

*Consolidated Report  
on Operations and  
Financial Statements 1997*



**ENEL S.p.a.**  
Registered office in Rome  
Via G.B. Martini, 3  
Share capital  
12,126,150,379,000 lire  
fully paid  
Rome Company Register no. 7050/92  
Chamber of Commerce no. 756032  
Tax Code 00811720580  
VAT Number 00934061003

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Energy, light, heat, power



Environment, ecology, vitality, strengthening  
our roots and expanding



A variety of services from a single centre,  
networks, connections



## **Board of Directors and Board of Statutory Auditors**

### **Board of Directors**

chairman

**Chicco Testa**

vice-chairman

**Alfonso Limbruno**

managing director

**Francesco Tatò**

directors

**Alberto Giovannini**

**Vittorio Grilli**

1997

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### **Board of Statutory Auditors**

chairman

**Bruno De Leo**

auditors

**Gustavo Minervini**

**Oreste Piemontese**

alternate auditor

**Francesco Bilotto**

### **General Manager**

**Claudio Poggi**

secretary of the board of directors

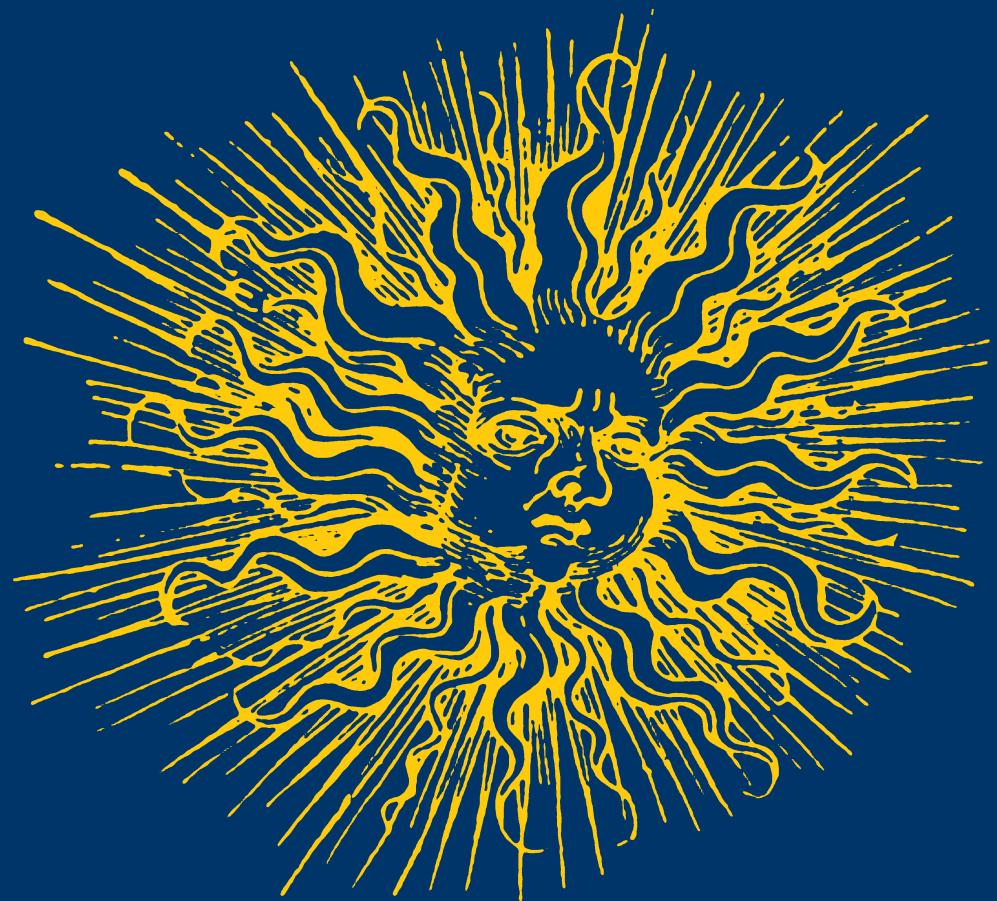
**Claudio Sartorelli**

independent auditors

**Arthur Andersen S.p.A.**



Energy, light, heat, power



Albrecht Dürer  
"Apocalypse", 1498  
*detail from the sixth woodcut*

## **Report on Operations**

## Background and summary of 1997 Group results

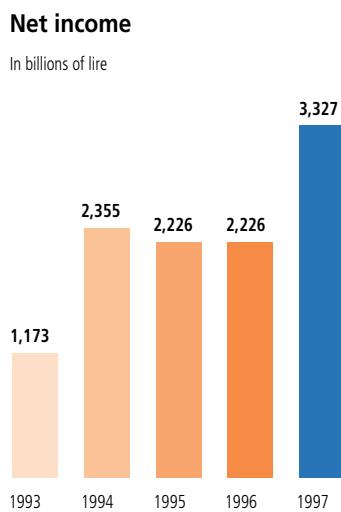
During 1997, the ENEL Group operated within a context of gradual economic recovery, particularly during the second half of the year, following the stagnation that characterized 1996. Annual average GDP growth reached 1.5% (during the fourth quarter of 1997 the figure rose to 2.8%) against the 0.7% of 1996, whilst manufacturing output grew by 2.1%, compared to the 1.7% decline witnessed in 1996. The recovery did not lead to inflationary pressures, which were successfully kept at bay by government policies, resulting in annual inflation down to 1.7% after the 3.9% of 1996. This in turn allowed for a reduction in interest rates. The official discount rate fell from 7.50% at the end of 1996 to 5.50% at the close of 1997, thus lowering the cost of borrowing for industry.

Following the almost nonexistent growth of 1996 (+0.1%), energy demand rose to 174.3 million TOE, up 0.9% with respect to the previous year. Demand for electricity supplied through the national grid increased by 3.5% with respect to 1996 (compared to growth of only 0.5% in 1996). Meanwhile, demand for electricity supplied by ENEL rose 2.8% (against 0.6% in 1996).

In this context, the ENEL Group saw further improvement in its operating performance compared to 1996.

The following table provides a summary of consolidated results, compared with those for 1996:

In billions of lire				
	1997	1996	1997-1996	
REVENUES FROM SALES AND SERVICES	37,792	36,841	951	+2.6%
- Other income and revenues	2,118	2,192	-74	-3.4%
- Capitalized production	2,009	2,537	-528	-20.8%
VALUE OF PRODUCTION	41,919	41,570	+349	+0.8%
- Fuel costs	(7,618)	(7,316)	(+302)	(+4.1%)
- Electricity purchases	(5,959)	(4,672)	(+1,287)	(+27.5%)
- Other external supplies	(4,799)	(5,647)	(-848)	(-15.0%)
ADDED VALUE	23,543	23,935	-392	-1.6%
- Personnel	(8,831)	(9,362)	(-531)	(-5.7%)
GROSS OPERATING INCOME	14,712	14,573	+139	+1.0%
- Amortization and depreciation	(5,695)	(5,604)	(+91)	(+1.6%)
- Provisions and write-downs	(328)	(734)	(-406)	(-55.3%)
OPERATING INCOME	8,689	8,235	+454	+5.5%
- Financial expense, net	(2,197)	(2,514)	(-317)	(-12.6%)
- Write-downs of financial assets	(176)	(1)	(+175)	-
INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	6,316	5,720	+596	+10.4%
- Extraordinary income (expense), net	96	32	+64	-
INCOME BEFORE TAXES	6,412	5,752	+660	+11.5%
- Income and capital taxes	(3,089)	(3,529)	(-440)	(-12.5%)
Minority interests	4	3	+1	+33.3%
GROUP NET INCOME FOR THE YEAR	3,327	2,226	+1,101	+49.5%



The results of operations for the year show Group **net income** of Lit. 3,327 billion, up 49.5% compared with 1996. The improvement in the Group's earnings performance was particularly significant, in that it was achieved in spite of the negative financial impact on the Parent Company's accounts of changes in the legislative and regulatory context. Furthermore, resolution 58/1998, dated June 12, 1998 of the Regulatory Authority for Electricity and Gas (the "Authority") resulted in ENEL having to make extraordinary provisions of Lit. 390 billion for write-downs of amounts due from the Electrical Industry Equalization Fund as reimbursements for nuclear-related charges. The overall effects were counterbalanced by the success in containing costs and improving operating efficiency, both essential if the Group is to make headway in an increasingly competitive market. The resulting return on equity (net income as a percentage of shareholder's equity) rose to 10.6%, against the 7.5% of 1996.

An analysis of the most significant Statement of Income components reveals that **revenues from sales** felt the effects of a slight drop in the Parent Company's tariff revenues, down to Lit. 24,998 billion from the Lit. 25,004 billion of 1996, despite a 2.6% increase in the quantity of electricity sold. This was due to the abolition of the so-called "price-shares", with effect from July 1, 1996, provided by law 577 of November 14, 1996, resulting in a Lit. 559 billion reduction in 1997 revenues with respect to the previous year. This was set against the Lit. 945 billion rise in contributions received from the Electricity Industry Equalization Fund, despite the negative effects of the Authority's resolution 70/1997, which changed the criteria for calculation of contributions due in relation to thermal generation and electricity imports.

The effect of the new calculation criteria, together with the higher cost of purchasing subsidized electricity from other domestic producers, led to a Lit. 736 billion increase in net thermal charges borne by ENEL with regard to electricity purchases and thermal generation, which rose to Lit. 1,551 billion.

The above situation was counterbalanced by a significant reduction in the cost of external supplies, which fell Lit. 848 billion (down 15%), as a result of rigorous cost-containment measures and improved operating efficiency, which allowed the Group to limit the decline in *added value* to Lit. 392 billion.

The restructuring process has led to a 6,503 reduction in the average headcount, leading to a Lit. 531 billion decrease in personnel costs (down 5.7%).

**Gross operating income** settled at a higher level than in 1996, marking a rise of Lit. 139 billion. **Operating income** totaled Lit. 8,689 billion, registering an increase of Lit. 454 billion, equal to 5.5%, and rose from 22.3% to 23% of revenues from sales. The combined effect of increased earnings and the containment of invested capital has fixed the ROI at 10.8%, against the 10.2% of 1996.

Net financial expense fell significantly, a decline of 12.6% (down Lit. 317 billion), which becomes 22.7% (down Lit. 633 billion) if items relating to the reserve for exchange rate fluctuations are excluded. These items showed a surplus of Lit. 277 billion in 1996 against a deficit of Lit. 39 billion in 1997.

The impact of net financial expense on revenues from sales was therefore reduced from the 6.8% of 1996 to 5.8% in 1997. Such an improvement was due to the fall in interest rates which took place over the year, in addition to the reduction in borrowing.

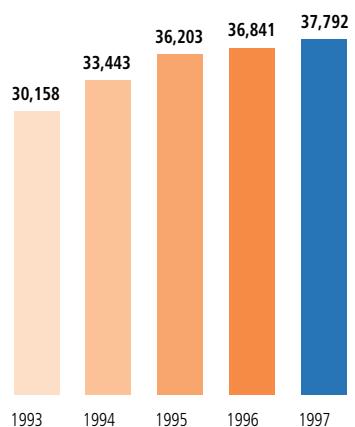
Write-downs of equity investments relate entirely to the associated company, NERSA.

The above components led to a 10.4% improvement in *income before extraordinary items and taxes*, a rise of Lit. 596 billion.

Extraordinary items, described in detail in the notes to the consolidated financial statements, resulted in net positive effect of Lit. 96 billion, against the Lit. 32 billion of the previous year.

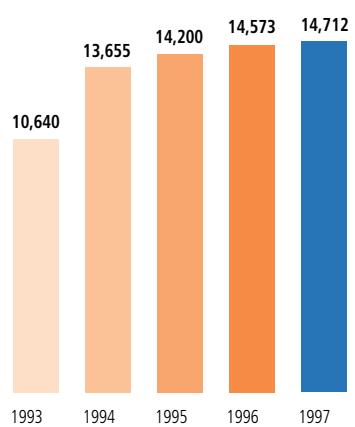
### Revenues from sales

In billions of lire



### Gross operating income

In billions of lire

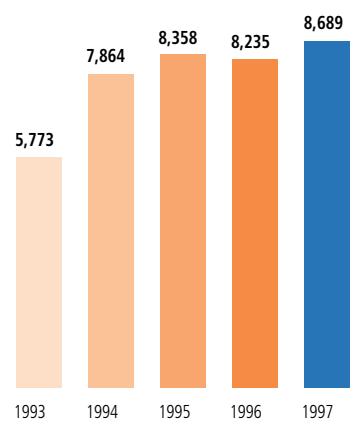


1997

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### Operating income

In billions of lire



The tax rate fell to 48.2%, from the 61.4% of 1996, due to the lower amount of deferred tax items following the replacement of ILOR with IRAP, and the reduced impact of income components subject to deferred tax deductibility.

The Group's cash flows in 1997 are summarized below:

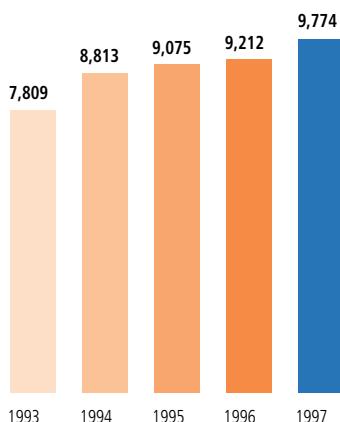
In billions of lire

	1997	1996	1997-1996
<b>A) Total borrowing - year opening</b>	<b>34,508</b>	<b>35,277</b>	<b>-769</b>
<b>B) Cash flow from (for) operating activities:</b>			
- Cash flow (adjusted net income)	9,774	9,212	+562
- Change in working capital	(1,388)	(1,401)	(-13)
<b>Total</b>	<b>8,386</b>	<b>7,811</b>	<b>+575</b>
<b>C) Cash flows for (from) investing activities:</b>			
- Tangible fixed assets	6,466	7,372	-906
- Intangible and financial fixed assets, and other changes	(970)	(1,361)	(-391)
<b>Total</b>	<b>5,496</b>	<b>6,011</b>	<b>-515</b>
<b>D) Balance of cash flows for the year (B - C)</b>	<b>2,890</b>	<b>1,800</b>	<b>+1,090</b>
- Payment of dividends	(1,200)	(1,031)	(+169)
<b>E) Decrease (+) Increase (-) in total borrowing</b>	<b>1,690</b>	<b>769</b>	<b>+921</b>
<b>F) Total borrowing - year end (A - E)</b>	<b>32,818</b>	<b>34,508</b>	<b>-1,690</b>

1997  
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### Cash flow

In billions of lire



Cash flows generated by operating activities, represented by net income adjusted for expenses not involving a cash outlay (**cash flow**) and the change in working capital, totaled Lit. 8,386 billion. This enabled the Group to cover net investment of Lit. 5,496 billion and the Parent Company's dividend payments for 1996 totaling Lit. 1,200 billion, in addition to allowing for a Lit. 1,690 billion reduction in total borrowing.

