.00%	83,520	16,704
(6,152)	**11,420**	**509,489**		**2,313,248**	**487,163**
		2	20.00%		–
		17,439	17.49%		–
		738	14.28%		–
		25	10.00%		–
	124,253	337,327	5.76%		–
		874	3.99%		–
		165	1.87%		–
		78	1.85%		–
					–
		5	0.19%		–
–	**124,253**	**356,653**	**–**	**–**	**–**
(6,152)	**123,753**	**3,093,060**	**–**	**5,573,606**	**2,841,846**

4/1 - List of investments in subsidiaries

Company in thousands of euro	Registered office	Currency	Share capital 12.31.2006	
Subsidiaries:				
AEM Elettricità S.p.A.	Milan	Euro	520,000	
AEM Gas S.p.A.	Milan	Euro	572,000	
AEM Energia S.p.A.	Milan	Euro	104	
AEM Service S.r.l.	Milan	Euro	12,405	
AEM Trading S.r.l.	Milan	Euro	99	
AEM Calore & Servizi S.p.A.	Milan	Euro	1,800	
Delmi S.p.A.	Milan	Euro	1,466,868	
Valdisotto Energia S.r.l.	Milan	Euro	52	
Proaris S.r.l.	Milan	Euro	10	

	Shareholders' equity 12.31.2006	Result 12.31.2006	% held	Amount pro quota (a)	Book value (b)	Difference (a – b)
	578,025	2,256	99.99%	577,967	568,205	9,762
	650,431	3,241	99.99%	650,366	643,825	6,541
	65,135	(1,264)	99.99%	65,128	58,761	6,367
	11,924	306	100%	11,924	12,405	(481)
	103,832	92,597	100%	103,832	99	103,733
	2,070	(336)	100%	2,070	8,099	(6,029)
	1,848,053	12,188	51%	942,507	935,115	7,392
	879	490	100%	879	399	480
	9	(1)	100%	9	10	(1)

4/2 - List of investments in associates

Company in thousands of euro	Registered office	Currency	Share capital 12.31.2006
Società Servizi Valdisotto S.p.A. (4)	Valdisotto (SO)	Euro	5,837
Malpensa Energia S.r.l.	Segrate (MI)	Euro	5,200
Alagaz S.p.A. (1)	San Pietroburgo (Federazione Russa)	Euro	22
Mestni Plinovodi d.o.o. (amounts in euro at an exchange rate of SIT on 12.31.2006 amounting to sit 239.64 per euro)	Capodistria (Slovenia)	Euro	15,952
Plurigas S.p.A.	Milan	Euro	800
e-Utile S.p.A. (2)	Milan	Euro	1,000
Zincar S.r.l. (6)	Milan	Euro	100
Ecodeco S.r.l.	Milan	Euro	7,469
Edipower S.p.A. (3)	Milan	Euro	1,441,300
Burano S.p.A.	Milan	Euro	10,200
ACSM S.p.A. (5)	Milan	Euro	46,871
AEM- BONATTI S.c.a.r.l. (in liquidation) (1)	Milan	Euro	10

(1) Figures at December 31, 2006 not available.
(2) Figures at September 30, 2006.
(3) The percentage shown here assumes that all of the put option rights are exercised.
(4) Half-year figures at June 30, 2006.
(5) Quarterly figures at September 30, 2006 including the increase in capital of in October 2006.
(6) Quarterly figures at September 30, 2006.

	Shareholders' equity 12.31.2006	Result 12.31.2006	% held	Amount pro quota (a)	Book value (b)	Difference (a – b)
	7,340	153	35.45%	2,602	2,073	529
	8,127	18	49%	3,982	2,531	1,451
	–	–	35%	–	8	(8)
	16,198	26	41.11%	6,659	500	6,159
	26,272	9,687	40%	10,509	320	10,189
	3,494	993	49%	1,712	268	1,444
	611	22	27%	165	63	102
	100,955	15,251	30%	30,287	70,454	(40,168)
	2,032,806	27,777	20%	406,561	398,768	7,793
	33,925	(74)	23.53%	7,983	11,920	(3,937)
	83,520	1,057	20%	16,704	23,079	(6,375)
	–	–	50%	–	5	(5)

5 - Schedule of relevant investments pursuant to article 126 of CONSOB resolution 11971 of May 14 1999

Name	Registered office	% of voting capital held	How held	Company that holds the investment directly
AEM Service S.r.l.	Milan	100.00%	Owned	AEM S.p.A.
AEM Trading S.r.l.	Milan	100.00%	Owned	AEM S.p.A.
AEM Calore & Servizi S.p.A.	Milan	100.00%	Owned	AEM S.p.A.
Proaris S.r.l.	Milan	100.00%	Owned	AEM S.p.A.
Valdisotto Energia S.r.l.	Valdisotto (SO)	100.00%	Owned	AEM S.p.A.
AEM Elettricità S.p.A.	Milan	99.99%	Owned	AEM S.p.A.
AEM Gas S.p.A.	Milan	99.99%	Owned	AEM S.p.A.
AEM Energia S.p.A.	Milan	99.99%	Owned	AEM S.p.A.
Delmi S.p.A.	Milan	51.00%	Owned	AEM S.p.A.
Aem-Bonatti S.c.a.r.l. (in liquidazione)	Milan	50.00%	Owned	AEM S.p.A.
Transalpina di Energia S.r.l.	Milan	50.00%	Owned	Delmi S.p.A.
Malpensa Energia S.r.l.	Milan	49.00%	Owned	AEM S.p.A.
e-Utile S.p.A.	Milan	49.00%	Owned	AEM S.p.A.
Mestni Plinovodi d.o.o.	Koper (Slovenia)	41.11%	Owned	AEM S.p.A.
Plurigas S.p.A.	Milan	40.00%	Owned	AEM S.p.A.
Zincar S.r.l.	Milan	27.00%	Owned	AEM S.p.A.
Burano S.p.A.	Milan	23.53%	Owned	AEM S.p.A.
Società Servizi Valdisotto S.p.A.	Valdisotto (SO)	35.45%	Owned	AEM S.p.A.
Alagaz S.p.A.	St Petersburg (Russia)	35.00%	Owned	AEM S.p.A.
Ecodeco S.r.l.	Milan	30.00%	Owned	AEM S.p.A.
Bluefare Ltd.	London	20.00%	Owned	AEM S.p.A.
Utilia S.p.A.	Rimini	20.00%	Owned	AEM Service S.r.l.
A.G.A.M. S.p.A.	Monza (MI)	17.49%	Owned	AEM S.p.A.
A.C.S.M. S.p.A.	Como	20.00%	Owned	AEM S.p.A.
Edipower S.p.A.	Milan	16%	Owned	AEM S.p.A.

6 - 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 from	to	Emoluments for the position	Bonuses and other incentives	Other remuneration	Total
Zuccoli Giuliano	Chairman	01.01.06	12.31.06	540,000.00	790,000.00	57,000.00	1,387,000.00
	Director	01.01.06	12.31.06	39,496.00	–	–	39,496.00
Sciumè Alberto	Deputy Chairman	01.01.06	12.31.06	60,000.00	–	54,000.00	114,000.00
	Director	01.01.06	12.31.06	39,496.00	–	–	39,496.00
Randazzo Francesco	Director	01.01.06	12.31.06	39,496.00	–	45,000.00	84,496.00
Oberti Paolo	Director	01.01.06	12.31.06	39,496.00	–		39,496.00
Scarselli Aldo	Director	01.01.06	12.31.06	39,496.00	–	49,000.00	88,496.00
Mauri Mario	Director	01.01.06	12.31.06	39,496.00	–	46,000.00	85,496.00
Taormina Antonio	Director	01.01.06	12.31.06	39,496.00	–	–	39,496.00
Cassinelli Dario	Director	01.01.06	12.31.06	39,496.00	–	12,000.00	51,496.00
Galassi Luigi	Director	01.01.06	12.31.06	39,496.00	–	10,000.00	49,496.00
TOTAL				955,464.00	790,000.00	273,000.00	2,018,464.00
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

7 - Remuneration of the Board of Statutory Auditors

Name	Position	Duration of the position from	to	Emoluments for the position	Bonuses and other incentives	Other remuneration	Total
Fossati Alfredo	Chairman 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
Total				**112,083.00**	**–**	**–**	**112,083.00**

AEM ELETTRICITÀ S.p.A.