The Lit.1,388 billion increase in *working capital* (Lit. 1,401 billion in 1996) was influenced by events beyond the Group's control, linked to the bringing forward of the deadline for the payment of sales taxes and social security contributions, partially compensated for by the containment of other items, such as stock held during the year. *Investment in plant* totaled Lit. 6,466 billion, down Lit. 906 billion with respect to 1996 (12.3%). The decrease in capital expenditure, which affected all types of plant and equipment, is linked to the reduction in the unit prices of supplies, the standardization of components and the rationalization of the various initiatives, aimed primarily at meeting customers' needs and improving the quality of services.

The remaining items under fixed assets generated cash flows of Lit. 970 billion, mainly due to the receipt of amounts due to cover nuclear-related charges, in addition to the collection of the installment due from INPS (the National Institute of Social Insurance) for relief on contributions dating back to before 1991.

*Total borrowing* fell by Lit. 1,690 billion. This represents the balance of repayments of long-term loans, totaling Lit. 3,119 billion, and new borrowing, amounting to Lit. 1,084 billion. It also takes account of the Lit. 345 billion change in the amount of short-term borrowing and bonds in the portfolio. New loans were raised primarily on the domestic and Eurolira markets. Total borrowing, as of year-end, totaled Lit. 32,818 billion, and breaks down as follows:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Bonds	16,388	17,902	-1,514
Long-term loans	15,785	16,306	-521
<b>Long-term borrowing</b>	<b>32,173</b>	<b>34,208</b>	<b>-2,035</b>
Net short-term borrowing	788	556	+232
Bonds in the portfolio	(143)	(256)	+113
<b>Total borrowing</b>	<b>32,818</b>	<b>34,508</b>	<b>-1,690</b>

Taking into account net receivables due from the Equalization Fund and INPS in relation to relief on social security contributions dating back to previous years, total borrowing declines to Lit. 25,719 billion, as follows:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996	
<b>Total borrowing</b>	<b>32,818</b>	<b>34,508</b>	<b>-1,690</b>	<b>1997</b>
Amounts due for nuclear-related costs, net	(1,993)	(3,496)	(-1,503)	11
Current receivables due from the Equalization Fund, net	(4,462)	(4,344)	(+118)	
Present value of receivable due from INPS as relief on contributions for previous years, net	(644)	(769)	(-125)	
<b>Actual borrowing</b>	<b>25,719</b>	<b>25,899</b>	<b>-180</b>	

The collection of the above receivables, which currently assume an improper significant weight in ENEL's financial position, would reduce the Company's borrowing to a level below that of shareholder's equity (borrowing as a proportion of shareholder's equity would then be equal to 0.8).

The Group's Balance Sheet as of December 31, 1997, as compared with that as of December 31, 1996, is summarized in the following table:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Net fixed assets	79,460	80,680	-1,220
Working capital	1,328	(59)	+1,387
<b>Invested capital</b>	<b>80,788</b>	<b>80,621</b>	<b>+167</b>
Sundry reserves	(15,430)	(15,696)	(-266)
<b>Capital requirements</b>	<b>65,358</b>	<b>64,925</b>	<b>+433</b>
COVERED BY			
Group shareholder's equity	32,515	30,388	+2,127
Minority interests	25	29	-4
Total borrowing	32,818	34,508	-1,690
<b>Total</b>	<b>65,358</b>	<b>64,925</b>	<b>+433</b>

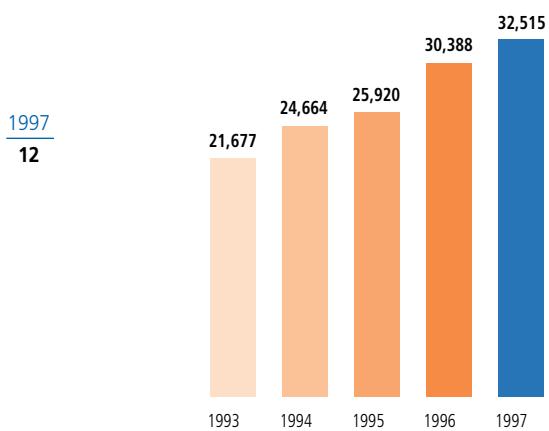
The most significant aspects of the Balance Sheet are described below:

- **Group shareholder's equity** increased with respect to the previous year (Lit. 32,515 billion, against the Lit. 30,388 billion of 1996);
- **total borrowing** stood at Lit. 32,818 billion compared to Lit. 34,508 billion in the previous year, representing 40.6% of invested capital, against 42.8% in 1996 and 44.5% in 1995;
- as a result, the ratio of total borrowing to shareholder's equity improved, declining from 1.1 in 1996 to 1.0 (0.8 if the above-mentioned receivables from previous years are excluded).

The table on the following page shows key operating data and ratios, summarizing the Group's operating performance in 1997 and over the previous four years.

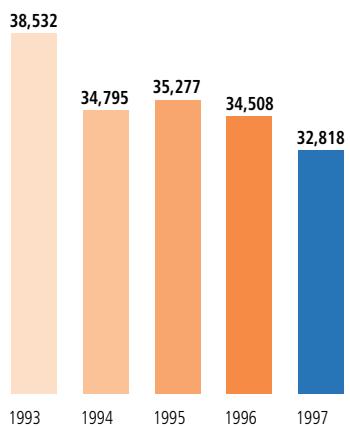
### Group shareholder's equity

In billions of lire



### Total borrowing

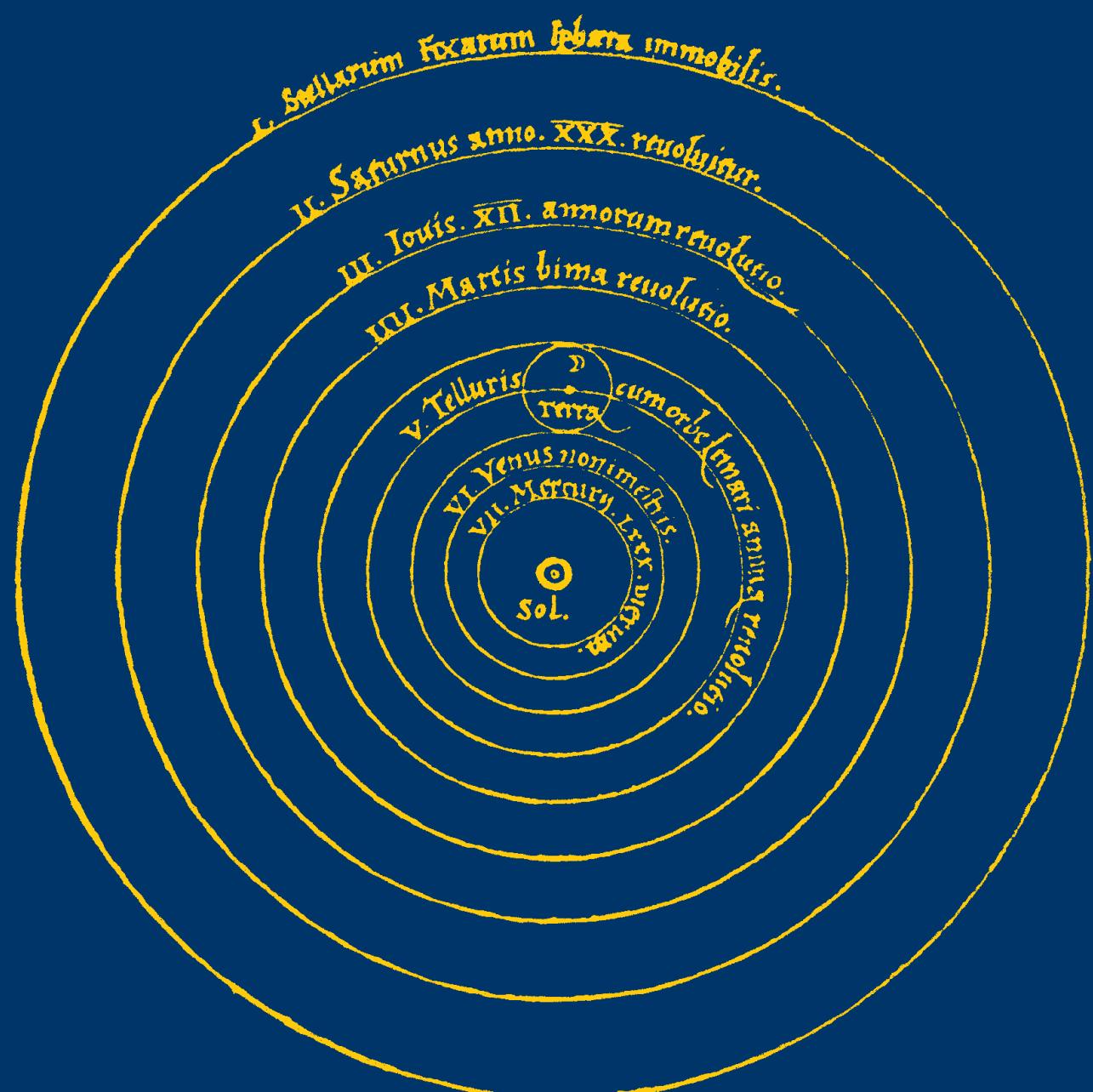
In billions of lire



## Key operating data and ratios (ENEL Group)

	1993	1994	1995	1996	1997	1997 13
<b>Statement of income data</b> (in billions of lire)						
Revenues from sales	30,158	33,443	36,203	36,841	37,792	
Added value	19,495	22,834	23,754	23,935	23,543	
Gross operating income	10,640	13,655	14,200	14,573	14,712	
Operating income	5,773	7,864	8,358	8,235	8,689	
Net income	1,173	2,355	2,226	2,226	3,327	
<b>Balance sheet data</b> (in billions of lire)						
Invested capital	75,625	76,065	79,199	80,621	80,788	
Shareholder's equity	21,677	24,664	25,920	30,388	32,515	
Total borrowing	38,532	34,795	35,277	34,508	32,818	
Cash flow	7,809	8,813	9,075	9,212	9,774	
Capital expenditure	8,774	8,026	7,494	7,372	6,466	
<b>Economic-financial ratios</b> (in percentage form)						
Gross operating income as a % of revenues from sales and services	35.3	40.8	39.2	39.5	38.9	
Operating income as a % of revenues from sales and services	19.1	23.5	23.1	22.3	23.0	
Net financial expense as a % of revenues from sales	15.9	9.9	9.2	6.8 <sup>(*)</sup>	5.8	
Total borrowing as a % of invested capital	50.9	45.7	44.5	42.8	40.6	
Total borrowing over shareholder's equity (absolute value)	1.8	1.4	1.4	1.1	1.0	
Cash flow as a % of capital expenditure	89.0	109.8	121.1	124.9	151.2	
Operating income as a % of invested capital	7.6	10.3	10.6	10.2	10.8	
Net income as a % of shareholder's equity	5.5	10.2	8.8	7.5	10.6	
<b>Year-end headcount</b>	107,607	103,550	97,937	95,464	88,957	
<b>Operating data</b>						
Gross electricity generated	TWh	177.5	182.4	190.6	189.9	187.0
Electricity sold	TWh	198.4	205.4	211.6	213.8	219.3
Customers at year-end	000s	27,955	28,246	28,495	28,727	29,032
Customers served per employee	No.	264	277	296	306	332
Electricity sold per employee	MWh	1,875	2,016	2,198	2,277	2,507
Average annual consumption per direct customer	kWh	6,805	6,977	7,117	7,132	7,265

<sup>(\*)</sup>Excluding the surplus from the reserve for exchange rate fluctuations, the percentage would be 7.6%.



## Group strategy and organization guidelines in the framework of the electricity market

The electricity market trends may be characterized as follows:

- slower growth in consumption, after the average rate of more than 3% seen in previous years, with estimates putting future growth at around 2%;
- deregulation of the market that will lead to a free market for electricity, comprising customers who consume large quantities (so-called "eligible customers"), who will be able to choose their supplier from among a number of producers of electricity;
- a potential reduction in market share, as a result of the current deregulation process, amounting to around a third of domestic consumption by 2003;
- a fall in electricity tariffs in both the free and regulated markets, due to increased competition and Electrical Energy and Gas Authority policies.

In response to the above trends and in order to ward off the negative effects, ENEL has drawn up a strategy focussing in two principal directions: full exploitation of its resources and diversification of its activities. Such objectives are to be achieved via the "unbundling" project, which began in January 1997. The project has led to the transformation of the Group's organization, from hierarchical, functionally based structures, which carried out all the various processes throughout the country, to a divisional model.

The new model is based on a structure with three operating Divisions, defined according to the Group's principal operating processes (Generation, Transmission and Distribution), and a number of supporting Units supplying technical and management services, focussing on precise business areas (Nuclear Plant Management, Engineering and Construction, Estate Management and General Services, Research and Development, Information Technology and Telecommunications). The Divisions are further divided among Area head offices, responsible for managing plant and relations with customers and local authorities. The new organizational structure is more decentralized with 41 Area head offices.

This form of structure combines the advantages deriving from a greater focus on each aspect of the business and specific areas of responsibility, with the rationalization of the services provided by the previous area head offices.

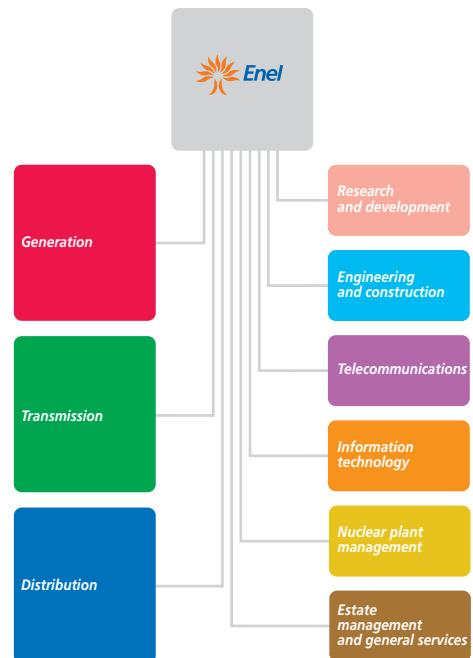
As a result, the organization is more decentralized, processes are simplified and the Group is in a better position to exploit potential economies of scale.

The divisional model is of fundamental importance to ENEL, both in terms of external requirements, represented by the financial and operational "unbundling" required by EU Directive 96/92, and in order to prepare to face the above-mentioned deregulation of the market, whilst also taking account of the strategies being adopted by other European electricity suppliers.

The objectives to be pursued via the adoption of the new organizational structure are as follows:

- the separation of generation, transmission and distribution activities, with each Division responsible for its financial reports and operating performance (Generation, Transmission and Distribution);
- the transfer of responsibility for profitability to the operating Divisions and Units;
- the elimination of overlap in terms of both operations and responsibilities, and the pursuit of economies of scale.

### ENEL organizational structure



The model provides for a decentralization of operations and responsibilities, with the central function (Corporate) focussing on strategy, control and coordination. In order to define the criteria allowing the accounting separation of electrical activities, ENEL is awaiting the Authority's directives, to be issued in accordance with Law 481/1995 and the "licensing decree" of December 1995. As part of its new organizational structure, as of January 1, 1998, ENEL has introduced a "divisionalized accounting system", providing each Division and supporting Unit with the necessary administrative independence to ensure the efficiency of operations.

### **Generation**

The Generation Division's mission is to provide power and electricity generation at the lowest possible cost, whilst ensuring that the quality of services respects certain pre-defined parameters.

The Generation Division:

- provides, at agreed prices, contractually fixed levels of power, in addition to carrying out regulation of the electric system;
- maintains the variable costs of generation at an optimum level, primarily through the containment of fuel consumption and costs;
- enters into contracts for the sale of electricity and connected services to the Transmission Division;
- proposes and plans the actions necessary in order to achieve the Division's objectives.

The Generation Division breaks down into eleven head office units and nineteen area offices, which oversee the generation process.

The operating Units (power stations and generating units) are under the direction of the Area offices, which make use of head office staff functions for strategic planning and control.

## The balance of electricity

Demand for electricity supplied through ENEL's network in 1997 amounted to 236,321 million kWh, representing approximately 87% of total domestic demand, showing an increase of 2.8% with respect to 1996. The overall balance breaks down as follows:

In millions of kWh

	1997	1996	1997-1996	
<b>Gross production</b>	<b>187,031</b>	<b>189,916</b>	<b>-2,885</b>	<b>-1.5%</b>
Hydroelectric	34,086	35,236	-1,150	-3.3%
Thermal	149,024	150,910	-1,886	-1.2%
Geothermal	3,905	3,762	+143	+3.8%
Wind-power and photovoltaic	16	8	+8	+100.0%
<b>Electricity absorbed</b>				
<b>by generating auxiliaries</b>	<b>-9,830</b>	<b>-10,041</b>	<b>-211</b>	<b>-2.1%</b>
<b>Net production</b>	<b>177,201</b>	<b>179,875</b>	<b>-2,674</b>	<b>-1.5%</b>
Hydroelectric	33,595	34,723	-1,128	-3.2%
Thermal	139,919	141,611	-1,692	-1.2%
Geothermal	3,672	3,533	+139	+3.9%
Wind-power and photovoltaic	15	8	+7	+87.5%
<b>From other domestic</b>				
<b>producers</b>	<b>36,640</b>	<b>28,405</b>	<b>+8,235</b>	<b>+29.0%</b>
Purchases	26,623	18,616	+8,006	+43.0%
Other acquisitions	10,017	9,789	+228	+2.3%
<b>Imports</b>	<b>39,827</b>	<b>38,149</b>	<b>+1,678</b>	<b>+4.4%</b>
Purchases	38,698	37,147	+1,551	+4.2%
Other acquisitions	1,129	1,002	+127	+12.7%
<b>ELECTRICITY SUPPLIED</b>				
<b>THROUGH THE GRID</b>	<b>253,668</b>	<b>246,429</b>	<b>+7,239</b>	<b>+2.9%</b>
<b>Energy absorbed by pumping</b>	<b>-6,647</b>	<b>-6,780</b>	<b>-133</b>	<b>-2.0%</b>
<b>Supplies to Italian customers</b>	<b>-10,445</b>	<b>-9,451</b>	<b>+994</b>	<b>+10.5%</b>
<b>Supplies to foreign customers</b>	<b>-995</b>	<b>-760</b>	<b>+235</b>	<b>+30.9%</b>
<b>Other</b>	<b>740</b>	<b>446</b>	<b>+294</b>	<b>+65.9%</b>
<b>DEMAND</b>	<b>236,321</b>	<b>229,884</b>	<b>+6,437</b>	<b>+2.8%</b>
<b>ENEL's own consumption</b>	<b>-614</b>	<b>-604</b>	<b>+10</b>	<b>+1.7%</b>
<b>Losses through the grid</b>	<b>-15,704</b>	<b>-15,072</b>	<b>+632</b>	<b>+4.2%</b>
as a % of electricity supplied through the grid	6.2%	6.1%		
as a % of demand	6.6%	6.6%		
<b>Other</b>	<b>-740</b>	<b>-446</b>	<b>+294</b>	<b>+65.9%</b>
<b>SALES TO ITALIAN CUSTOMERS</b>	<b>219,263</b>	<b>213,762</b>	<b>+5,501</b>	<b>+2.6%</b>

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Despite the increase in demand, ENEL's net production fell 1.5% from 179,875 million kWh in 1996 to 177,201 million kWh in 1997. The reduction was primarily a result of the significant increase (43%) in the quantity of electricity which ENEL is obliged to purchase from other domestic producers, up from the 18,616 million kWh of 1996 to 26,623 million kWh in 1997. Such electricity is, for the most part, generated using renewable or similar energy sources and benefits from subsidies granted by CIP Directive 6/1992 and subsequent amendments.

Total subsidized electricity generated by other domestic producers (21.1 billion kWh, an increase of 59% with respect to 1996) and ENEL (5.8 billion kWh, up 45% with respect to 1996) amounted to 26.9 billion kWh (up 43% compared to 1996).

The increase in the quantity of electricity purchased from foreign producers was less pronounced (4.2%), represented mainly by spot market purchases of electricity offered at particularly good prices.

Peak demand for electricity supplied through ENEL's network occurred at 5.00 p.m. on December 16, 1997 and amounted to 41,706 MW, representing an increase of 6.3% with respect to 1996 (39,247 MW).

### Fuel consumption

The following table provides a breakdown of thermal generation by type of fuel used.

	Gross electricity generation (in millions of kWh)			
	1997		1996	
Coal	20,174	13.6%	21,643	14.4%
Fuel oil	97,956	65.7%	101,957	67.6%
Natural gas	30,764	20.7%	27,191	18.0%
Other fuels	130	-	119	-
<b>Total</b>	<b>149,024</b>	<b>100.0%</b>	<b>150,910</b>	<b>100.0%</b>

Coal-fired generation fell 6.8% with respect to 1996, whilst its contribution to total thermal generation declined to 13.6% (against 14.4% in 1996). Around 7 million tons of coal were used in 1997.

The quantity of electricity generated from fuel oil also fell (3.9%), continuing the downward trend which began in 1995. Such electricity represented 65.7% of total thermal generation (against 67.6% in 1996), whilst a total of 21.2 million tons of fuel oil were used.

Generation fuelled by natural gas, on the other hand, increased significantly (up 13.1%). Such generation now represents 20.7% of total thermal generation, up from 18.0% in 1996.

A total of 7,686 million cubic meters of natural gas was used in 1997.

### Plant entering service

In 1997, gross efficient generating plant capacity rose overall by 1,151 MW, including 1,005 MW contributed by conventional thermal plants, 47 MW by geothermal plants, 90 MW by hydroelectric plants and 9 MW by wind powered and photovoltaic generation.

Thermal plants entering service were as follows:

- the third 660 MW steam unit at Montalto di Castro power station;
- the second module of the combined-cycle power station at Trino Leri, comprising two 120.5 MW gas-turbine units and a 104 MW steam unit, providing a total of 345 MW.

The following geothermal plants entered service:

- two 16 MW units at Monteverdi power station;
- one 16 MW unit at the Carboli power station.

New hydroelectric power stations comprised the following:

- one 46 MW set at the Palazzo II power station;
- 3 sets, providing a total of 12 MW, at the Cordenons power station.

The modernization of Set 2 at the Riva del Garda power station was also completed, providing a 58 MW increase in capacity.

## Total generating capacity

ENEL's net efficient generating plant capacity, as of 12.31.1997, stood at 56,236 MW, representing an increase of 1,130 MW (1,151 MW in gross terms) with respect to 1996. The following table shows a breakdown of total net efficient capacity by type of plant.

	Net efficient capacity (MW)	
	as of 12.31.1997	as of 12.31.1996
Hydroelectric	16,478	16,379
Thermal	39,212	38,234
Geothermal	529	485
Wind-power and photovoltaic	17	8
<b>Total</b>	<b>56,236</b>	<b>55,106</b>

## Plants under construction

1998 should see the entry into service of the fourth 660 MW multi-fuel unit at Montalto di Castro thermal power station.

Work on the thermal power stations at Turbigo Levante, Fusina, La Casella, Torrevaldaliga Nord, Torrevaldaliga Sud, Fiume Santo, Sulcis, Brindisi Sud, Rossano Calabro and Termini Imerese, bringing them into line with environmental regulations, should also be completed during 1998.

As regards hydroelectric plants, 1998 will see the Pelton set enter service at the S.Giacomo al Vomano power station (271 MW) and sets 3,4,5 and 6 enter service at Trezzo sull'Adda (7 MW).

## Transmission

The Transmission Division's mission is to guarantee a high quality service in terms of the safety and reliability of the electric system as a whole, whilst keeping costs to a minimum.

As far as the direct impact on the Transmission Division is concerned, the new trends in the regulation of the electricity system - at both domestic and European level - lead to:

- the gradual increase in the proportion of total electricity generation represented by other domestic producers, operating within the regulated market (with the additional future prospect of competitive tenders to provide new generating capacity);
- the need to open up the transmission system and a number of services to producers intending to supply electricity to "eligible customers" in the free market.

Within this context, the Division's activities are centered on:

- the dispatching of electricity according to clearly defined regulations, whilst aiming to minimize the overall cost of production in the regulated market;
- to open up the transmission system to both the regulated market and the "eligible customers" within the context of the free market, guaranteeing the required qualitative and quantitative improvements in the service and ensuring that supplies are safe, reliable and uninterrupted over the short-, medium- and long-term.

In view of the above, the Transmission Division:

- proposes and plans the actions necessary to ensure the minimum environmental impact of the transmission system, maximum returns on capital expenditure and reductions in operating costs, whilst continuing to guarantee a satisfactory level of service;
- enters into contracts for the purchase of electricity from the Generation Division and the sale of electricity and connected services to the Distribution Division (and other distributors as market deregulation develops).

The Transmission Division has a head office staff, a National Control Center and eight area offices, which operate independently.

## Total transmission capacity

Total transmission capacity, as of December 31, 1997, breaks down by voltage as follows:

Stations	no.	229	Lines	21,742	km
Transformers	no.	551	Triads	25,079	km
Stalls	no.	3,138	Optical fiber	1,406	km

During 1997, 64 km of transmission lines entered service (including 27 km of 380 kV lines), together with new or repowered 380 kV and 220 kV transformer stations, representing increases in transformer capacity of 2,000 MVA and 625 MVA, respectively.

By the end of 1998, the 380 kV long-distance lines connecting S.Fiorano-Gorlago, Matera-S.Sofia, Galatina-Taranto Nord, Chiaramonte Gulfi-ISAB Melilli, Rumianca-Sarroch and Rumianca-Selargius should be completed, providing a further 531 km altogether.

## Distribution

The above-mentioned trends in the electricity system, as regards the Distribution Division, present the following aspects:

- the growing importance of the quality of services supplied, particularly in view of the potential for "eligible customers" to purchase electricity from other suppliers;
- the increasing emphasis placed on efficiency improvements.

In this context, the Distribution Division's mission is to provide a high quality service, in accordance with the guidelines laid down by the "Service Charter" and the objectives established with regard to customer retention. Prices are to be set at competitive levels, in line with those applied by major foreign distributors.

In view of the above, the Distribution Division:

- proposes and plans actions aimed at ensuring achievement of the Division's objectives (maximum returns on capital expenditure, reduction of operating costs, improvement in service quality, constant attention to customer satisfaction);
- enters into contracts for the purchase of electricity and connected services from the Transmission Division.

The Distribution Division is organized into a number of staff functions and 14 area offices, capable of serving the entire country with medium- and low-voltage supplies.

## Total distribution capacity

Total distribution capacity as of December 31, 1997 breaks down as follows:

			km	no.	Transformer capacity (MVA)
<b>Primary plant</b>	High-voltage lines (40 - 220 kV)	32,158	-	-	-
	Primary substations	-	1,744		83,308
<b>Secondary plant</b>	Medium-voltage lines (1 - 30 kV)	321,858	-	-	-
	Low-voltage lines	685,034	-	-	-
	Secondary substations	-	324,128		62,169

1997 saw the installation of 726 km of new high-voltage lines (40 - 220 kV), 215 primary substations with a total capacity of 3,325 MVA, 10,220 km of medium-voltage lines, 21,189 km of low-voltage lines and 17,021 secondary substations with a total capacity of 1,644 MVA.

## Electricity sales and growth of the customer base

In 1997, ENEL sold a total of 219,263 million kWh, representing an increase of 2.6% with respect to 1996. The rise reflects the Italian economic recovery and, in particular, the pick-up in manufacturing output, which, following a downturn during the first quarter, recovered strongly to register a growth of 2.1% for the year as a whole.

After a good start to the year, sales growth slowed during the first six months (up 0.6%), before accelerating to reach 4.8% in the second half.

The following table shows ENEL's electricity sales for 1997 by customer category, compared with 1996.