Registered office: Milan
Share capital: Euro 520,000,000
% held: 99.99% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	630,846	598,990
Value added	120,241	120,872
Gross profit from operations	91,786	86,853
Profit from operations	14,874	5,111
Income before extraordinary items	7,316	487
Income before taxes	7,316	813
Net profit (loss) for the year	2,256	(2,780)
Current assets	334,560	347,221
Non-current assets	810,811	847,133
Current liabilities	263,760	275,788
Long-term liabilities and miscellaneous reserves	303,586	342,797
Shareholders' equity	578,025	575,769
Net financial position	(275,390)	(268,042)

AEM GAS S.p.A.

Registered office:	Milan
Share capital:	Euro 572,000,000
% held:	99.99% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	126,047	146,970
Value added	89,108	108,522
Gross profit from operations	73,183	90,706
Profit from operations	7,949	23,548
Income before extraordinary items	7,076	22,333
Income before taxes	7,076	22,322
Net profit (loss) for the year	3,241	12,256
Current assets	60,731	57,716
Non-current assets	748,678	758,176
Current liabilities	97,712	93,362
Long-term liabilities and miscellaneous reserves	61,266	56,091
Shareholders' equity	650,431	666,439
Net financial position	(46,243)	(28,973)

AEM ENERGIA S.p.A.

Registered office: Milan
Share capital: Euro 104,000
% held: 99.99% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	574,029	584,806
Value added	20,467	39,794
Gross profit from operations	16,549	35,808
Profit from operations	(1,838)	25,767
Current Result	(922)	26,292
Income before taxes	(922)	26,292
Net loss/Net profit for the year	(1,264)	15,368
Current assets	192,686	218,617
Non-current assets	17,715	24,605
Current liabilities	133,440	165,063
Long-term liabilities and miscellaneous reserves	11,826	2,461
Shareholders' equity	65,135	75,698
Net financial position	(36,283)	(25,725)

AEM SERVICE S.r.l.

Registered office:	Milan
Share capital:	Euro 12,405,294
% held:	100% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	31,968	30,706
Value added	15,947	15,955
Gross profit from operations	4,252	4,608
Profit from operations	1,068	20
Income before extraordinary items	1,364	108
Income before taxes	1,364	108
Net profit (loss) for the year	306	(630)
Current assets	21,445	19,033
Non-current assets	8,097	9,848
Current liabilities	8,371	8,737
Long-term liabilities and miscellaneous reserves	9,247	8,525
Shareholders' equity	11,924	11,618
Net financial position	14,340	7,388

AEM TRADING S.r.l.

Registered office:	Milan
Share capital:	Euro 99,000
% held:	100% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	1,388,550	1,087,093
Value added	151,841	105,306
Gross profit from operations	149,962	103,584
Profit from operations	147,365	103,414
Income before extraordinary items	150,574	105,058
Income before taxes	150,574	105,058
Net profit (loss) for the year	92,597	62,000
Current assets	420,720	274,642
Non-current assets	971	18,660
Current liabilities	316,166	203,634
Long-term liabilities and miscellaneous reserves	1,693	16,633
Shareholders' equity	103,832	73,035
Net financial position	103,086	45,231

AEM CALORE & SERVIZI S.p.A.

Registered office:	Milan
Share capital:	Euro 1,800,000
% held:	100% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	99,835	102,902
Value added	15,282	13,409
Gross profit from operations	4,277	1,737
Profit from operations	769	(2,917)
Income (loss) before extraordinary items	1,206	(2,985)
Income (loss) before taxes	649	3,658
Net loss/Net profit for the year	(336)	994
Current assets	66,872	74,799
Non-current assets	7,034	7,296
Current liabilities	62,012	70,599
Long-term liabilities and miscellaneous reserves	9,824	9,091
Shareholders' equity	2,070	2,405
Net financial position	(10,418)	(15,828)

DELMI S.p.A.

Registered office:	Milan
Share capital:	Euro 1,466,868,500
% held:	51% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	–	–
Value added	(1,637)	(610)
Gross profit from operations	(1,637)	(610)
Profit from operations	(1,639)	(613)
Income before extraordinary items	10,006	41,459
Income before taxes	10,006	41,459
Net profit (loss) for the year	12,188	43,309
Current assets	34,187	441,359
Non-current assets	1,817,885	1,453,539
Current liabilities	592	18,034
Long-term liabilities and miscellaneous reserves	3,427	–
Shareholders' equity	1,848,053	1,876,864
Net financial position	8,507	380,790

VALDISOTTO ENERGIA S.r.l.

Registered office:	Valdisotto (SO)
Share capital:	Euro 52,000
% held:	100% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	2,662	17,265
Value added	797	416
Gross profit from operations	765	387
Profit from operations	765	387
Income before extraordinary items	787	329
Income before taxes	787	329
Net profit (loss) for the year	490	158
Current assets	3,097	5,428
Non-current assets	–	149
Current liabilities	2,192	5,158
Long-term liabilities and miscellaneous reserves	26	30
Shareholders' equity	879	389
Net financial position	139	(1,866)

E-UTILE S.p.A.

Registered office:	Milan
Capitale Sociale:	Euro 1,000,000
% held:	49% AEM S.p.A.

in thousands of euro	09.30.2006	09.30.2005
Turnover	28,638	25,657
Value added	12,798	10,476
Gross profit from operations	4,141	2,374
Profit from operations	2,230	1,791
Income before extraordinary items	2,307	1,779
Income before taxes	2,324	1,784
Net profit (loss) for the year	993	746
Current assets	22,633	17,210
Non-current assets	232	357
Current liabilities	13,623	11,045
Long-term liabilities and miscellaneous reserves	5,748	4,021
Shareholders' equity	3,494	2,501
Net financial position	11,609	1,364

Key figures of associates

PLURIGAS S.p.A.

Registered office:	Milan
Share capital:	Euro 800,000
% held:	40% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	944,433	733,460
Value added	18,948	41,745
Gross profit from operations	17,463	40,122
Profit from operations	16,337	38,258
Income before extraordinary items	14,588	37,592
Income before taxes	15,276	37,592
Net profit (loss) for the year	9,687	35,888
Current assets	322,400	168,510
Non-current assets	218	301
Current liabilities	292,965	117,825
Long-term liabilities and miscellaneous reserves	3,381	4,401
Shareholders' equity	26,272	46,585
Net financial position	(124,911)	(65,047)

ECODECO S.r.l.

Registered office:	Milan
Share capital:	Euro 7,468,560
% held:	30% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	78,284	89,761
Value added	11,600	11,767
Gross profit from operations	5,152	5,096
Profit from operations	3,384	3,689
Income before extraordinary items	16,897	3,083
Income before taxes	16,897	3,358
Net profit (loss) for the year	15,251	1,603
Current assets	192,369	135,543
Non-current assets	49,296	48,246
Current liabilities	136,564	69,177
Long-term liabilities and miscellaneous reserves	4,146	29,013
Shareholders' equity	100,955	85,600
Net financial position	39,618	8,364

Key figures of associates

EDIPOWER S.p.A.

Registered office:	Milan
Share capital:	Euro 1,441,300
% held:	20% AEM S.p.A.

in thousands of euro	12.31.2006	12.31.2005
Turnover	1,377,854	1,081,224
Value added	527,320	470,089
Gross profit from operations	438,342	382,024
Profit from operations	171,836	116,348
Income before extraordinary items	71,502	51,249
Income before taxes	71,502	49,928
Net profit (loss) for the year	27,777	21,357
Current assets	536,022	543,042
Non-current assets	4,164,521	4,270,954
Current liabilities	2,352,856	2,498,017
Long-term liabilities and miscellaneous reserves	314,881	310,950
Shareholders' equity	2,032,806	2,005,029
Net financial position	(1,895,792)	(2,023,807)

BURANO S.p.A.

Registered office:	Milano
Share capital:	Euro 10,200,000
% held:	23.53% AEM S.p.A.

in thousands of euro	12.31.2006
Turnover	250
Value added	164
Gross profit from operations	164
Profit from operations	(22)
Income before extraordinary items	(74)
Income before taxes	(74)
Net profit (loss) for the year	(74)
Current assets	796
Non-current assets	44,698
Current liabilities	11,569
Long-term liabilities and miscellaneous reserves	–
Shareholders' equity	33,925
Net financial position	(6,413)

A.C.S.M. S.p.A.

Registered office: Como
Share capital: Euro 46,870,625 (*)
% held: 20% AEM

in thousands of euro	09.30.2006 (**)	09.30.2005
Turnover	30,567	41,031
Gross profit from operations	9,405	12,617
Profit from operations	3,823	5,504
Income before extraordinary items	2,594	6,052
Income before taxes	2,594	6,052
Net profit (loss) for the year	1,057	4,061
Current assets	30,650	49,406
Non-current assets	110,846	110,808
Current liabilities	33,535	44,758
Long-term liabilities and miscellaneous reserves	47,220	53,147
Shareholders' equity	60,741	62,309
Net financial position	(39,634)	(47,161)

(*) Quarterly figures at September 2006 including the increase in capital of in October 2006.
(**) Figures at December 31, 2006 not available.