Electricity sold (in millions of kWh)			
	1997	1996	1997-1996
<b>Customer category:</b>			
Public lighting	4,524	4,377	+3.4%
Household use:			
- up to 3 kW	46,511	46,180	+0.7%
- over 3 kW	3,010	2,941	+2.3%
Total household use	49,521	49,121	+0.8%
Non-household use:			
- up to 30 kW	28,503	27,946	+2.0%
- from 30 to 500 kW	42,551	40,687	+4.6%
- over 500 kW	81,044	77,865	+4.1%
Total non-household use	152,098	146,498	+3.8%
Italian State Railways (traction)	4,791	4,892	-2.1%
<b>Direct sales to final customers (A)</b>	<b>210,934</b>	<b>204,888</b>	<b>+3.0%</b>
<b>Domestic distributors (B)</b>	<b>8,158</b>	<b>8,713</b>	<b>-6.4%</b>
<b>TOTAL SALES IN ITALY (A + B)</b>	<b>219,092</b>	<b>213,601</b>	<b>+2.6%</b>
<b>Foreign sales (C)</b>	<b>171</b>	<b>161</b>	<b>+6.4%</b>
<b>TOTAL (A + B + C)</b>	<b>219,263</b>	<b>213,762</b>	<b>+2.6%</b>

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Sales of electricity for household use rose 0.8%, providing further confirmation of the slowdown witnessed over recent years. This is mainly due to a pricing structure which penalizes high rates of consumption and therefore discourages the further spread of electrical appliances.

Sales to other users increased by 3.8% in 1997. Whilst growth in the up-to-30 kW category showed signs of a slowdown, in line with that seen in recent years (+2%), supplies to the 30-500 kW and the over-500 kW categories grew by 4.6% and 4.1%, respectively, in keeping with the recovery in manufacturing.

The following table shows electricity sales by user sector.

In millions of kWh

	1997	1996	1997-1996	
<b>Manufacturing</b>				
Iron and steel	13,820	13,518	+302	+2.2%
Non-ferrous metals	5,398	5,424	-26	-0.5%
Chemicals and similar industries	10,210	10,198	+12	+0.1%
Building materials and glass	11,400	11,086	+314	+2.8%
Paper and paper processing	5,411	5,246	+165	+3.1%
Food production	8,699	8,563	+136	+1.6%
Engineering	16,025	15,110	+915	+6.1%
Vehicles	3,598	3,332	+266	+8.0%
Rubber and plastics	7,806	7,270	+536	+7.4%
Textiles and clothing	10,176	9,655	+521	+5.4%
Wood and furniture	3,413	3,233	+180	+5.6%
Building	896	965	-69	-7.2%
Energy and water	6,714	6,458	+256	+4.0%
Other	695	648	+47	+7.2%
<b>Total manufacturing</b>	<b>104,261</b>	<b>100,706</b>	<b>+3,555</b>	<b>+3.5%</b>
<b>Services</b>				
Transport	7,440	7,453	-13	-0.2%
Communications	2,261	2,188	+73	+3.3%
Trade	11,596	10,998	+598	+5.4%
Hotels, bars, restaurants, etc.	6,893	6,566	+327	+5.0%
Banking and insurance	1,953	1,911	+42	+2.2%
Other marketable services	7,851	7,590	+261	+3.4%
Unmarketable services	11,505	11,034	+471	+4.3%
<b>Total services</b>	<b>49,499</b>	<b>47,740</b>	<b>+1,759</b>	<b>+3.7%</b>
<b>Agriculture</b>	<b>4,195</b>	<b>3,965</b>	<b>+230</b>	<b>+5.8%</b>
<b>Household and general building services</b>	<b>52,979</b>	<b>52,477</b>	<b>+502</b>	<b>+1.0%</b>
<b>TOTAL SALES TO FINAL CUSTOMERS</b>	<b>210,934</b>	<b>204,888</b>	<b>+6,046</b>	<b>+3.0%</b>

Manufacturing industry demand rose 3.5%, compensating for the downturn seen in 1996 (-1.0%). The rise in consumption was witnessed across all sectors, with the most robust increases in transport (8%), rubber and plastics (7.4%), engineering (6.1%), textiles and clothing (5.4%) and energy and water (4.0%). A number of sectors which saw a decline in consumption during 1996 registered significant recoveries: the iron and steel industry swung from a decrease of 9.8% in 1996 to an increase of 2.2% in 1997, whilst wood and furniture switched from a decline of 1.7% to a rise of 5.6%, and building materials and glass saw a 2.8% increase after the 0.9% downturn of 1996. Demand from the chemical industry remained stable (up 0.1%), whilst non-ferrous metals declined by 0.5% and the building industry crisis continued (consumption down 7.7% in 1996 and 7.2% in 1997). The paper and paper processing (up 3.1%) and food production (up 1.6%) industries consolidated the growth seen in the previous year.

Consumption in the services sector was up by 3.7%, representing a slowdown after the 4.3% increase of 1996. The greatest increases were seen in trade (up 5.4%) and hotels, bars, restaurants, etc., where consumption rose 5.0%, whilst communications (up 3.3%) registered more restrained growth.

Agricultural consumption rose by 5.8%, more than any increase seen in recent years.

The following table shows the number of customers in the various categories as

of December 31, 1997, compared with the end of 1996. At the close of 1997, the total number of customers served by ENEL amounted to 29,032,851, an increase of 305,835 with respect to 1996, equal to 1.1%.

	number of customers			
	as of 12.31.1997	as of 12.31.1996	1997-1996	
Public lighting	125,188	121,233	+3,955	+3.3%
Household use:				
- up to 3 kW - residents	18,149,387	18,023,460	+125,927	+0.7%
- up to 3 kW - non-residents	3,824,245	3,724,145	+100,100	+2.7%
Total up to 3 kW	21,973,632	21,747,605	+226,027	+1.0%
- over 3 kW	690,184	679,544	+10,640	+1.6%
Total household use	22,663,816	22,427,149	+236,667	+1.1%
Non-household use:				
- up to 30 kW	6,034,874	5,976,785	+58,089	+1.0%
- from 30 to 500 kW	199,574	192,720	+6,854	+3.6%
- over 500 kW	9,255	8,984	+271	+3.0%
Total non-household use	6,243,703	6,178,489	+65,214	+1.1%
Domestic distributors	144	145	-1	-0.7%
<b>Total</b>	<b>29,032,851</b>	<b>28,727,016</b>	<b>+305,835</b>	<b>+1.1%</b>

Business customers recorded an increase of 1.1%, after the 0.7% of the previous year. Customers in the 30-500 kW category saw a particularly strong rise (up 3.6%), as did those in the over-500 kW band (3.0%). Small businesses also showed signs of accelerated growth with a rise of 1.0% in 1997, against 0.6% in 1996.

The following table shows a breakdown of household users by contracted power band:

	as of 12.31.1997		as of 12.31.1996		1997-1996
Supplies up to 3 kW:					
- Residents					
1.5 kW	698,221	3.1%	761,519	3.4%	-8.3%
3 kW	17,451,166	77.0%	17,261,941	77.0%	+1.1%
Total	18,149,387	80.1%	18,023,460	80.4%	+0.7%
- Non-residents					
1.5 kW	710,412	3.1%	715,673	3.2%	-0.7%
3 kW	3,113,833	13.8%	3,008,472	13.4%	+3.5%
Total	3,824,245	16.9%	3,724,145	16.6%	+2.7%
<b>Total supplies up to 3 kW</b>	<b>21,973,632</b>	<b>97.0%</b>	<b>21,747,605</b>	<b>97.0%</b>	<b>+1.0%</b>
Supplies over 3 kW:					
- 4.5 kW	160,080	0.7%	167,983	0.7%	-4.7%
- 6 kW	460,943	2.0%	443,067	2.0%	+4.0%
- over 6 kW	69,161	0.3%	68,494	0.3%	+1.0%
<b>Total supplies over 3 kW</b>	<b>690,184</b>	<b>3.0%</b>	<b>679,544</b>	<b>3.0%</b>	<b>+1.6%</b>
<b>TOTAL</b>	<b>22,663,816</b>	<b>100.0%</b>	<b>22,427,149</b>	<b>100.0%</b>	<b>+1.1%</b>

The following table shows summarized data regarding customers and electricity sales in 1997, compared with the previous year's figures, broken down by geographical area and by region.

	number of customers	Electricity sold (*)			
		in millions of kWh		change	
	as of 12.31.1997	1997-1996	1997	1997-1996	
Piemonte	2,352,408	+13,908	+0.6%	18,952.0	+1.4%
Valle d'Aosta	111,748	-174	-0.2%	800.7	+10.0%
Liguria	1,181,234	+1,264	+0.1%	5,290.3	+0.4%
Lombardia	4,176,242	+53,590	+1.3%	44,725.5	+3.0%
Trentino Alto Adige	275,521	+4,117	+1.5%	3,283.3	+4.4%
Veneto	2,193,672	+30,971	+1.4%	20,585.3	+3.7%
Friuli Venezia Giulia	531,301	+5,910	+1.1%	6,468.9	+4.8%
Emilia Romagna	2,148,756	+30,371	+1.4%	17,594.0	+3.1%
<b>Northern Italy</b>	<b>12,970,882</b>	<b>+139,957</b>	<b>+1.1%</b>	<b>117,700.0</b>	<b>+2.9%</b>
Toscana	2,081,644	+24,179	+1.2%	15,081.8	+4.3%
Marche	772,228	+8,388	+1.1%	4,922.8	+2.6%
Umbria	406,185	+4,746	+1.2%	4,909.0	+2.5%
Lazio	2,195,051	+17,069	+0.8%	15,878.3	+0.8%
<b>Central Italy</b>	<b>5,455,108</b>	<b>+54,382</b>	<b>+1.0%</b>	<b>40,791.9</b>	<b>+2.5%</b>
Abruzzo	739,205	+11,095	+1.5%	5,006.5	+3.7%
Molise	196,359	+1,418	+0.7%	1,060.8	+5.8%
Campania	2,508,486	+22,889	+0.9%	13,325.2	+2.2%
Puglia	2,088,994	+27,840	+1.4%	9,322.3	+2.8%
Basilicata	329,905	+1,446	+0.4%	1,915.8	+6.3%
Calabria	1,140,456	+9,291	+0.8%	4,253.8	+1.8%
<b>Southern Italy</b>	<b>7,003,405</b>	<b>+73,979</b>	<b>+1.1%</b>	<b>34,884.4</b>	<b>+2.8%</b>
Sicilia	2,718,606	+24,928	+0.9%	12,333.8	+1.9%
Sardegna	884,850	+12,589	+1.4%	8,591.0	+0.5%
<b>The Islands</b>	<b>3,603,456</b>	<b>+37,517</b>	<b>+1.1%</b>	<b>20,924.8</b>	<b>+1.3%</b>
<b>TOTAL</b>	<b>29,032,851</b>	<b>+305,835</b>	<b>+1.1%</b>	<b>214,301.1</b>	<b>+2.7%</b>

<sup>(\*)</sup> Excluding supplies to the Italian State Railways and foreign customers.

### Customer relations and service quality

1997 saw ENEL make further strides towards becoming a customer-centered organization, within the context of a new type of relationship with its customers. From a technical point of view, changes regarding plant automation and maintenance, together with the organizational restructuring carried out, have led to significant improvements in quality with respect to 1996.

With regard to both medium- and low-voltage, the number of accidental interruptions to supplies per customer fell by more than 5%, whilst the average duration of interruptions per customer decreased by close on 15%.

As part of its strategy aimed at improving customer relations, 1997 also saw ENEL introduce two important new initiatives: the Contowatt service and the new bill "Nuova Bolletta".

Contowatt is the new service allowing customers to pay their bills by direct debit on bank or post office current accounts, aimed at eliminating inconveniences and improving transparency. The personalization of ENEL's relationship with its customers, on which this service is based, guarantees users in relation to the risks of being cut off in the case of error or delays in the exchange of information between the bank and ENEL.

ENEL's Nuova Bolletta aims to provide a means of communicating with customers. The new bill is easier to read, using simplified language and providing clearer information for the benefit of the customer.

The new format was drawn up following a wide-ranging study focussing on the content to be included and the language and graphics to be adopted. The bill is structured in a "personalized" manner, providing information in a modular format that takes account of the content and customers' information needs. The new bill is to be introduced progressively starting with household users, before extending the revised format to all ENEL's customers by October 1998.

A further study of additional services to be offered to large and medium-sized customers has been carried out, resulting in the creation of a catalogue of 70 services ranging from training to technical and business consultancy, from general to specialist engineering services. In preparation for the widespread offer of such services, a number of pilot projects have been initiated in order to satisfy a number of specific requests made by customers and sound out the market.

The introduction of the Electricity Service Charter in January 1996 has provided customers with clear and measurable indications regarding the standards of service they can expect.

Monitoring of the standards achieved has revealed that those relating to customer relations were respected in 99.51% of cases. As regards the more important standards (which, if not respected, could result in penalties to be paid to the customer concerned) the figure rises to 99.66%.

As of January 1997, ENEL has introduced a more precise system of monitoring the standards laid down by the Charter. The new system is called the "events table" and allows the Parent Company to check on the quality of the services provided (with particular attention to customer relations), in order to identify the technical and commercial processes requiring improvement.

As a result of the changes made, respect of the standards laid down by the Service Charter has improved by more than 1.5 percentage points in 1997, when compared to 1996.

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## **Nuclear plant management**

Nuclear plant management involves decommissioning nuclear plant, as well as planning and implementing ENEL's strategy with regard to shutting down the reactor fuel cycle.

The Unit's mission also includes the provision of services abroad in the nuclear field.

The planning and execution of decommissioning, which constitutes the Unit's principal activity, involves the mothballing of the plants, the disposal of irradiated fuel and the removal and treatment of radioactive waste.

The specialist know-how obtained in the field of decommissioning will allow ENEL to offer consultancy and other services to foreign countries, including joint operations involving Italian or foreign partners.

## **Engineering and construction**

This Unit's mission is to provide engineering and construction services on a turnkey basis, both within the Group and in the external market. The Unit will assume precise commitments regarding completion times and costs, which will be progressively adjusted to meet the demands of the market. It will function as an independent Unit promoting the sale of company know-how.

Within the context of the newly defined objectives, the Unit aims to place a growing emphasis on the acquisition of contracts for the construction of plants on behalf of external foreign customers.

As part of its diversification strategy, the Unit is developing services relating to the supply and treatment of water, including its transport and distribution. This particular market shows significant potential in Italy, in view of the fact that 40% of

the water entering the supply network is lost before reaching the customer. The Unit's involvement in this sector will benefit from its extensive experience in the treatment and transport of the water used in electricity generation, and in the construction of numerous, large dams.

### **Estate management and general services**

This Unit and the subsidiary company, SEI - ELETTRIMMOBILIARE, are responsible for managing ENEL's real estate, providing the general services necessary to the smooth functioning of the properties concerned, organizing a significant portion of the logistical services needed for the Company's operations, the management and out-sourcing of commercial vehicles, as well as the management of catering services via canteens and specific agreements.

Estate management involves the development or disposal of properties no longer necessary for the Group's operations, the construction of new buildings, maintenance, the management of leases and rentals and the optimal use of office space with the aim of cutting the cost of rents paid.

At present values, the Group's real estate is worth a total of Lit. 6,000 billion.

The Unit also intends to hire global contractors to take on the management of all aspects of the properties used by the ENEL Group, in order to reduce operating costs and improve services.

### **Research and development**

In this field, ENEL has brought together all its research activities under one Unit. The aim is to develop innovative technologies capable of contributing to the Group's competitiveness, benefiting both electricity supply and diversified activities.

The principal sectors of interest to the Unit relate to automation, electrical systems and equipment, renewable sources, hydraulics and hydraulic works, non-polluting fuels and thermal plants, materials, the environment and the landscape, the end uses of energy, and the treatment and use of waste materials.

The new organization has been divided into six specific fields of research.

During 1997, ENEL's research activities were integrated with those of the subsidiaries, CISE, merged with ENEL in 1998, CESI, which has maintained its role of carrying out laboratory tests and trials and certifying plants, and CONPHOEBUS, which operates in the field of renewable energy sources.

As part of this process, ENEL's Research and Development Unit has divided its activities into strategic projects essentially directed towards medium- to long-term innovation, and projects commissioned by customers from within the Group, providing short- to medium-term solutions. On the basis of its experience throughout a range of activities, the Unit also offers specialist services of a highly innovative nature.

During 1997 ENEL Group companies spent a total of approximately Lit. 410 billion on research, with close on a further Lit. 30 billion invested in plant, prototypes and equipment.

During the year, the Company again applied for research grants from the European Union and Italian government institutions. The latter source provided unsecured or facilitated loans totaling Lit. 10 billion.

### **Information technology**

This Unit is responsible for ENEL's management information technology. It provides Group companies with the usual support for operating processes, ranging from the management of technology to invoicing, from personnel management to administration and control.

It is this Unit's task to provide the systems necessary to support the Group's reorganization of its processes and the identification of new business opportunities, ensuring the compatibility of new systems and offering its services to customers both within and external to the Group.

Among the Unit's main objectives are improvements in efficiency, the reduction of the cost of services provided to other units within ENEL, and the updating of the Group's information technologies to bring them into line with the highest standards available on the market.

### **Telecommunications**

This Unit's objective is the supply of telecommunications services to customers within the ENEL Group, at costs progressively aligned with those offered by the market. The Unit also aims to develop business opportunities outside the Group, including via agreements and alliances with other operators.

The principal services offered to internal customers comprise the planning and construction of fixed-link and mobile networks, and the operation of such networks and maintenance of the equipment installed, with a view to optimizing the use of resources.

The Unit is responsible for all the Group's telecommunications equipment (630 radio stations for mobile telephony, 900 switching centers for fixed-link telephony, 480 hubs for data transmission), as well as business planning, marketing and design of the network with a view to selling its services outside the Group. One of the Unit's primary objectives is the installation of an optical fiber network. The "ENET" project will involve the laying of over 12,000 km of cable, connecting the 110 most important Italian cities, by the middle of 1999.

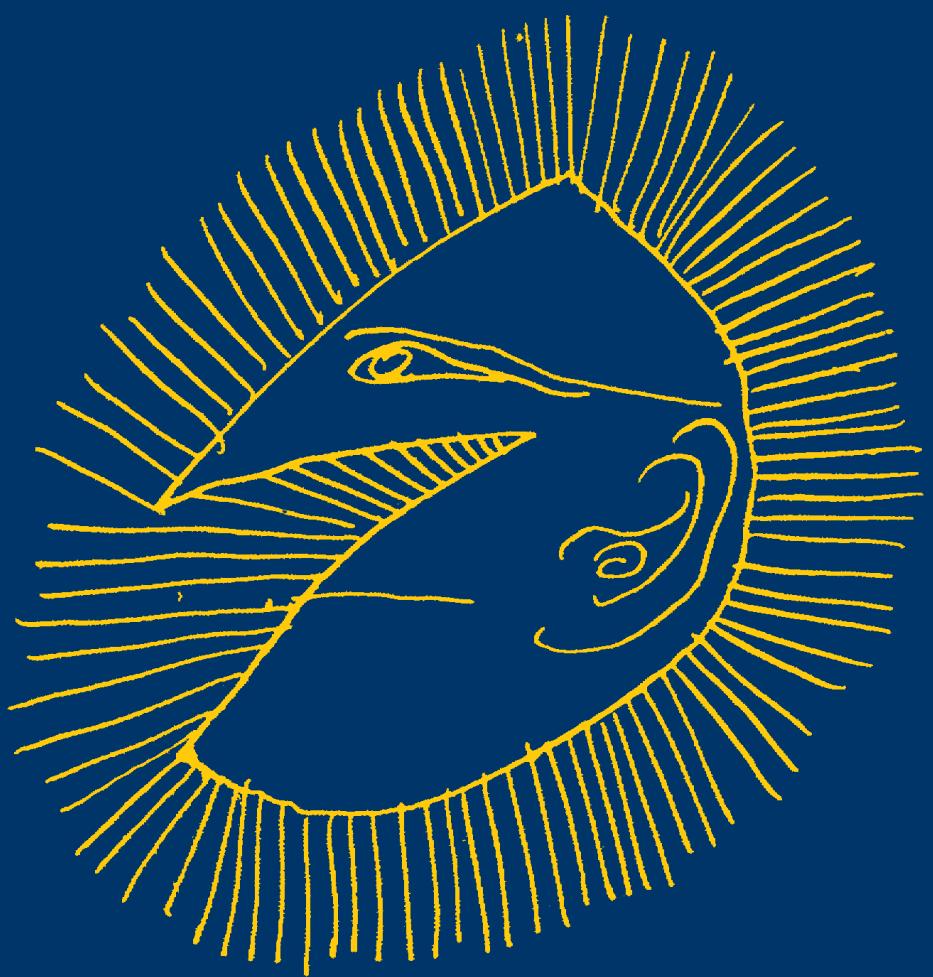
In order to compete in the telecommunications market as a global operator, and to fully exploit the Group's assets and skills, November 1997 saw the establishment of WIND Telecomunicazioni S.p.a., a joint venture with Deutsche Telekom and France Télécom, in which ENEL has a 51% holding, whilst the remaining shares are divided equally between the other two partners.

The validity of the company's business strategy received confirmation during the first half of 1998 with the granting of licenses to install and supply a fixed-link network and to establish Italy's third mobile telephone service.

The new operator will market its services to both residential and business customers, and in particular to small and medium-sized companies, whom ENEL aims to see become privileged partners in the development of advanced services. WIND's customers will also be able to utilize the international telephone and data transmission services provided by Global One, a joint venture between Deutsche Telekom, France Télécom and the US company, Sprint.



Energy, light, heat, power



*Saul Steinberg*  
"The Art of Life", drawing

1997 saw the Regulatory Authority for Electricity and Gas become fully operative, following approval of the rules governing its organization and functioning, as published in the Official Gazette on April 22, 1997. The above approval was necessary before the Authority could assume responsibility for electricity and gas industry regulation, formerly carried out by the Interministerial Pricing Committee (CIP) and, temporarily, by the Industry Minister.

The Authority's original role, as laid down by the founding legislation, has been extended by subsequent laws: Law 577/1996, which introduced the "absorption of surcharges into the basic tariff structure with effect from June 30, 1997" and the progressive simplification of the structure itself; and Law 122/1997, which grants the Authority responsibility for reviewing the price changes introduced by CIP Directives 15/1993 and 17/1993.

The Authority's made its first move regarding the tariff system with the issue of resolution 70 of June 26, 1997, which broke the tariff down into two distinct parts, with effect from July 1:

- part A, which includes the standing charge or power-related fee, the cost of electricity consumed (the variable part of the price) and temporary or special components relating to recovery of the prior deficits for thermal charges, the reimbursement of nuclear-related charges, and the coverage of the charges deriving from CIP Directive 6/1992 (new generation using renewable and similar energy sources).
- part B, which is aimed at covering the contribution for the "energy cost", represented by the cost of fuel for thermal generation and the purchase of electricity from foreign suppliers.

In addition to the tariff itself, the surcharge to be paid to the tax authorities in accordance with art. 33 of Law 9 dated January 9, 1991 (abolished as of January 1, 1998) remains, as of course do the other taxes.

The extraordinary surcharge for nuclear-related charges has been reduced provisionally by 7.90 Lit./kWh, with the remaining surcharge of 1.50 Lit./kWh sufficient to cover the interest on the remaining amounts due to ENEL and various contractors and repay the principal itself over a period of approximately 12 years. The most significant change relates to the criteria and procedures to be used for calculation of the contribution for thermal generation and the purchase of electricity from foreign suppliers. Such a contribution currently takes the following form:

- the contribution per kWh is the same both for thermal generation and imports;
- its amount is established on the basis of a standard cost of thermal generation;
- its amount is reviewed every two months on the basis of fuel price movements.

The payment of a fixed contribution for the entire quantity of electricity produced by thermal generation, on the basis of pre-established criteria, encourages, on the one hand, a reduction in the related consumption, whilst, on the other, a greater use of low-cost fuels, naturally within the limits laid down by environmental regulations.

As regards imports, the decision to pay a contribution equal to that for thermal generation significantly penalizes ENEL. This is because the average price of imports, regulated for the most part by pre-existing long-term contracts

involving the purchase of guaranteed quantities of electricity, is far in excess of the contribution received.

In response to the resolution, ENEL appealed to the Lombardy Regional Administrative Court, which, in its sentence issued on December 20, 1997, recognized the validity of ENEL's claim that costs relating to pre-existing long-term electricity supply contracts, involving the purchase of guaranteed quantities of electricity, should be fully covered by the contribution. The Authority has not yet appealed against the sentence.

The Authority has also taken action with regard to the prices applied to the sale of excess electricity generated by independent producers. Such action was taken in response to ENEL's decision, announced in July 1997, to no longer purchase such electricity in view of the continuous increase in the quantities concerned, linked to the excessively high prices established by CIP Directive 6/1992.

Following a specific investigation, the Authority issued resolution 108 of October 28, 1997, which substantially concurs with ENEL's position and significantly reduces the prices to be paid for excess electricity, with effect from November 1, 1997. A number of independent producers have appealed against the decision.

Finally, the Authority has examined the problem of supplies covered by interruption clauses, following ENEL's decision, announced in October 1997, to review the clause which provides for a discount on the standing power-related fee, in return for granting ENEL the faculty to interrupt supplies when necessary in order to meet load requirements. ENEL's decision was taken in view of the fact that the system's capacity and recent trends in consumption no longer give rise to the need for such precautionary measures, in order to ensure that the system can meet demand. The results of the Authority's examination recognized the legitimacy of ENEL's actions.

### Total investment and geographical distribution

During 1997, the ENEL Group invested a total of Lit. 6,466 billion in plant and equipment. Capital expenditure on generating plant amounted to Lit. 2,323 billion, while Lit. 659 billion was spent on transmission equipment, Lit. 3,091 billion on the distribution network and Lit. 393 billion on other plant (buildings, equipment, etc.). Capital expenditure has experienced a decline in recent years, though this has not been matched by a corresponding reduction in new projects, thanks to the gradual decrease in the unit costs of equipment and the greater amount of investment in the distribution network, which in 1997 absorbed 48% of total capital expenditure against 41% in 1993.

Capital expenditure on generating plant remained in line with the amount for 1996. Such expenditure relates primarily to work on existing plants, mainly to bring thermal power stations into line with environmental regulations and, more generally, to modernize and improve the efficiency and reliability of plants.

Investment in transmission equipment (lines and transformer stations) was also slightly down (4%) on the figure for 1996, mainly due to bureaucratic delays which have held up completion of a number of important projects, above all in the south of the country, such as the 380 kV Matera-S.Sofia line and the direct current transmission line linking Italy and Greece.

The decrease in investment in the distribution network was due, on the one hand, to greater efficiency (a fall in unit prices, the standardization of components and the rationalization of projects), and, on the other, to the slowdown in demand for electricity.

The reduction in capital expenditure was particularly noticeable (down 41%) in other areas (land, buildings, teletransmission plant, technical and administrative equipment, etc.). This was due to a better use of space in the Group's premises, linked to the reduction in personnel and a greater reliance on leasing and out-sourcing, especially with regard to vehicles.

As regards the geographical distribution of investment in 1997, Lit. 2,505 billion (39% of the total) was spent on projects in Northern Italy, Lit. 1,588 billion (24%) in Central areas and Lit. 2,373 billion (37%) in the South and Islands.

A comparison of the above figures with those relating to electricity consumption in the various areas of the country (55% in the North, 18% in the Center and 27% in the South) bears witness to the efforts being made to develop facilities in Southern Italy.

### ENEL Group's capital expenditure

In billions of lire

	1997	1996	1997-1996
Generation plants:			
- thermal	1,724	1,903	-179
- hydroelectric	599	469	+130
Total	2,323	2,372	-49
Transmission plants	659	690	-31
Distribution network	3,091	3,645	-554
Others	393	665	-272
<b>Total</b>	<b>6,466</b>	<b>7,372</b>	<b>-906</b>

## Human resources

### Headcount and trends

As of December 31, 1997, the total headcount of Group employees was 88,957. The following table shows a breakdown by category:

	Number			
	as of 12.31.1997		as of 12.31.1996	
Managers	1,045	1.2%	1,414	1.5%
Supervisors	5,429	6.1%	5,865	6.1%
White-collar	47,832	53.8%	51,165	53.6%
Blue-collar	34,651	38.9%	37,020	38.8%
<b>Total</b>	<b>88,957</b>	<b>100.0%</b>	<b>95,464</b>	<b>100.0%</b>

1997  
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The decrease of 6,507, equal to 6.8%, was mainly due to the offer of early retirement incentives to personnel having accumulated sufficient pension rights.