Transition to International Financial Reporting Standards (IFRS)

Transition to International Financial Reporting Standards (IFRS) in statutory financial statements of AEM S.p.A.

In application of Decree 38 of 28 February 2005 "Elections to be made under art. 5 of EC Regulation 1606/2002 on international accounting standards", issuers, and therefore AEM S.p.A., are required from the current year to prepare individual financial statements in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board and published in the Official Gazette of the European Community.

AEM S.p.A.'s date of transition to IAS/IFRS is January 1, 2005. The elections made in application of IFRS 1 for the purposes of the Parent Company's consolidated financial statements at January 1, 2004 (transition date for the Parent Company's consolidated financial statements) have been retained for the purposes of the transition of the individual financial statements of AEM S.p.A. with the same methods as were used to prepare the consolidated financial statements prepared by the Parent Company after the transition date.

As required by IFRS 1, this appendix, which is published as a supplement to the 2006 half-yearly report, provides reconciliations between the figures shown previously according to Italian GAAP and those restated according to IFRS, accompanied by notes commenting on the adjustments.
The reconciliations of the balance sheet, shareholders' equity and result for the period of AEM S.p.A., together with the related explanatory notes, prepared according to Italian GAAP and IAS/IFRS refer to:
- the transition date at January 1, 2005, which is the start date of the first comparison period;
- at December 31, 2005.

The schedules contained in this document have been prepared solely for the purposes of the transition to IFRS, with a view to preparing a first complete set of financial statements in accordance with the IFRS approved by the European Commission. For this reason, they are not accompanied by the comparative figures and explanatory notes that would be required for a complete representation of the assets and liabilities, financial position and results of AEM S.p.A. in accordance with IAS/IFRS.

They have been prepared in accordance with the International Financial Reporting Standards (IFRS) currently in force, including the IFRS recently adopted by the International Accounting Standards Board (IASB), International Accounting Standards (IAS) and the interpretations made by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). These are the standards that we assume will be in force at December 31, 2006.

Transition to International Financial Reporting Standards (IFRS) in statutory financial statements of AEM S.p.A.

This document was audited. AEM S.p.A. appointed Reconta Ernst & Young S.p.A. to audit the IAS/IFRS reconciliations at January 1, 2005 and December 31, 2005. The auditors' report is included at the end of this document.

IFRS balance sheet at January 1, 2005

Balance sheet - Assets

		Financial Statements ITAGAAP 01.01.2005	Adjustments IAS 01.01.2005	FTA IAS 01.01.2005
A)	NON-CURRENT ASSETS			
A1)	Property, plant and equipment	795,731,986	54,988,696	850,720,682
A2)	Investment property	–	–	–
A3)	Intangible assets	18,633,832	(3,915,776)	14,718,056
A4)	Investments	1,692,911,952	155,779,961	1,848,691,913
A5)	Other non-current financial assets	485,926,370	23,104,131	509,030,501
A6)	Non-current derivatives	–	–	–
A7)	Deferred tax assets	27,127,947	27,691,641	54,819,588
A8)	Other non-current receivables	206,522	–	206,522
A9)	Restricted or pledged deposits	–	–	–
A10)	Other non-current assets	–	–	–
	TOTAL NON-CURRENT ASSETS (A)	**3,020,538,609**	**257,648,653**	**3,278,187,262**
B)	CURRENT ASSETS			
B1)	Fixed assets held for sale	–	–	–
B2)	Inventories	761,905	–	761,905
B3)	Current financial assets	327,451,547	–	327,451,547
B4)	Current derivatives	–	30,541,998	30,541,998
B5)	Taxes receivable	24,557,928	–	24,557,928
B6)	Trade and other receivables	293,215,775	(123,535,391)	169,680,384
B7)	Cash and cash equivalents	208,610,458	–	208,610,458
B8)	Other current assets	30,119,155	(28,698,665)	1,420,490
	TOTAL CURRENT ASSETS (B)	**884,716,768**	**(121,692,058)**	**763,024,710**
C)	NON-CURRENT ASSETS HELD FOR SALE			
	TOTAL ASSETS (A + B + C)	**3,905,255,377**	**135,956,595**	**4,041,211,972**

Balance sheet - Shareholders' equity and liabilities

		Financial Statements ITAGAAP 01.01.2005	Adjustments IAS 01.01.2005	FTA IAS 01.01.2005
D)	**SHAREHOLDERS' EQUITY**	**2,051,088,688**	**(42,788,621)**	**2,008,300,067**
E)	**LIABILITIES AND EQUITY**			
E1)	**Non-current liabilities**			
E1 - 1)	Medium/long-term financial liabilities	925,049,758	71,785,962	996,835,720
E1 - 2)	Deferred tax liabilities	24,759,547	15,641,021	40,400,568
E1 - 3)	Employee benefits	64,498,636	27,118,665	91,617,301
E1 - 4)	Provisions for risks	36,354,934	–	36,354,934
E1 - 5)	Other non-current liabilities	–	89,386,875	89,386,875
	TOTAL NON-CURRENT LIABILITIES (E1)	**1,050,662,875**	**203,932,523**	**1,254,595,398**
E2)	**Current liabilities**			
E2 - 1)	Trade and other payables	271,738,919	(26,428,084)	245,310,835
E2 - 2)	Tax liabilities	5,389,563	–	5,389,563
E2 - 3)	Short-term financial liabilities	522,115,391	(17,000)	522,098,391
E2 - 4)	Provisions for risks	–	–	–
E2 - 5)	Other current liabilities	4,259,941	1,257,777	5,517,718
	TOTAL CURRENT LIABILITIES (E2)	**803,503,814**	**(25,187,307)**	**778,316,507**
	TOTAL LIABILITIES (E)	**1,854,166,689**	**178,745,216**	**2,032,911,905**
F)	**LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE**			
	TOTAL LIABILITIES AND EQUITY (D + E + F)	**3,905,255,377**	**135,956,595**	**4,041,211,972**

IFRS balance sheet and income statement at December 31, 2005

Balance sheet - Assets

		ITAGAAP Financial Statements 12.31.2005	IAS Adjustments 12.31.2005	IAS Financial Statements 12.31.2005
A)	NON-CURRENT ASSETS			
A1)	Property, plant and equipment	832,109,012	53,120,871	885,229,883
A2)	Investment property	–	–	–
A3)	Intangible assets	20,827,295	(4,044,961)	16,782,334
A4)	Investments	2,454,549,569	398,768,520	2,853,318,089
A5)	Other non-current financial assets	474,095,180	(226,552,106)	247,543,074
A6)	Non-current derivatives	–	–	–
A7)	Deferred tax assets	36,810,695	35,356,913	72,167,608
A8)	Other non-current receivables	227,771	–	227,771
A9)	Restricted or pledged deposits	–	–	–
A10)	Other non-current assets	–	–	–
	TOTAL NON-CURRENT ASSETS (A)	3,818,619,522	256,649,237	4,075,268,759
B)	CURRENT ASSETS			
B1)	Fixed assets held for sale	–	–	–
B2)	Inventories	714,649	–	714,649
B3)	Current financial assets	274,477,557	–	274,477,557
B4)	Current derivatives	–	34,395,033	34,395,033
B5)	Taxes receivable	20,126,265	–	20,126,265
B6)	Trade and other receivables	358,840,917	(127,942,367)	230,898,550
B7)	Cash and cash equivalents	13,542,725	–	13,542,725
B8)	Other current assets	22,928,784	(22,007,888)	920,896
	TOTAL CURRENT ASSETS (B)	690,630,897	(115,555,222)	575,075,675
C)	NON-CURRENT ASSETS HELD FOR SALE	–	–	–
	TOTAL ASSETS (A + B + C)	4,509,250,419	141,094,015	4,650,344,434