The table below shows a breakdown of employees by functional area, according to the new organizational structure, which took effect from January 1, 1997:

	Number	
	as of 12.31.1997	
Corporate	1,147	1.3%
Generation Division	20,923	24.1%
Transmission Division	4,002	4.6%
Distribution Division	53,778	61.8%
Estate management and general services	1,549	1.8%
Telecommunications	773	0.9%
Information technology	1,183	1.4%
Engineering and construction	2,192	2.5%
Research and development	860	
Nuclear plant management	501	0.6%
 Total permanent electrical staff	 86,908	 100.0%
 Temporary, other contracts and subsidiaries	 2,049	
 <b>Total</b>	 <b>88,957</b>	

### Resource development

1997 saw major attention paid to developing the managerial skills of key personnel (recently hired graduates, supervisors and managers), adopting uniform criteria throughout the entire ENEL Group. Over 20 seminars were held, many of which being repeated, involving more than 1,500 employees.

The Group's reorganization, involving decentralization and increased use of out-sourcing, has led to the adoption of a policy of hiring new personnel sufficient to meet the requirements of normal turnover, together with limited appointments

of qualified people to key positions, which cannot be filled from within the Group. The most radical change was the hiring of personnel with specific skills at all levels of the organization.

As regards the selection process for new personnel, the Company adopted an experimental approach, applied only to university graduates, involving a streamlined and direct procedure (pre-selection of applications received and a series of interviews to assess behavioral and professional characteristics). This led to the hiring of 86 graduates assigned to marketing, management control and accounting.

Specific training programs have been drawn up for the new employees, involving the setting up within the Company of actual management training schools. Such training is integrated with the experience obtained in the Company's various departments. Similar training programs were initiated for 15 graduates hired as a result of previous selection processes, and who are to be assigned to the Personnel Department. Other recently hired graduates have also been allowed to participate in these courses.

With regard to evaluation and incentive schemes, the Company introduced a "Performance Evaluation Scheme" by objectives (MBO), with the aim of establishing a coherent Company-wide system for personnel development. The scheme is designed to develop a culture of "measurability", in order to assist in achieving the Company's goals and improving the quantitative and qualitative aspects of its performance.

The MBO scheme assesses the achievement of quantifiable objectives, defined by senior management and linked to the payment of bonuses.

In conclusion, the Group's salary and wage policies aim to attract, keep and motivate personnel with the characteristics necessary to the fulfillment of its corporate objectives, in addition to supporting the policy of organic growth, based on fully realizing the potential of internal resources.

Within this context, bonuses, linked to the pursuit of specific goals, are going to have a higher influence on salaries and wages.

1997

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### **Union relations**

During 1997, union relations concentrated on negotiations relating to the Company's organizational restructuring, as required by the terms of existing labor contracts.

A large number of meetings were held in order to set out the nature of the reorganization and the Company's strategies and objectives, before moving on to deal with the issues affecting personnel.

The size of the project - which involves the whole Company, even if the initial stage has not had any effect on the detached Distribution and Generation units (area offices, power stations, etc.), which represent the majority of personnel (more than 70%) - and, above all, the limited time available for its application, have presented both parties with new problems and have required a flexible approach to the regulations governing union relations.

In this regard, February 28, 1997 saw the signing of a declaration of intent, by which the parties undertook to proceed with a review of union negotiation procedures with the aim of increasing their efficiency. New forms of collaboration are to be set up, including teams made up of representatives of both ENEL and the unions, with the aim of monitoring application of the restructuring process and facilitating the optimum use of resources. Commitments were also given regarding employment policies and part-time, the full use of internal resources and social security aspects.

The new personnel job classification drawn up by ENEL, as agreed during recent contract negotiations, was presented to the unions during a series of meetings. The principal aspects of the new classification are: a flattening of the hierarchy in order to bring decision-making processes nearer to operations; greater operational flexibility; the flexibility of personnel within each operational role; consider-

ration of individual performance - to be measured via an evaluation of professional development. This project will be the subject of negotiations with union representatives during discussion of the regulatory aspects of the new contracts. Over the year, following numerous meetings with union organizations and electricity workers' representatives, a new protocol governing industrial relations was drawn up, which takes account of ENEL's reorganization and the Company's new mission. The new protocol establishes a direct communication channel between the Company's senior management and union organizations, based on less formal but more efficient lines than before. The list of arguments to be dealt with in union negotiations was also updated, whilst it was decided to increase the importance of meetings held at regional level.

Moreover, on December 12, 1997, the Company and unions signed the agreement laying down the conditions for the transfer of CISE employees to ENEL, following the merger of the two companies, as part of the reorganization of the Group's research and development activities.

Finally, the early months of 1998 saw the signing of further agreements regarding both social security and labor issues. Further information on these agreements is given in the section dealing with "Significant events subsequent to year-end".

ENEL is well aware of the fact that its operations are constantly under public scrutiny, both in terms of the Company's ability to meet the country's energy needs and its record on environmental protection.

ENEL has turned its attention to environmental issues, not only because it is the moral duty of every modern business to do so, but also because the Company views the environment as an important competitive factor.

This has resulted in an ongoing commitment, which in recent years has seen ENEL achieve a significant improvement in its record of environmental protection throughout its core businesses (the generation, transmission and distribution of electricity).

Future environmental policies will see even greater commitment in the following *directions*:

- the use of processes and technologies which prevent and/or reduce the impact on the environment;
- the rational and efficient use of energy resources and raw materials, combined with the introduction of plants guaranteeing high yields;
- the recovery of by-products and waste;
- the programmed improvement of environmental management at the various sites of operation;
- research aimed at developing improved technologies and more extensive knowledge;
- environmental impact appraisals with the aim of reducing the impact of new plants on surrounding areas;
- communication with the public and government bodies;
- increased awareness of environmental issues among personnel.

ENEL's desire to keep both external parties and employees informed, regarding the human and financial resources committed to environmental protection and the results obtained, has seen it produce an Annual report on the environment, to which reference should be made for more detailed information.

The most important initiatives undertaken during 1997 were the following:

- the introduction into generating plants of environmental management systems, certifiable in accordance with the EU's ecology management guidelines and audit procedures (EU Regulation 1836/93), which should be extended to 50% of generating capacity by 2000;
- the introduction, throughout the Group, of procedures for evaluating expenses linked to the environment. During 1997, ENEL invested Lit. 1,500 billion in environmental protection, in addition to annual expenditure of Lit. 1,300 billion;
- the implementation of an environmental reporting system, which will enable the Group to closely follow the environmental records of individual units;
- the gradual environmental upgrading of thermal plants and the reduction of related emissions, which saw the Group exceed its target for 1997 of 39% of total capacity, achieving 41.5%, compared with the legal requirement of 35%;

- the reduction of overall plant emissions. In relation to 1980, the year used as a point of reference by the relevant legislation, there was:
  - a 63% reduction in sulfur dioxide emissions (59% in 1996);
  - a 37% drop in nitric oxide emissions (26% in 1996);
  - a 63% fall in dust emissions with respect to 1987, although their overall reduction is not covered by the legislation. Such a result was achieved thanks to both the use of better quality fuel and the improved performance of pollution abatement equipment;
- the increase in production using renewable sources. Since 1990, the quantity of electricity generated by ENEL using renewable energy sources, primarily hydroelectric production, has increased from less than 25 to more than 37 billion kWh. In 1997, such production contributed 21% of total electricity generated. By 2003, ENEL has planned the construction of hydroelectric plant with an overall capacity of 500 MW, the completion of the program involving the addition of a further 15 MW produced by wind power, and completion of the tenth field in the photovoltaic station at Serre, which is equipped with devices that follow the movement of the sun. The current development program for innovative photovoltaic systems supplying isolated customers will also be completed.





Environment, ecology, vitality, strengthening  
our roots and expanding

*Cesare Leonardi and Franca Stagi*  
*"The Architecture of Trees"*



This section describes the most important ongoing litigation, primarily regarding nuclear-related charges, tariff, environmental and contractual issues and the more general issue of the operating license. Information regarding the outcomes of litigation, all in ENEL's favor, which was underway at the end of the previous year, and which is now substantially resolved, is also provided.

### **Ongoing litigation**

In resolution 14/1998 issued on December 16, 1997 (delivered to the concerned institutions on February 24, 1998) the National Audit Office (Corte dei Conti) identified legal deficiencies and irregularities regarding the CIP directives regulating the reimbursement of nuclear-related charges for the years 1989, 1990 and 1991. The National Audit Office therefore proceeded to declare the payment orders, issued during the above years on the basis of the directives, illegal. Such orders involve the sum of Lit. 995 billion due to ENEL, including approximately Lit. 250 billion to be passed on to contractors.

As a result of the above resolution, the Equalization Fund, in accordance with the procedures laid down by art. 24 of Law 559/1993 (as referred to by the Audit Office itself), should have either cancelled or confirmed the payment orders within a 30-day deadline. If no action was taken by such a deadline the orders were to be considered no longer effective.

Prior to expiry of the above deadline, and before the Equalization Fund had arrived at any relevant decisions, Decree Law 55 of March 25, 1998 practically "froze" any possibility of action on the part of the Fund, making all such action dependent on the decisions to be taken by the Regulatory Authority for Electricity and Gas, in accordance with Law 481/1995.

Subsequently, however, the above-mentioned Decree Law 55/1998 was not converted into law and the Equalization Fund, which had in the meantime been placed under the administration of an external commissioner, failed to take any decision regarding the issue. This was also due to the fact that the Authority had requested the Equalization Fund to delay the adoption of any related provisions.

In the absence of confirmation on the part of the Equalization Fund within the 30-day deadline set by art. 24 of Law 559/1993, the above-mentioned payment orders were no longer effective. This meant that ENEL no longer had any official claim on the amounts received, which were therefore liable to reimbursement.

In the meantime, the Authority, in accordance with the responsibility assigned to it by section 2, art. 3 of Law 481/1995, was proceeding "to verify the adequacy of the criteria adopted for calculation of the sums to be reimbursed in relation to charges connected to the suspension and abandonment of work on the construction of nuclear power stations and to their shutdown". The resulting "consultation document", issued on May 13, 1998, set forth a number of observations regarding the reimbursement of the charges in question. Were such observations to be confirmed in full by the Authority itself, ENEL could ultimately see the amounts (covering both principal and interest) formerly granted to it reduced by approximately Lit. 495 billion.

In view of the above situation - taking account of the fact that ENEL had no justifiable claim on the payments already received for the years 1989, 1990 and 1991

(given the fact that the Equalization Fund's mandates were no longer effective), and that such payments were liable to reimbursement, and considering the potential consequences of the Authority's current verification of the adequacy of the calculation criteria, should the observations contained in the "consultation document" be fully confirmed - the Company made provisions of Lit. 1,490 billion in the original financial statements, approved by ENEL's Board of Directors on May 29, 1998, prior to their submission to the Shareholder's Meeting.

However, having completed its verification, on June 12, 1998 the Authority issued resolution 58/1998, which declared the reimbursement criteria adequate, with the exception of a number of items (which only partially correspond to those named in the "consultation document").

Certain types of charge are not considered reimbursable, whilst others have seen the calculation criteria altered. The latter relate to the cost of purchasing nuclear fuel and the criteria for calculating the "interest for delayed reimbursement".

On the basis of the above, the total adjustment to the value of the reimbursements to be received by ENEL has been estimated to be Lit. 390 billion, compared with the original provisions amounting to Lit. 1,490 billion.

In resolution 58/1998, however, the Authority has given the Equalization Fund a mandate "to adopt the necessary measures confirming and amending the payment orders so far issued". Such a mandate would appear to suggest that the payment orders issued by the Equalization Fund for the years 1989, 1990 and 1991 (no longer effective, as stated above, due to the absence of confirmation within the 30-day deadline, as laid down by art. 24 of Law 559/1993) will be confirmed by the Equalization Fund.

In response to the above developments, on June 24, 1998, ENEL's Board of Directors decided to amend the financial statements, canceling the original provisions of Lit. 1,490 billion, and making extraordinary provisions of Lit. 390 billion to the reserve for write-downs of amounts due from the Electricity Industry Equalization Fund for nuclear-related charges. The cancellation of the related receivables will only take place, therefore, at such a time as the above resolution becomes effective, being itself an administrative act which may yet be the subject of an appeal through the courts. In addition, the Equalization Fund has yet to make public any decision regarding the confirmation or amendment of such reimbursements, as laid down by art. 5 of the Authority's resolution 58/1998.

It should be noted that the Authority's resolution, which substantially reflects a number of the points censured by the National Audit Office, in relation to the items no longer considered reimbursable and those subject to changes in their calculation criteria, is liable to various doubts regarding its legality and may thus be appealed against before the Regional Administrative Court.

Pending before the Lazio Regional Administrative Court is a claim brought by a consumers' group which contests the administrative measures applied in determining the amount of the reimbursements due to ENEL (and other entities) in relation to the costs incurred in connection to the shutdown and dismantling of its nuclear power stations. The case is not expected to result in any significant liability, also as, irrespective of any considerations regarding the grounds of the case, the timing of the claim means that in fact it only relates to the last two measures adopted (in October and November of 1994), which concern a minimal amount (around Lit. 11 billion) compared to the overall sum involved.

With regard to pricing, ENEL has appealed to the Lombardy Regional Administrative Court against the Authority's resolution 70/1997 dated June 26, 1997. In reviewing electricity prices, the Authority has significantly changed the quota relating to the reimbursement of nuclear-related charges and the regulation for the contributions for the variable costs of thermal generation and those relating to the import of electricity. As regards the latter, the contribution to be

received by the Company is substantially in line with the recognized unit cost of fuel used in domestic thermal generation, and does not take account of the generally higher costs of imports, calculated on the basis of guaranteed supply contracts, previously entered into in accordance with past government policies. In its sentence of December 20, 1997, the Regional Administrative Court recognized the validity of ENEL's claim insofar as it related to imports involving guaranteed supply contracts, which represents the most important aspect from an economic point of view. The Authority has not yet appealed against the sentence.

In the meantime, a number of consumers' groups and corporate customers, which consume large quantities of electricity, have contested the Authority's bimonthly reviews of the price component, linked to fuel price trends, assumed in accordance with resolution 70/1997.

As regards environmental issues, the dispute over the Brindisi Sud thermal power station has seen further developments. Following the agreement, signed on November 12, 1996, between ENEL and the Province and Municipality of Brindisi, the mayor of the city, by an order issued on the same day, has repealed his order of January 1994 requiring the power station to suspend operations, principally because of a breach of the agreements between the government and local authorities, drawn up on August 4, 1989 and July 25, 1991. However, on February 5, 1997, the Province of Lecce brought an action before the Puglia Regional Administrative Court contesting both the above-mentioned agreement and the repeal order.

As far as the license agreement is concerned, in 1996 a claim was brought before the Lazio Regional Administrative Court by Federelettrica, the municipal electricity companies of Rome, Milan, Turin and other major electricity utilities run by local authorities to overrule the Industry Ministry's Decree of December 28, 1995, which approved the agreement between the Ministry and ENEL. The claimants complain that the regulations contained in the agreement are harmful to their interests, both because they confirm ENEL's supremacy in the electricity industry and because they do not contain guarantees for a greater presence on the part of municipal utilities in the area of distribution, as laid down in the government's guidelines for reorganization of the industry. The claimants' arguments would appear unfounded, however, as the licensing agreement was drawn up and approved according to established law, while the regulations concerning relations with municipal electricity companies are to be supplemented by directives and guidelines to be issued by the Industry Ministry, in accordance with the provisions of the agreement itself.

### **Outcomes of previous litigation**

With regard to pricing issues, the Company has obtained a judgement overturning the sentence of the Lazio Regional Administrative Court issued on February 13, 1997, which, in response to an appeal lodged by consumers' associations, had overturned CIP Directive 15/1993. The judgement was contained in the sentence issued by the Council of State in June 20, 1997, following ENEL's appeal. The sentence upheld the validity of the provisions of Decree Law 50 of March 11, 1997 (converted into Law 122 of May 9), which assigns the Authority responsibility for re-establishing, on the basis of a new examination, the price changes to be adopted in accordance with the above Directive 15/1993 and to set out the procedures for settling any arrears with the customers, with effect from 1998. The examination was concluded with the issue of the Authority's resolution 28 of March 25, 1998, which confirmed the price increases established by the CIP in the above-mentioned directive, and set the size of the increases in line with the said directive, therefore excluding the payment of any form of arrears. As in the case of

other decisions taken by the Authority, the above-mentioned resolution 28/1998 has been the object of an appeal put forward by consumers' associations.

With sentence no. 174 of May 20, 1998, the Constitutional Court confirmed the legitimacy of the provisions contained in Law 577/1996, validating the application of the so-called "price-shares" until June 30, 1996. As a result, a number of cases, brought by consumers' groups with the aim of obtaining reimbursement of the relevant sums, to be heard by Justices of the Peace, are expected to result in outcomes in line with the above sentence.

A legal case, again brought by consumers' groups, was resolved by the presiding judge at the Court of Rome's preliminary hearing who, on May 12, 1997, dismissed the request to indict the members of ENEL's Board of Directors from 1987 until the approval of the 1994 financial statements, ruling that no such alleged violation did in fact take place. The prosecution alleged that false information regarding the Company had been given in relation to the accounting procedures applied to the price components introduced by CIP Directive 32/86 (the so-called "price-shares"). The judge's decision, against which the Public Prosecutor had appealed, was confirmed in full by the relevant sentence issued on April 16, 1998.

The dispute with a number of district offices of INPS has been resolved. It concerned whether or not certain lump sum and other payments made by ENEL at the time of renewal of the collective labor contract were subject to contributions. The question was raised by several INPS offices, which initiated legal action in their districts aimed at recovering the contributions allegedly due and not paid, in addition to the payment of fines and interest. The dispute was resolved following the publication of INPS circular no. 183 of August 5, 1997, which, on the basis of clarification provided by the Employment Ministry, excluded the liability of the above payments to social security contributions prior to January 1, 1997.

Finally, the dispute with Nigeria LNG Ltd. was successfully concluded. The dispute regarded the application of the liquefied natural gas supply contract, which has a duration of twenty years and a total value of approximately Lit. 20,000 billion. The dispute was resolved at a meeting in London on December 31, 1997, with the drawing up of a Settlement Agreement and a new Sale and Purchase Agreement, in addition to the joint signature of a document requesting suspension of the arbitration proceedings underway. The operating agreements involve the delivery of Nigerian liquid natural gas to Montoir, near the Gaz de France terminal, and the subsequent transfer, via appropriate swap and transport contracts (also involving SNAM), of equal amounts of gas originating in Algeria and Russia to ENEL's Italian power stations. In view of the above agreement, the arbitration panel formally declared the proceedings closed on February 23, 1998.

## Significant events subsequent to year-end

1998 has so far witnessed a number of events and the introduction of several measures which promise to have a notable effect on the Company's business. The most significant are described below.

### **Legislative measures and regulations**

The Authority's resolution 58/1998 dated June 12, 1998, issued in accordance with the responsibility assigned to it by Law 481/1995, set out the findings of its "verification of the adequacy of the criteria adopted for calculation of the sums to be reimbursed in relation to charges connected to the suspension and abandonment of work on the construction of nuclear power stations and to their shutdown". Further information is provided in the section, "Litigation".

On April 21, 1998, the lower house of Parliament gave its final approval to EU Law 1995/1997 which applies a total 147 EU directives, among which the one relating to the electricity market.

The above law confers on the government the facility to issue legislative decrees applying the EU directive regarding deregulation of the electricity market, in accordance with established "principles and guidelines". Amongst other aspects, the guidelines include the institution of the single purchaser, the maintenance of a uniform national pricing system for regulated customers, the "public interest function" and "neutrality" of the national grid whose operator will also be the "dispatcher", the full inclusion of municipal electricity companies in the aggregation process affecting distributors within the same geographical area, incentives for the generation of electricity from renewable energy sources and energy saving, and the principle of reciprocity with other EU countries in terms of the degree of market deregulation. The deadline for application of the directive is February 1999.

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In March 1998, the Authority presented the Senate with its proposals for reforming the pricing structure. The Authority proposes to maintain the single national pricing structure for household users, whilst allowing license-holders to offer varied price options within the uniform structure. The Authority also proposes to significantly reduce the field of application of the so-called "social band". The new pricing system will probably take effect from January 1, 1999 and there will in any event be a transition period.

Furthermore, with the issue of resolution 16/1998, the Authority has established the coefficients and criteria for calculating the contributions for thermal charges for fuel during the first half of 1997.

The Authority, in accordance with the provisions of resolution 70 of June 26, 1997, has proceeded to apply a bimonthly adjustment to the energy component of prices. Resolution 39/1998 has introduced an average reduction in this component of 9.5 Lit./kWh. The reduction will be absorbed by an accompanying increase in the price component aimed at recouping the accumulated deficit in contributions for thermal charges, which should be completed within the first few months of 1999.

### **Company management and operations**

During the early months of 1998, the Company proceeded with the so-called "Telecommunications project", which in 1997 included the establishment of a new company, WIND Telecomunicazioni S.p.a., in partnership with Deutsche Telekom AG and France Télécom SA. The validity of the company's business strategy received confirmation during the first half of 1998 with the granting of licenses to install and supply a fixed-link network and to establish Italy's third mobile telephone service.

Within the context of the same project, the Industry Ministry issued a decree on February 13, 1998, authorizing the establishment of a holding company (already approved by the Meeting of ENEL's Shareholders on December 22, 1997), to be 99%-owned by ENEL with the remaining 1% held by SEI S.p.a.. The new holding is to acquire ENEL's existing interest in WIND Telecomunicazioni.

Finally, both the fixed-link license regulations and the rules for tenders for the mobile telephone license require companies to have paid-in share capital representing not less than 10% of the value of the investment to be made. Therefore, in January 1998 the share capital of WIND Telecomunicazioni was increased to Lit. 200 billion, whilst February's Meeting of Shareholders conferred on the Board of Directors the faculty to raise the share capital up to a maximum of Lit. 600 billion. On May 5, 1998, the Board of Directors exercised the above faculty in full.

On April 24, 1998, the ENEL's Board of Directors resolved to present the shareholder a proposal to spin off the Company's electricity generation operations to an appropriately established joint-stock company. The resolution, in terms of both content and timing, meets with the requirements of the License Agreement, which obliges the Company to initiate the above operation by May 1998. The transfer of the assets and the business relations relating to the generation of electricity will be carried out, again in accordance with the above Agreement, within a year of the establishment of the new company, in which ENEL will be the sole shareholder.

Again in April 1998, the shareholders of SEI Elettrimmobiliare approved changes to the company's statute and a new name for the company, which is to be called "SEI S.p.a.". In addition to estate management, SEI S.p.a. may now offer, to both Group and external customers, administrative and technical services for civil and industrial properties, warehouse logistics, car fleet management services and catering services through the operation of canteens and license agreements.

As regards the purchase of electricity, ENEL has taken steps to reduce the effects of the new criteria for calculating contributions for electricity imports, introduced by Authority resolution 70/1997. On February 3, 1998, the Company signed a new contract with Electricité de France that redefines the contractual conditions governing the existing importation of electricity.

The new contract involves an extension to the length of the supply contract, in return for a reduction in price. In addition, ENEL has renounced a number of guarantee clauses and the agreement regarding reciprocal reserves.

Within the context of human resources, negotiations regarding changes to the supplementary pension fund for managers, begun in 1997, were concluded. The changes were made necessary by Decree Law 14 of April 21, 1993 and subsequent amendments, which introduced specific regulations relating to supplementary pension funds. On January 23, 1998, ENEL and the National Coordinating Committee for ENEL Group managers signed an agreement which will maintain the previous form of pensions (paid on a fixed benefit basis) for retired managers, whilst existing managers will have their pension fund transformed into a Group Pension Fund, to be managed externally, and operated on the basis of a capitali-

zation system and paid according to the value of contributions made. The fund, which is known as FONDENEL, was operational with effect from April 1, 1998.

Again with regard to human resources, January 23, 1998 saw the signing of an agreement between ENEL and FNDAL, regarding application of the National Collective Contract of November 19, 1997 for managers employed in industries to ENEL's management.

Finally, on March 10, 1998, the Company signed a preliminary pay agreement for 1998 as established in the National Collective Contract for electricity workers, dated April 23, 1996. The part of the contract regarding pay was applicable until the end of 1997, whilst regulatory aspects referred to the four-year period 1995-1998.

## Operating outlook

The growth in electricity sales witnessed during the second half of 1997 has continued over the first quarter of 1998. The volume of electricity sold rose by 4.1%, with respect to the same period of the previous year, above all due to the recovery in manufacturing industry consumption. Accordingly, the ENEL Group's operating performances for 1998 should be in line with both those achieved in 1997 and the established goals for the company's expansion and profitability increase. Such goals include an increase in the gross operating income to over Lit. 15,000 billion, in spite of the rise in energy costs to be borne by ENEL.

1998's performance should benefit from a significant reduction in borrowing, due to both greater cash flow and containment in invested capital.

1998 will see the Group continue its pursuit of greater operating efficiency and improvements to the quality and reliability of services.

In terms of service quality and customer relations, the aim is to obtain a better understanding of customers' expectations and needs. At the same time, ENEL plans to initiate a program aimed at promoting customer loyalty through the offer of innovative services.

The Group will continue to strive for improvements in productivity through cost-containment initiatives based on increased efficiency throughout its operations.

Capital expenditure is expected to amount to approximately Lit. 6,200 billion, comprising close on Lit. 2,000 billion for generation, approximately Lit. 600 billion for transmission equipment and around Lit. 3,600 billion for distribution equipment and other plant.

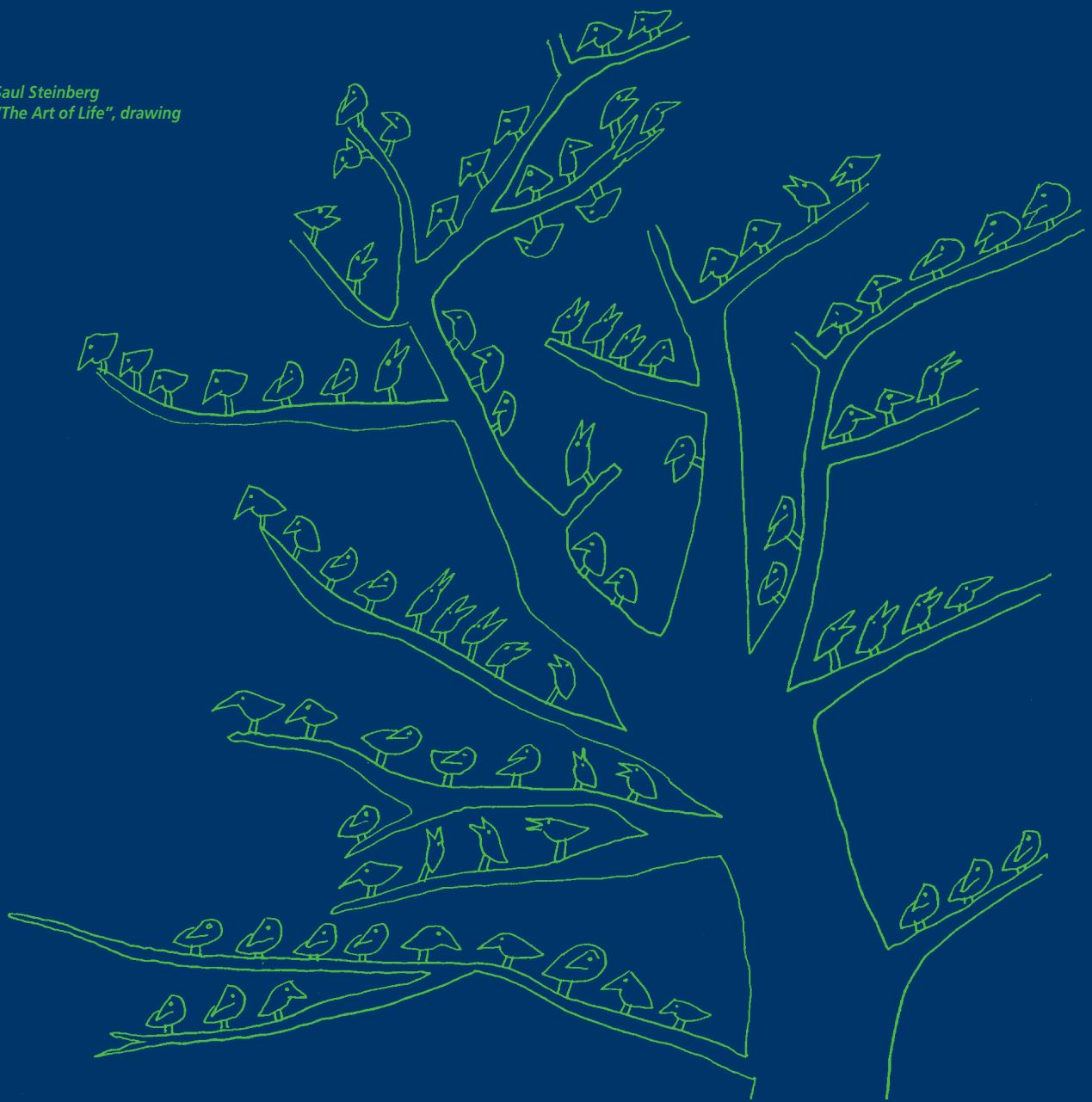
Further steps will be taken with regard to strategic alliances, with the aim of taking full advantage of the Group's assets and capabilities, and seeking out new opportunities in its sectors of interest, optimizing the use of generation capacity and the value of the investments made.