Balance sheet - Liabilities and equity

		ITAGAAP Financial Statements 12.31.2005	IAS Adjustments 12.31.2005	IAS Financial Statements 12.31.2005
D)	**SHAREHOLDERS' EQUITY**	**2,124,613,086**	**(61,796,916)**	**2,062,816,170**
E)	**LIABILITIES**			
E1)	**Non-current liabilities**			
E1 - 1)	Medium/long-term financial liabilities	1,217,413,824	64,600,541	1,282,014,365
E1 - 2)	Deferred tax liabilities	36,912,638	24,497,638	61,410,276
E1 - 3)	Severance indemnities and employee benefits	61,898,229	30,704,104	92,602,332
E1 - 4)	Provisions for charges and risks	62,964,777	–	62,964,777
E1 - 5)	Other non-current liabilities	–	94,318,058	94,318,058
	TOTAL NON-CURRENT LIABILITIES (E1)	**1,379,189,468**	**214,120,340**	**1,593,309,808**
E2)	**Current liabilities**			
E2 - 1)	Trade and other payables	198,173,882	(18,352,800)	179,821,082
E2 - 2)	Tax liabilities	48,395,571	–	48,395,571
E2 - 3)	Short-term financial liabilities	753,329,635	7,821,778	761,151,413
E2 - 4)	Provisions for charges and risks	–	–	–
E2 - 5)	Other current liabilities	5,548,777	(698,387)	4,850,390
	TOTAL CURRENT LIABILITIES (E2)	**1,005,447,865**	**(11,229,409)**	**994,218,456**
	TOTAL LIABILITIES (E)	**2,384,637,333**	**202,890,931**	**2,587,528,263**
F)	**LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE**	–	–	–
	TOTAL LIABILITIES AND EQUITY (D + E + F)	**4,509,250,419**	**141,094,015**	**4,650,344,434**

Income statement

		ITAGAAP Financial Statements 12.31.2005	IAS Adjustments 12.31.2005	IAS Financial Statements 12.31.2005
1)	**Revenues**			
1.1)	Revenues from sales	1,660,127	–	1,660,127
1.2)	Revenues from services	141,165,078	–	141,165,078
1.3)	Revenues from long-term contracts	–	–	–
1.4)	Other operating income	202,777,825	(50,032,766)	152,745,059
	Total revenues (1)	**345,603,030**	**(50,032,766)**	**295,570,264**
2)	**Other operating income**	–	–	–
2.1)	Interest income	–	–	–
2.2)	Dividend income	–	–	–
2.3)	Other operating income	–	–	–
	Total other operating income (2)	**–**	**–**	**–**
	Total revenues and other operating income (1 + 2)	**345,603,030**	**(50,032,766)**	**295,570,264**
3)	**Operating costs**			
3.1)	Raw materials and consumables used	5,569,033	–	5,569,033
3.2)	Services used	106,374,055	–	106,374,055
3.3)	Changes in inventories of finished goods and work in progress	–	–	–
3.4)	Research and development expenses	–	–	–
3.5)	Corporate restructuring costs	–	–	–
3.6)	Other operating costs	30,753,580	(6,073,055)	24,680,525
	Total operating costs (3)	**142,696,668**	**(6,073,055)**	**136,623,613**
4)	**Labour costs**	**49,343,083**	**4,661,487**	**54,004,570**
5)	**Gross profit from operations (1 + 2 – 3 – 4)**	**153,563,279**	**(48,621,198)**	**104,942,081**
6)	**Amortisation, depreciation, provisions and writedowns**	**77,508,114**	**1,997,010**	**79,505,124**
7)	**Profit from operations (5 – 6)**	**76,055,165**	**(50,618,208)**	**25,436,957**
8)	**Gains (losses) on revaluation of financial assets available for sale**	**471,740**	**–**	**471,740**
9)	**Gains (losses) on financial instruments classified as cash flow hedges**	**–**	**–**	**–**
10)	**Other gains (losses) on derivatives**	**7,178,407**	**4,543,917**	**11,722,324**
11)	**Gains (losses) on disposal of financial assets available for sale**	**1,989,160**	**48,283,286**	**50,272,446**
12)	**Financial charges**	**55,349,392**	**6,267,188**	**61,616,580**
13)	**Income (losses) from financial assets**	**145,920,015**	**(4,968,801)**	**140,951,214**
13.1)	Dividend income	131,776,938	(4,968,801)	126,808,137
13.2)	Income from receivables/securities included in non-current assets	564,125	–	564,125
13.3)	Income from receivables/securities included in current assets	13,759,290	–	13,759,290
13.4)	Exchange gains and losses	(180,338)	–	(180,338)
14)	**Total financial costs (8 + 9 + 10 + 11 – 12 + 13)**	**100,209,930**	**41,591,214**	**141,801,144**

		ITAGAAP Financial Statements 12.31.2005	IAS Adjustments 12.31.2005	IAS Financial Statements 12.31.2005
15)	Share of results of associates deriving from valuation according to the equity method	–	–	–
16)	Gains (losses) on disposal of property, plant and equipment	(2,461,964)	–	(2,461,964)
17)	Other non-operating profits	–	–	–
18)	Other non-operating costs	–	–	–
19)	Profit before tax (7 + 14 + 15 + 16 + 17 – 18)	173,803,131	(9,026,994)	164,776,137
20)	Income tax expense	5,662,838	(861,839)	4,800,999
21)	Net profit (loss) of ongoing operations net of tax (19 – 20)	168,140,293	(8,165,155)	159,975,138
22)	Net result from non-current assets held for sale	–	–	–
23)	Net profit for the year (21 + 22)	168,140,293	(8,165,155)	159,975,138

Main adjustments made to AEM S.p.A.'s statutory financial statements for the transition to IFRS at January 1 and December 31, 2005

Balance sheet – Assets

A) NON-CURRENT ASSETS

A 1) Property, plant and equipment

The overall change at December 31, 2005 deriving from the application of international accounting standards determined an increase in property, plant and equipment of 53,121 thousand euro.
This increase was determined by a positive change of 54,989 thousand euro at January 1, 2005 and by a negative change of 1,868 thousand euro for the adjustments made in 2005.

At January 1, 2005, the main adjustments concerned assets being purchased under finance lease contracts, which under IAS 17 were booked to property, plant and equipment with the debt being booked to liabilities for the same amount. The total amount of this adjustment caused an increase of 51,367 thousand euro.
The other adjustments concerned the reversal of accumulated depreciation on land, (+2,284 thousand euro) as land now has to be separated from buildings and other installations and no longer depreciated, and the reclassification of leasehold improvements from intangible assets to property, plant and equipment (+1,888 thousand euro). The recalculation of depreciation on plant components with different useful lives (according to the so-called "component approach") entailed a decrease of 550 thousand euro.

At December 31, 2005 the negative change of 1,868 thousand euro mainly refers to the calculation of depreciation on leased assets and the recalculation of depreciation on plant components with a different useful life ("component approach").

A3) Intangible assets

The overall change at December 31, 2005 deriving from the application of international accounting standards led to a decrease in intangible assets of 4,045 thousand euro.
At January 1, 2005 the decrease amounted to 3,916 thousand euro due to reclassification to property, plant and equipment of leasehold improvements of 1,888 thousand euro and elimination of the expenses on the loans obtained and on the bond loan issued of 2,028 thousand euro, which were deducted directly from their nominal value.

As a result of the reclassifications to property, plant and equipment of the leasehold improvements made during 2005, the negative change amounted to 129 thousand euro.

A4) Investments

The overall impact of first-time adoption of international accounting standards led to an increase in investments of 398,769 thousand euro.

At January 1, 2005 investments increased by 155,780 thousand euro as a result of the following changes:

- the reduction was for the transfer of the investment in Fastweb S.p.A. (formerly e.Biscom S.p.A.), 242,989 thousand euro, to financial assets available for sale as required by IAS/IFRS: investments can only be shown under associates if 20% of the share capital is held, whereas at January 1, 2005 AEM S.p.A. only held 12.11% of Fastweb S.p.A.;
- the increase as a result of the reclassification for 398,769 thousand euro concerned inclusion of the investment in Edipower S.p.A., previously shown under financial assets available for sale. This is justified by the fact that, based on the contracts and agreements with the current shareholders of Edipower S.p.A., AEM S.p.A. has anticipated from an accounting point of view its exercise of the options to buy the residual 4% (80,000 thousand euro) from the shareholders, raising its investment to 20%. This amount remains unchanged at December 31, 2005.

At December 31, 2005 the adjustment of 242,989 thousand euro was absorbed by selling the investment in Fastweb S.p.A. (formerly e.Biscom S.p.A.) during 2005.

In accordance with Italian GAAP, AEM S.p.A. used to value investments in subsidiaries at cost adjusted for any permanent losses. Taking into account the methods of constitution and/or acquisition of investments, it was felt that the writedowns previously carried out in accordance with Italian GAAP, including any subsequent writebacks, were in line with the values that would have been recognised under IFRS.

A5) Other non-current financial assets

The total change at December 31, 2005 deriving from application of international accounting standards led to a decrease of 226,552 thousand euro, as a result of the following adjustments:

- at January 1, 2005 this item showed an increase of 23,104 thousand euro attributable to the adoption of IAS 39 according to which financial assets have to be

shown at fair value. In this specific case, the valuation of investments in listed companies - Fastweb S.p.A. (formerly e.Biscom S.p.A.), ATEL S.A., and AEM Torino S.p.A., classified as "Available for sale" as considered strategic - led to them being revalued by a total of 133,909 thousand euro, crediting the transition reserve. This increase was offset by the reclassifications of the investments in Fastweb S.p.A. (+242,989 thousand euro) and Edipower S.p.A. (–318,769 thousand euro), as already mentioned in the paragraph on "Investments" and the reclassification of the treasury shares held (35,025 thousand euro), deducting them from equity;
– changes during 2005 were negative for 249,656 thousand euro mainly as a result of the sale of the investment in Fastweb S.p.A. for 242,989 thousand euro and of the related fair value adjustment at January 1, 2005 of 48,158 thousand euro, offset by the positive fair value adjustment of the investments in ATEL S.A. and AEM Torino S.p.A. for 29,222 thousand euro and the positive adjustment of treasury shares, 12,269 thousand euro, for the portion sold during the year.

A7) Deferred tax assets

The transition to IAS/IFRS led to a series of adjustments to the figures in the statutory financial statements to bring them into line with international accounting standards.
The related deferred tax assets generated by these changes have been recognised, based on the difference between the values according to IAS/IFRS and those permitted for tax purposes.

The total change at December 31, 2005 deriving from application of international accounting standards led to an increase of 35,357 thousand euro, as a result of the following adjustments and is made up of:
- 27,692 thousand euro of adjustments made at January 1, 2005;
- 7,665 thousand euro of adjustments made during 2005.

B) CURRENT ASSETS

B 4) Current derivatives

AEM S.p.A. has stipulated specific contracts to hedge the interest rate risk on the debt for the bond loan and on the debt owed to Cassa Depositi e Prestiti, as well as contracts to hedge price changes in the shares of Fastweb S.p.A.. International accounting standards lay down specific rules for the accounting treatment of such derivatives. In particular, as far as cash flow hedges are concerned, derivatives have

to be booked at fair value under assets or liabilities in the balance sheet, with a contra-entry to a hedging reserve in net equity if they prove effective. If, on the other hand, they prove ineffective, they have to be written off to the income statement at fair value.
These valuations involved a positive effect of 34,395 thousand euro at December 31, 2005.

The positive change at January 1, 2005 amounted to 30,542 thousand euro, while the increase during the year amounted to 3,853 thousand euro as a result of the following adjustments:

- an increase of 6,197 thousand euro in connection with the valuation of the derivatives hedging the interest rate risk on the bond loan and the valuation at fair value of the derivative hedging committed lines of credit;
- a reduction of 2,344 thousand euro for the valuation at January 1, 2005 of the derivative on the Fastweb S.p.A. shares sold during 2005.

B 6) Trade and other receivables

The total change at December 31, 2005 deriving from application of international accounting standards led to a decrease of 127,942 thousand euro, as a result of the following adjustments:

- at January 1, 2005 this item shows a decrease of 123,535 thousand euro mainly attributable to the reversal of dividends receivable which under IAS/IFRS can only be booked after the resolution approving their distribution. The adjustment to dividends totals 123,921 thousand euro;
- the adjustments made during the year are negative for 4,407 thousand euro mainly because of the booking of dividends receivable relating to 2004 which were altered by the reversal of the dividends receivable for those of 2005 not yet officially approved.

B 8) Other current assets

The total change at December 31, 2005 deriving from application of international accounting standards led to a decrease of 22,008 thousand euro, as a result of the following adjustments:

- at January 1, 2005 the negative change amounts to 28,699 thousand euro and concerns, for 27,670 thousand euro, the elimination of the lease instalments of future years relating to finance lease contracts booked in accordance with IAS 17 and, for 1,029 thousand euro, the reclassification, on the basis of IAS 39, of the issue deficit of the bond loan which has been deducted from the value of the loan;

- during 2005 the adjustments made to the statutory entries for lease instalments of future years had a positive impact of 6,574 thousand euro, whereas the adjustment of the portions of the issue deficit on the bond loan entailed a benefit of 116 thousand euro.

E) LIABILITIES

E1) Non-current liabilities

E1 – 1) Medium/long term financial liabilities

The total change at December 31, 2005 from the application of international accounting standards determined an increase of 64,601 thousand euro.

At January 1, 2005 the application of IAS/IFRS led to an increase of 71,786 thousand euro, broken down as follows:

- for 31,800 thousand euro the increase relating to the valuation of the non-convertible bond loan issued by AEM S.p.A. in October 2003. The increase is due to the following factors: the valuation at fair value as of January 1, 2005 (+34,167 thousand euro), in application of IAS 39, as revised, partially offset by the reclassification, deducted directly from the value of the loan, of the issue deficit (–1,028 thousand euro) and related expenses (–1,339 thousand euro);
- 671 thousand euro from reclassification of loan expenses as a reduction of the loans;
- 40,657 thousand euro from the increase in payables to leasing companies as required by IAS 17 for lease finance contracts.

The adjustments made to the above items during 2005 involved a decrease of 7,185 thousand euro.

E1 – 2) Deferred tax liabilities

The transition to IAS/IFRS led to a series of adjustments to the figures in the statutory financial statements to bring them into line with international accounting standards.
The related deferred tax liabilities generated by these changes have been recognised, based on the difference between the values according to IAS/IFRS and those permitted for tax purposes.
At January 1, 2005 the changes for deferred taxation amounted to 15,641 thousand euro, while adjustments made during 2005 led to an increase of 8,857 thou-

sand euro, bringing the total change at December 31, 2005 to 24,498 thousand euro.

E1 – 3) Employee benefits

The overall change in the provision for severance indemnities and in the other provisions for employee benefits at January 1, 2005 increased by 27,119 thousand euro, while the adjustments made during the period amounted to +3,585 thousand euro, showing a total change of 30,704 thousand euro at December 31, 2005. International accounting standards classify post-employment and post-retirement benefits as employee benefits. Therefore, during the transition phase, IAS/IFRS require a financial/actuarial valuation of the liabilities expected to be incurred. For AEM S.p.A. these liabilities include the discounts that employees receive on electricity and gas and the additional months' pay which relates to the fidelity bonus; these have been booked for the first time and have a negative impact on shareholders' equity. As regards severance indemnities, we have booked the amount calculated according to IAS 19.
Booking the current value of the provision for employee benefits led to an adjustment increasing the provision of 29,261 thousand euro at January 1, 2005 and an increase of 3,856 thousand euro for the adjustments made during 2005.

The provision for severance indemnities calculated in accordance with international accounting standards led to a reduction of 2,413 thousand euro of which 2,143 thousand euro at January 1, 2005.

E1 – 5) Other non-current liabilities

At January 1, 2005 the main adjustment based on what is allowed by international accounting standards concerned bringing forward the exercise of the options to buy 4% of Edipower S.p.A. from the financing shareholders, which involved booking a liability of 80,000 thousand euro. This figure was increased by 9,387 thousand euro for the portion of accrued financial charges.
At December 31, 2005 the figure of 94,318 thousand euro includes the interest of 4,931 thousand euro that accrued during the year.

E2) Current liabilities

E2 – 1) Trade and other payables

The overall impact of first-time adoption of international accounting standards (IAS/IFRS) amounted to 18,353 thousand euro at December 31, 2005.

Main adjustments made to AEM S.p.A.'s statutory financial statements for the transition to IFRS at January 1 and December 31, 2005

At January 1, 2005 the adjustments led to a decrease of 26,428 thousand euro made up principally, for 27,670 thousand euro, by the reduction in trade payables for lease instalments as a result of adopting finance lease accounting in accordance with IAS 17.

The adjustments made during the year led to an increase in payables for 8,075 thousand euro to adjust the statutory entries made in accordance with Italian GAAP.

E2 – 3) Short-term financial liabilities

At December 31, 2005 the adjustments led to an increase of 7,822 thousand euro.

At January 1, 2005 there was a decrease of 17 thousand euro following the reclassification of expenses on loans, deducting them directly from the loans, as required by IAS 39.

During the year 2005 the increase amounted to 7,839 thousand euro and the main changes concerned:

- the valuation at fair value of certain derivatives which led to an increase of 1,157 thousand euro;
- the reclassification of the portion maturing within one year of finance lease payables, of 5,275 thousand euro;
- the valuation at amortised cost of certain loans and the reclassification of the current portions of medium term loans payable within one year, of 1,407 thousand euro.

E2 – 5) Other liabilities

At December 31, 2005 the adjustments led to a decrease of 698 thousand euro.

The valuation of the derivative hedging the bond loan at January 1, 2005 gave rise to an adjustment on the income/expenses booked on the swap according to Italian GAAP. The value of the adjustment is an increase of 1,258 thousand euro.
The adjustments made during 2005 as a result of the above led to a decrease of 1,956 thousand euro.

INCOME STATEMENT

1) Revenues

1.4) Other operating income

At December 31, 2005, this caption decreased by 50,033 thousand euro and is attributable to the reclassification to "gains/losses on the elimination of financial assets available for sale" of gains of 50,014 thousand euro, resulting from the disposal of the investments in Fastweb S.p.A. and Zincar S.r.l..

3) Operating costs

3.6) Other operating costs

At December 31, 2005 the adjustment led to a decrease of 6,073 thousand euro and is mainly attributable to the elimination of lease instalments, of 5,918 thousand euro, following the application of IAS 17: this principle lays down that finance lease contracts should not be booked entirely to the income statement, but have to be split between portions of capital reimbursed (to be deducted from the residual debt to the lessor) and interest to be booked on an accrual basis as financial charges in the income statement.

4) Labour costs

Reclassifications and adjustments have been made for a total of +4,661 thousand euro for the costs relating to fringe benefits, luncheon vouchers, directors' fees and other costs in favour of employees, which according to IAS/IFRS form part of labour cost for the period; adjustments have also been made for the change in the treatment of severance indemnities and other employee benefits (long-service bonuses, tariff reductions) which have been calculated on an actuarial basis.

6) Depreciation and amortisation, provisions and writedowns

At December 31, 2005 the overall change led to an increase of 1,997 thousand euro following the separation of certain components of plant and machinery with different useful lives ("component approach") on which depreciation has been calculated separately, the booking of depreciation on the assets capitalised under finance lease contracts and the elimination of the amortisation on loan expenses previously recorded as intangible assets and now deducted directly from the nominal value of the loans.

10) Other income (losses) from derivatives

At December 31, 2005 the change was positive for 4,544 thousand euro and refers principally to the positive effect, for 4,988 thousand euro, of the fair value adjustment to derivatives hedging the interest rate risk on the revolving lines of credit granted by various banks adjusted negatively for 444 thousand euro by the valuation at fair value of the bond loan issued, of the derivative hedging the bond loan and the derivative hedging the risk on the loan granted by Cassa Depositi e Prestiti.

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

At December 31, 2005 the change led to an increase of 48,283 thousand euro, as follows:

- an increase of 50,014 thousand euro in relation to the reclassification from "Other operating income" of the gains realised on the disposal of the investments in Fastweb S.p.A. and Zincar S.r.l.;
- a decrease of 1,731 thousand euro following the reclassification to equity of the gain on sale of treasury shares.

12) Financial charges

At December 31, 2005 the change led to an increase of 6,267 thousand euro and refers to the booking of financial charges, 4,931 thousand euro, accruing to December 31, 2005 on the amount payable for early exercise of the options to buy a further 4% of Edipower S.p.A. from the other financing partners, to the portion of financial charges, 890 thousand euro, relating to finance lease contracts and the valuation at amortised cost of certain loans, 446 thousand euro.

13) Proventi (perdite) da attività finanziarie

13.1) Dividend income

At December 31, 2005 the change led to a reduction of 4,969 thousand euro for the difference between the dividends reversed, as their distribution was not yet authorised, and the dividends collected during the year.

20) Income tax expense

The transition to IAS/IFRS led to a series of adjustments to the figures in the statutory financial statements to bring them into line with international accounting standards.

The related deferred tax assets and liabilities generated by these changes have been recognised, based on the differences between the values according to IAS/IFRS and those permitted for tax purposes.
At December 31, 2005 the adjustments were negative for 862 thousand euro.

Reconciliation of shareholders' equity

Note		Shareholders' equity 01.01.2005	Shareholders' equity 12.31.2005
	ITALIAN GAAP EQUITY	2,051,088,688	2,124,613,086
1	Property, plant and equipment and accumulated depreciation	1,733,522	716,270
2	Elimination of intangible assets	–	446,793
3	Dividends from subsidiaries and associates	(123,921,452)	(128,890,252)
4	Due for call option for 4% of Edipower S.p.A.	(9,386,875)	(14,318,058)
5	Employee benefits	(27,986,943)	(32,648,430)
6	Treasury shares	(35,024,855)	(22,756,325)
7	Financial instruments	133,908,947	114,972,739
8	Derivatives	29,284,220	29,903,267
9	Fair value option of bond loan	(34,167,178)	(34,541,771)
10	Finance leases	10,425,898	14,164,101
11	Tax effect of adjustments	12,346,095	11,154,750
	SHAREHOLDERS' EQUITY IAS/IFRS	2,008,300,067	2,062,816,170

Notes on the reconciliation of shareholders' equity following the adoption of IAS/IFRS at January 1, 2005 and December 31, 2005

Note 1) Property, plant and equipment and accumulated depreciation

International accounting standards require land to be shown separately under property, plant and equipment. Land should not then be depreciated. In the past, land got depreciated along with the buildings that stood on it; now the land has been separated and the accumulated depreciation on it eliminated.

The other changes concerned the recalculation of depreciation on plant components with different useful lives (according to the so-called "component approach").

This adjustments entailed a positive change in shareholders' equity at January 1, 2005, of 1,734 thousand euro and of 716 thousand euro at December 31, 2005.

Note 2) Elimination of intangible assets

IAS 39 lays down that expenses relating to loans and bond issues (fees, stamp duty, etc.) are to be deducted directly from their initial value for subsequent valuation at amortised cost. We therefore reclassified the residual value of such expenses at January 1, 2005 (2,027 thousand euro) from other intangible assets, where they had previously been capitalised, as a direct reduction of the debt to which they refer, leading to the elimination of amortisation, which at December 31, 2005 resulted in a positive change of 447 thousand euro.

Note 3) Elimination of dividends from associates and subsidiaries

International accounting standards only make it possible to book dividends once the shareholders have passed a resolution authorising the distribution.

Dividends booked according to Italian GAAP have been eliminated. This led to a decrease in equity of 123,921 thousand euro at January 1, 2005 and of 128,890 thousand euro at December 31, 2005.

Note 4) Due for call option for 4% of Edipower S.p.A.

In light of the contracts and agreements that exist among the current shareholders of Edipower S.p.A., the investment in Edipower S.p.A. has been accounted for as follows:

1) from the date of transition to IFRS, the investment amounts to 20% as the put and call options stipulated with the financing partners of Edipower S.p.A. are considered as though they had already been exercised; for this reason, AEM S.p.A. has booked a liability equal to the value of the financing shareholders' investment. The interest accumulated on the investment made by the Financing Shareholders will go to reduce the equity of the AEM S.p.A.;
2) at each successive reporting date, the interest accruing subsequently will be debited to the income statement of AEM S.p.A.;

3) the options are being considered as exercised at January 1, 2004, which means that they are not subject to valuation in accordance with IAS 32 and 39.

The impact at January 1, 2005 involved a decrease in shareholders' equity of 9,387 thousand euro, whereas at December 31, 2005 the impact came to 14,318 thousand euro for the booking of 4,931 thousand euro of interest accruing to 2005.

Note 5) Employee benefits

International accounting standards classify post-employment and post-retirement benefits as employee benefits. Therefore, during the transition phase, IAS/IFRS require a financial/actuarial valuation of the liabilities expected to be incurred. For the AEM S.p.A. these liabilities include the discounts that employees receive on electricity and gas and the additional months' pay which relates to the fidelity bonus; these have been booked for the first time and have a negative impact of 30,130 thousand euro on shareholders' equity at January 1, 2005, As regards severance indemnities, we have booked the amount calculated according to IAS 19, which led to an increase in equity of 2,143 thousand euro at January 1, 2005. Therefore, due to these adjustments the negative change in equity at January 1, 2005 amounted to 27,987 thousand euro.
The adjustments made in 2005 caused a negative impact on shareholders' equity of 4,661 thousand euro with a total reduction of 32,648 thousand euro.

Note 6) Treasury shares

At January 1, 2005, 35,025 thousand euro of treasury shares were reclassified as a reduction of shareholders' equity.
At December 31, 2005 this item amounts to 22,756 thousand euro after the sale of shares in 2005.

Note 7) Financial instruments

With the adoption of IAS 39 from January 1, 2005, the financial assets held by the Company are valued at their fair value. In this specific case, the valuation of investments in listed and unlisted companies classified as "Available for sale" and considered strategic by the AEM S.p.A., led to an increase in shareholders' equity of 133,909 thousand euro.
At December 31, 2005 because of these negative adjustments during the year, amounting to 18,936 thousand euro, the positive change comes to 114,973 thousand euro.

Note 8) Derivatives

AEM S.p.A. has stipulated specific contracts to hedge the interest rate risk on the debt for the bond loan and on the debt owed to Cassa Depositi e Prestiti, as well as contracts to hedge price changes in the shares of Fastweb S.p.A..
International accounting standards lay down specific rules for the accounting treatment of such derivatives. In particular, as far as cash flow hedges are concerned, derivatives have to be booked at fair value under assets or liabilities in the balance sheet, with a contra-entry to a hedging reserve in net equity if they prove effective. If, on the other hand, they turn out to be less than fully effective, they have to be written off to the income statement at fair value.
At January 1, 2005, the benefit to AEM S.p.A. equity of derivatives amounts to 29,284 thousand euro and refers principally to the hedging of the interest rate risk on the bond loan, as well as contracts to hedge price changes in the shares of Fastweb S.p.A..
At December 31, 2005 the benefit following the adjustments of the year increased by 619 thousand euro to 29,903 thousand euro.

Note 9) Fair value option on the bond loan

AEM S.p.A. has decided to apply the fair value option according to IAS 39 (revised) from January 1, 2005.
AEM S.p.A. currently has a contract hedging the interest rate risk on the bond loan which does not fully satisfy the effectiveness test; resulting in the booking to the income statement of the positive or negative changes in the fair value of the element being hedged (AEM bond loan) and of the related hedge (derivative).
The Fair Value Option aims to reduce the asymmetry that exists between the valuation of the liability being hedged at amortised cost and the valuation at fair value of the hedging derivative that does not satisfy the effectiveness test.
The adjustments at January 1, 2005 led to a negative change in shareholders' equity of 34,167 thousand euro, while, at December 31, 2005, there was a negative impact of 34,542 thousand euro due to the adjustments in 2005.

Note 10) Finance lease

Following the application of IAS 17, AEM S.p.A. booked under property, plant and equipment the value of the assets held under finance lease contracts with a contra-entry under payables to leasing companies.
These assets are subject to depreciation, whereas the instalment paid each year is split between the capital portion, which reduces the debt, and the interest portion which is booked to income under financial charges.

The elimination of the capital portion, which previously used to be written off to the income statement under Italian GAAP, led to a positive impact on shareholders' equity at January 1, 2005 of 10,426 thousand euro, while at December 31, 2005 the amount came to 14,164 thousand euro.

Note 11) Tax effects of adopting IAS/IFRS

The adjustments made as a result of adopting international accounting standards led to the recognition of deferred tax liabilities with the contra-entry being booked to the transition reserve as part of equity at January 1 2005, whereas the changes at December 31, 2005 had an impact on equity through the change in net profit for 2005. These entries led to an increase in equity at January 1, 2005 of 12,346 thousand euro and at December 31, 2005 of 11,155 thousand euro.

Reconciliation of AEM S.p.A.'s net profit at December 31, 2005

		12.31.2005
Italian GAAP net profit at December 31, 2005		**168,140,293**
3.6)	Other operating costs	6,073,055
4)	Labour costs	(4,661,487)
6)	Depreciation and amortisation, provisions and writedowns	(1,997,010)
10)	Other gains (losses) from derivatives	4,543,917
11)	Gains/Losses on the elimination of financial assets available for sale	(1,749,480)
12)	Financial charges	(6,267,188)
13.1)	Dividend income	(4,968,801)
20)	Income tax expense	861,839
Total changes		**(8,165,155)**
IAS/IFRS net profit of AEM S.p.A. at 12.31.2005		**159,975,138**

Statutory auditors' report

Statutory auditors' report to the shareholders' meeting of AEM S.p.A.

Pursuant to art. 153 d.lgs. 58/98

Shareholders,

During the year ended December 31, 2006, we carried out the supervisory activities required by law (D.Lgs. no. 58 – T.U. of 2/24/1998 on financial intermediation), in accordance with the standards of conduct for Boards of Statutory Auditors in joint-stock companies with shares quoted on organised markets as recommended by the Italian Accounting Profession and by CONSOB.

The task of auditing the financial statements has been assigned in accordance with D.Lgs. 58/1998 to Reconta Ernst & Young S.p.A., whose reports you should refer to.

On the basis of information received and analysis carried out by us, the more important operations affecting the results and financial position of the Company, also made by subsidiaries, can be summarised as follows:

– the shareholders' loan of 363.5 million paid in 2005 by the subsidiary Delmi S.p.A. to Transalpina d'Energia S.r.l. ("TdE") (an identical loan was also made by the other shareholder with 50%, WGRM 4 Holding S.p.A.) was converted into an increase in capital with related share premium in January 2006;
– in March 2006 AEM S.p.A. and Delmi S.p.A. announced that following the sales that they had made, the market now held 11.4% of Edison S.p.A. ordinary shares, which means that the float of these shares, having been reduced as a result of the Public Offering launched by TdE that ended on November 4, 2006, has been reconstituted in accordance with the law;
– in October 2006 AEM S.p.A. sold 100% of Metroweb S.p.A. to Stirling Square Capital Partners, a private equity fund, through Burano S.p.A., an Italian company, in execution of the framework agreement signed by the parties on August 3, 2006 (based on an enterprise value for Metroweb of 232 million euro less its net debt); AEM S.p.A. then subscribed for a 23.53% interest in Burano S.p.A. for 8 million euro as well as 24 million euro of convertible debt securities issued by Metroweb S.p.A. which, in the event of conversion, would give AEM S.p.A. a minimum of 29.75% and a maximum of 39.57% of Metroweb S.p.A.;
– the Shareholders' Meeting of AEM S.p.A. on 27 October 2006 renewed the authorisation to buy and sell treasury shares within the legal limits for a period of eighteen months; at December 31, 2006 AEM S.p.A. held 16,159,850 treasury shares (0.89% of the share capital);

- in October 2006 AEM S.p.A. subscribed for its share of the increase in capital of ACSM S.p.A. by contributing 71.44% of Serenissima Gas S.p.A.; it also sold to ACSM S.p.A. an equivalent percentage of Serenissima Energia S.r.l. (the agreement also provides for 41.1% of Mestni Plinovodi d.o.o. to be sold to ACSM S.p.A., which took place in 2007); as a result of this transaction, AEM S.p.A. now holds 20% of ACSM S.p.A. and has stipulated a shareholder agreement with the Municipality of Como that regulates certain aspects of corporate governance at ACSM S.p.A.;
- in November 2006 AEM S.p.A. sold 99.99% of AEM Trasmissione S.p.A., the owner of high tension transport lines, to RTL S.p.A., a wholly-owned subsidiary of Terna S.p.A., at a price based on an enterprise value of 118 million euro;
- in December 2006 the Board of Directors of AEM S.p.A. reviewed the business plan developed jointly by AEM S.p.A. and ASM Brescia S.p.A. regarding a possible combination of the two groups.

These matters are explained in the report on operations or in the explanatory notes to the Company’s separate and consolidated financial statements for 2006.

The Board of Statutory Auditors would like to emphasise that the question of the possible conflict between art. 16 of the articles of association (on the criteria for appointing the Board of Directors) and the principles of Community law was raised at the time of the appeals presented in May 2004 before the Lombardy Regional Administrative Tribunal in order to obtain the cancellation of the resolutions passed by the Milan Municipal Council regarding (i) the sale of AEM S.p.A. shares by the Municipality of Milan and the issue of a municipal bond loan convertible into AEM S.p.A. shares and (ii) the amendments to the articles of association of AEM S.p.A..

As mentioned in the notes (where these proceedings are discussed), the Lombardy Regional Administrative Tribunal has raised a question of interpretation before the European Court of Justice essentially regarding the compatibility of art. 2449 of the Italian Civil Code with art. 56 of the EU Treaty, also considering the combination of the two in the specific context of art. 16 of the articles of association with the voting list. The case was heard before the European Court of Justice on June 29, 2006 and on September 7, 2006 the Advocate General of the Court presented their conclusions, affirming that “Art. 56 of the EU Treaty is in contrast with a national rule that allows a public entity with shareholdings, in this case 33.4% 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 a writ dated August 5, 2005, Dario Trevisan, the holder of 1,000 shares, impugned the resolution of the extraordinary shareholders' meeting of April 29, 2004, which amended art. 16 of the articles of association, as well as that of the ordinary shareholders' meeting which then appointed directors and statutory auditors according to the new criteria, for violation of the EU Treaty and of Decree 332/94 and subsequent amendments. The court case is currently in progress.

Even though we recognise that, objectively, there is uncertainty regarding the compatibility of the amendments to the articles of association and EU law, we believe that, as things stand, it is best not to take any action until the European Court of Justice, to which the Lombardy TAR has remitted the appeals, has reached a decision.

In carrying out our activities:

- we met regularly and drafted 18 reports on our activities at the Company;
- we attended all of the meetings of the Board of Directors (10), of the Internal Control Committee (6) and of the Consultative Strategy Committee held in 2006.

  It is in fact up to the Board of Directors to authorise (i) "particularly significant" transactions carried out with any counterparty and (ii) "particularly significant" transactions with related parties, as identified by the document entitled Guidelines on "particularly significant" and related party transactions approved by the Board of Directors on March 20, 2006 and updated at the meeting held on January 30, 2007 (amply described in the Annual Report on Corporate Governance included in the specific section of the Report on operations that accompanies the 2006 financial statements). By attending these meetings, we were kept informed on an ongoing basis by the directors on the performance of the Company and its subsidiaries and the more significant transactions affecting their results, financial position and balance sheets. We can attest that all operations approved and implemented complied with the law and the Company's by-laws, that they were based on economic rationales and were not manifestly imprudent, risky, in potential conflict of interest or in contrast with the resolutions passed by shareholders or such as might comprise the integrity of the Company's assets;
- we evaluated the congruity of intercompany and related party transactions of an ordinary nature, ensuring they were in the interest of the Company. The characteristics of these transactions, the persons and entities involved in them and their economic effects are all adequately explained in the notes to the separate and consolidated financial statements, to which you are referred;

- we noted that no atypical or unusual transactions were carried out;
- we noted that on April 10, 2007 the independent auditors, Reconta Ernst & Young S.p.A., issued an unqualified report pursuant to art. 156 of Decree 58/98, in which they state that the separate and 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 Company and of the Group;
- during 2006 we received one complaint under art. 2408 of the Italian Civil Code from a shareholder Arturo Buzzi. It was received during the Shareholders' Meeting of October 27, 2006 and will be discussed at the next Shareholders' Meeting. We did not receive any petitions from third parties;
- during the year, we noted that the independent auditors and organisations related to them on an ongoing basis were appointed to carry out additional work:
  - Reconta Ernst & Young S.p.A. were engaged to (a) assist in the transition to IFRS for Euro 16,800, (b) sign the company's tax returns for Euro 4,276 and (c) sign tax returns for AEM subsidiaries for a total of Euro 13,576;
  - Studio Legale Tributario was engaged to check the tax provision in the financial statements for Euro 21,000 and to look into the reimbursement of withholding tax on foreign dividends for Euro 3,100. We monitored the independence of the auditing firm, ensuring compliance with all regulations, as well as their compatibility with the limitations laid down by law for non-audit services provided to AEM S.p.A. and its subsidiaries;
- we issued opinions pursuant to the law only as regards the compensation granted to directors holding particular positions or taking part in the committees set up by the Board of Directors;
- we observed and monitored compliance with the principles of good management, by direct observation, by obtaining information from the persons responsible for the various functions and through meetings with the independent auditors, for a reciprocal exchange of important data and information. We do not have any comments to make in this regard;
- we became familiar with the company's and Group's business and monitored, to the extent required, that the company's organisational structure was adequate. We do not have any comments to make. The company has adopted the Internal Organisational Model envisaged by D.Lgs. 231/2001, which introduced the concept of corporate administrative (criminal) liability; the purpose of this model is to prevent corporate crimes and crimes against the Public Administration that could lead to the company being liable under this law. To integrate and reinforce the Internal Organisational Model, the Company has introduced a Code of

Ethics, which was approved by the Board of Directors at the meeting on March 16, 2005, with the purpose of encouraging and promoting a higher standard of professionalism and to avoid behaviour that differs from the interests of the Company;

- we checked the adequacy of the Internal Control System and supervised the work of those in charge of it, in particular by means of periodic meetings with those in charge of the Internal Audit function and taking part in all of the meetings of the Internal Control Committee; we reviewed the activities carried on by the said function and the reports that they produced, also evaluating the congruity of any corrective actions proposed and the effective application of such proposals by the units concerned;
- we verified the adequacy of the administrative and accounting system, as well as its reliability in giving a true and fair view of operations, by obtaining information from the persons responsible for these functions and from the independent auditors. We do not have any comments to make in this area;
- we checked the adequacy of the instructions given by the parent company to its subsidiaries, pursuant to art. 114.2 of D.Lgs. 58/98. We do not have any comments to make in this area;
- we checked that the members of the Board of Directors satisfied the independence requirements and that the criteria and procedures adopted by the Board of Directors for ascertaining their independence each year were applied correctly. We do not have any comments to make in this area;
- we verified compliance with legal requirements concerning the preparation and presentation of the separate and consolidated financial statements, the explanatory notes and the report on operations; we performed this task with the help of information gathered from the heads of organisational functions and from the independent auditors.

We would like to point out that the company adhered to the Code of Conduct issued in October 1999 by the Committee for Corporate Governance of Listed Companies in March 2001 and resolved to comply with the July 2002 revised version of the Code in March 2003. In the first few months of 2007, the Board of Directors of AEM S.p.A. adopted resolutions to adhere to and implement the principles contained in the new edition of the Code of Conduct approved on March 14, 2006 by the Committee for Corporate Governance organised by Borsa Italiana S.p.A..

The Board of Directors has commented in full on its subsequent activities in the Annual Report on Corporate Governance which forms part of the Report on Operations.

Moreover, already in November 2002 the Board of Directors adopted its own Code of Conduct for Internal Dealing relating to periodic communications to the market on financial transactions involving company shares carried out by Relevant Persons of the AEM Group.

As recorded in the company's legal books, the Compensation Committee met three times during 2006.

During the performance of these monitoring and supervisory activities and based on the information obtained from the independent auditors, we noted no significant events or omissions and/or reprehensible facts and/or irregularities that would need to be mentioned in this report.

No significant matters emerged from the meetings we have had with our colleagues of the Boards of Statutory Auditors of the main subsidiaries.

The separate financial statements of AEM S.p.A. at December 31, 2006 have been prepared in accordance with IFRS for the first time, whereas the consolidated financial statements have again been prepared in accordance with IFRS, as they were in 2005.

The separate financial statements for the year ended December 31, 2006, which were approved in draft by the Board of Directors on March 19, 2007, show the following summary results:

in euro	
Balance sheet	
Non-current assets	4,099,887,022
Current assets	256,569,680
Non-current assets held for sale	500,000
Total assets	4,356,956,702
Shareholders' equity	2,250,553,785
Non-current liabilities	1,581,264,054
Current liabilities	525,138,863
Total liabilities and equity	4,356,956,702
Income statement	
Revenues and other operating income	322,316,224
Operating costs	125,338,567
Labour costs	66,951,213
Gross profit from operations	130,026,444
Depreciation and amortisation, provisions and writedowns	56,373,827
Net profit from operations	73,652,617
Total financial costs	83,864,204
Gains and losses on disposal of property, plant and equipment	(2,733,010)
Profit before tax	154,783,811
Income tax expense	20,083,358
Net result from non-current assets sold or held for sale	42,002,321
Net profit	176,702,774

We can also assure you that we have checked that the separate and consolidated financial statements of AEM S.p.A. 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.

As regards the 2006 directors' report on operations, which was approved at the board meeting held on March 19, 2007 and delivered to us on that same date for our own considerations, following our various checks, we can confirm that they comply with the requirements of law, regulations and the articles of association regarding:

- preparation of the report on operations of the company and the group;
- preparation of the reports of the reports of the Independent Auditors.

We have also checked that:

- the report contains all of the information required by art. 2428 of the Civil Code;
- the report agrees and is consistent with the data and results of the separate and consolidated financial statements, helped in certain cases by the information received from the Independent Auditors;
- the information provided is complete and clear in light of the principles of truth, fairness and clarity laid down by law;
- the annual report is consistent with the facts and information of which we are aware.

We therefore express our opinion in favour of you approving the separate financial statements of AEM S.p.A., as well as the proposal of the Board of Directors regarding the allocation of net profit for the year.

Milan, April 10, 2007

The Board of Statutory Auditors

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

Independent Auditors' report

Ernst & Young

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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 financial statements of AEM S.p.A. 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 financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements represent the first financial statements prepared by AEM S.p.A. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

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 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 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 financial statements include the corresponding information for the prior year prepared in accordance with consistent accounting principles. In addition a specific paragraph included in the explanatory notes of the financial statements explain the effects of transition to IFRS as adopted by the European Union and include the reconciliation statements required by IFRS 1, which were previously approved by management and published as an attachment to the AEM Group Quarterly Report for the half-year interim financial statements, and which have been audited by us. Reference should be made to our audit report dated October 2, 2006.

In our opinion, the 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 S.p.A. 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

Separated Financial Statements 2006

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