The above strategy will also include the transformation of the various branches of ENEL's activities into separate companies, particularly in view of future changes in the industry.



Environment, ecology, vitality, strengthening  
our roots and expanding

Saul Steinberg  
"The Art of Life", drawing



**Consolidated Financial Statements  
for the year ended December 31, 1997**

(Translation from the original issued in Italian)

# Consolidated Balance Sheet

In billions of lire	Sub-total	Total	Sub-total	Total
<b>Assets</b>	<b>as of 12.31.1997</b>		<b>as of 12.31.1996</b>	
<b>A) AMOUNTS DUE FROM SHAREHOLDER</b>	-	-	-	-
<b>B) FIXED ASSETS</b>				
I. Intangible fixed assets				
Intangible fixed assets in process and advances	40.6		29.5	
Other	118.7		170.8	
	159.3			200.3
II. Tangible fixed assets				
Land and buildings	14,291.2		13,977.6	
Plant and machinery	49,349.3		46,205.7	
Industrial and commercial equipment	315.2		349.6	
Other	578.0		690.9	
Assets under construction and advances	11,617.0		14,374.5	
	76,150.7			75,598.3
III. Financial fixed assets	Due within 12 months		Due within 12 months	
Equity investments in:				
- unconsolidated subsidiaries and associated companies	12.3		406.1	
- other companies	5.0		5.3	
	17.3			411.4
Receivables:				
d) due from others	193.9	1,138.9	270.8	967.9
e) due from the Electricity Industry Equalization Fund as reimbursement for nuclear-related charges	178.8	1,993.3	1,386.1	3,496.3
		3,132.2		4,464.2
Other securities	10.9			113.6
		3,160.4		4,989.2
<b>Total fixed assets</b>	Due beyond 12 months	<b>79,470.4</b>	Due beyond 12 months	<b>80,787.8</b>
<b>C) CURRENT ASSETS</b>				
I. Inventories				
Raw, ancillary and consumable materials	1,643.7		2,180.9	
Contract work in progress	36.5		43.3	
Advances	35.7		24.0	
		1,715.9		2,248.2
II. Receivables				
Due from customers	453.6	5,283.3	453.1	5,105.9
Due from associated companies		7.4		6.6
Due from third parties	2.0	1,096.4	48.9	799.9
Due from the Electricity Industry Equalization Fund		6,835.4		6,869.5
		13,222.5		12,781.9
III. Financial assets not held as fixed assets				
Other securities	136.2			149.6
		136.2		149.6
IV. Liquid funds				
Bank and post office deposits		385.4		184.0
Cash and notes in hand		1.6		2.4
		387.0		186.4
<b>Total current assets</b>		<b>15,461.6</b>		<b>15,366.1</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>				
Accrued income		29.3		23.3
Prepaid expenses:				
- discounts on bond issues	25.8		35.4	
- other	180.1		187.5	
		205.9		222.9
<b>Total accrued income and prepaid expenses</b>		<b>235.2</b>		<b>246.2</b>
<b>TOTAL ASSETS</b>		<b>95,167.2</b>		<b>96,400.1</b>

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In billions of lire	Sub-total	Total	Sub-total	Total
<b>Liabilities and shareholder's equity</b>		<b>as of 12.31.1997</b>	<b>as of 12.31.1996</b>	
<b>A) SHAREHOLDER'S EQUITY</b>				
I. Share capital	12,126.2		12,126.2	
II. Share premium reserve	-		-	
III. Revaluation reserve	16.3		23.4	
IV. Legal reserve	202.1		138.4	
V. Reserve for treasury shares	-		-	
VI. Statutory reserves	-		-	
VII. Other reserves:				
Reimbursements from Treasury Ministry as per finance laws	1,922.0		1,922.0	
Reserve as per Law 292/1993	10,607.2		10,607.2	
VIII. Retained earnings	4,313.9		3,345.2	
IX. Group net income for the year	3,327.4		2,225.7	
Group shareholder's equity	32,515.1		30,388.1	
Minority interests	24.7		29.3	
<b>Group and minority shareholder's equity</b>	<b>32,539.8</b>		<b>30,417.4</b>	
<b>B) RESERVES FOR RISKS AND CHARGES</b>				
Pensions and similar obligations	2,546.1		2,486.5	
Accrued taxes	4,450.8		4,554.8	
Other	3,711.4		3,851.1	
	<b>10,708.3</b>		<b>10,892.4</b>	
<b>C) RESERVE FOR EMPLOYEE TERMINATION INDEMNITIES</b>		<b>4,722.1</b>		<b>4,803.5</b>
	Due beyond 12 months		Due beyond 12 months	
<b>D) PAYABLES</b>				
Bonds	14,838.2		16,263.1	
Due to banks:				
- long-term loans	13,294.6	15,786.1	14,727.1	16,305.5
- short-term loans		1,175.0		742.1
		16,961.1		17,047.6
Due to other providers of finance		0.1	0.1	0.1
Advances received	17.0	1,865.8		1,595.2
Trade payables	192.8	5,348.4	183.2	5,358.9
Due to associated companies		30.8		72.6
Taxes due		692.5		1,748.4
Due to social security institutions	25.1	503.2	34.1	760.5
Other payables	728.0	2,123.1	849.1	2,331.7
Due to Electricity Industry Equalization Fund		2,372.9		2,525.2
<b>Total payables</b>	<b>46,285.4</b>			<b>49,342.6</b>
<b>E) ACCRUED EXPENSES AND DEFERRED INCOME</b>				
Accrued expenses		627.8		735.6
Deferred income:				
- premiums on bond issues	7.1		9.0	
- other	276.7		199.6	
		283.8		208.6
<b>Total accrued expenses and deferred income</b>	<b>911.6</b>			<b>944.2</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>95,167.2</b>			<b>96,400.1</b>
<b>MEMORANDUM ACCOUNTS</b>				
Guarantees granted	367.0		389.8	
Other memorandum accounts	158,173.1		150,265.1	
<b>Total memorandum accounts</b>	<b>158,540.1</b>			<b>150,654.9</b>

# Consolidated Statement of Income

In billions of lire	Sub-total	Total	Sub-total	Total
	1997	1997	1996	1996
<b>A) VALUE OF PRODUCTION</b>				
Revenues from sales and services	37,791.5		36,841.2	
Change in work in progress	-6.8		-2.6	
Capitalized production	2,008.7		2,536.8	
Other income and revenues:				
- Operating grants	1,042.8		942.4	
- Sundries	1,082.1		1,252.1	
	2,124.9		2,194.5	
<b>Total value of production</b>	<b>41,918.3</b>		<b>41,569.9</b>	
<b>B) COST OF PRODUCTION</b>				
Raw, ancillary and consumable materials and goods for resale	14,755.3		14,489.6	
Services	2,219.9		2,609.5	
Leases and rentals	423.9		395.9	
Personnel:				
a) Wages and salaries	5,546.2		5,922.2	
b) Social security contributions	2,180.4		2,283.3	
c) Employee termination indemnities	501.6		584.7	
d) Pensions and similar commitments	335.1		310.7	
e) Other	267.8		260.7	
	8,831.1		9,361.6	
Amortization, depreciation and write-downs:				
a) Amortization of intangible fixed assets	26.4		21.4	
b) Depreciation of tangible fixed assets	5,669.0		5,582.6	
c) Other write-downs of fixed assets	132.8		165.5	
d) Write-downs of current receivables and liquid funds	106.2		126.1	
	5,934.4		5,895.6	
Changes in inventories of raw, ancillary and consumable materials and goods for resale	537.2		-374.1	
Provisions for risks	0.3		171.7	
Other provisions	88.0		270.6	
Other operating costs	439.3		514.0	
<b>Total cost of production</b>	<b>33,229.4</b>		<b>33,334.4</b>	
<b>Difference between value and cost of production (A-B)</b>	<b>8,688.9</b>		<b>8,235.5</b>	
<b>C) FINANCIAL INCOME AND EXPENSE</b>				
Other financial income:				
a) From receivables held as financial fixed assets:				
- Other	298.8		443.9	
b) From securities held as fixed assets not representing equity investments	0.3		0.7	
c) From securities held as current assets not representing equity investments	7.2		10.3	
d) Different from above:				
- Other	118.6		488.5	
	424.9		943.4	
Interest expense and other financial charges				
- Associated companies	3.7		1.3	
- Other	2,617.7		3,457.0	
	2,621.4		3,458.3	
<b>Total financial income and expense</b>	<b>-2,196.5</b>		<b>-2,514.9</b>	

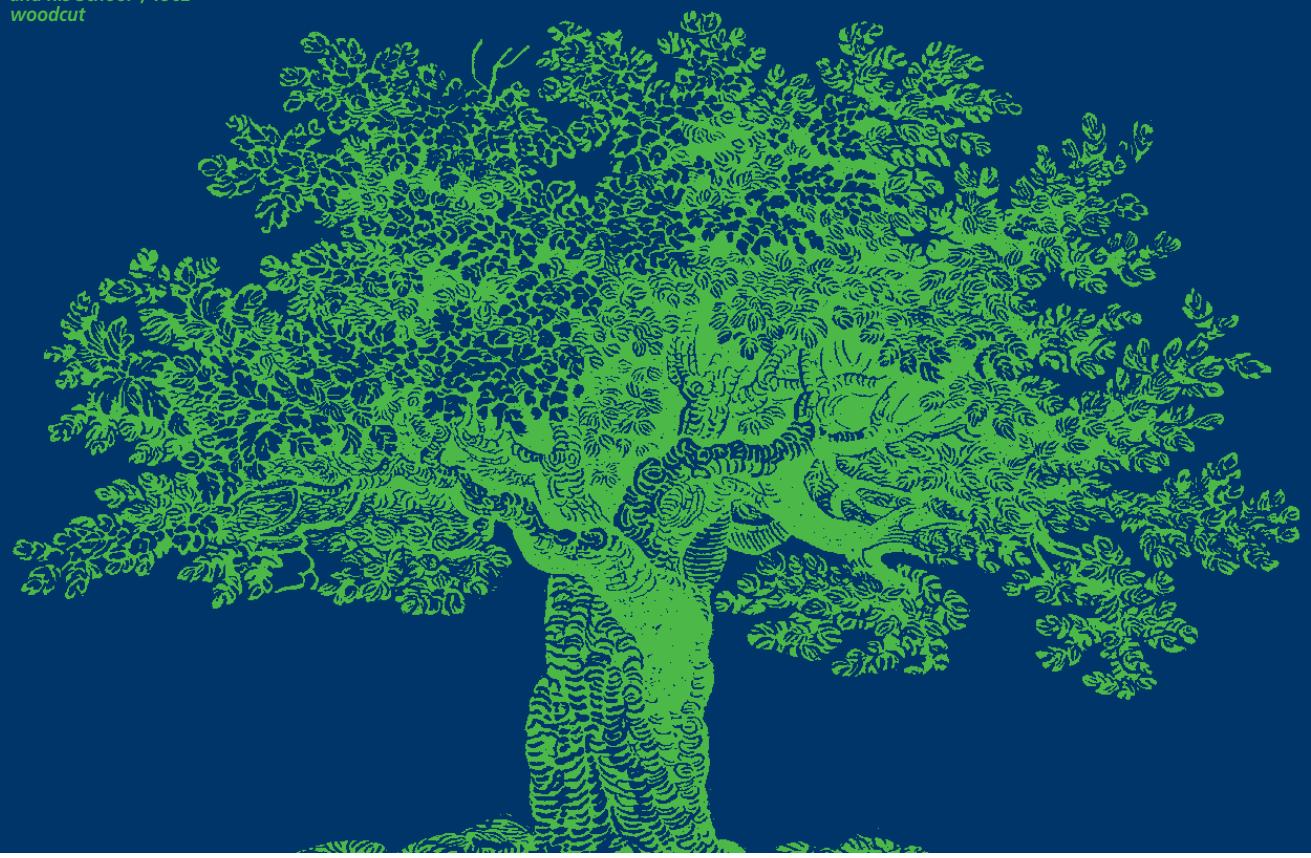
In billions of lire	Sub-total	Total	Sub-total	Total
	<b>1997</b>		<b>1996</b>	
<b>D) ADJUSTMENTS TO FINANCIAL ASSETS</b>				
Revaluations		-		-
Write-downs of:				
a) equity investments	175.7		0.7	
b) financial fixed assets not representing equity investments	0.4		-	
c) other	-		-	
	176.1		0.7	
<b>Total adjustments to financial assets</b>	<b>-176.1</b>		<b>-0.7</b>	
<b>E) EXTRAORDINARY INCOME AND EXPENSE</b>				
Income:				
a) Gains on disposals (other than those held to be ordinary)	-		-	
b) Other	1,291.8		274.1	
	1,291.8		274.1	
Expense:				
a) Losses on disposals (other than those held to be ordinary)	-		-	
b) Taxes relating to prior years	0.1		-	
c) Other	1,196.3		242.1	
	1,196.4		242.1	
<b>Total extraordinary income and expense</b>	<b>95.4</b>		<b>32.0</b>	
<b>Pre-tax income (A-B+C+D+E)</b>	<b>6,411.7</b>		<b>5,751.9</b>	
Income and capital taxes		3,088.4		3,528.8
<b>Net income for the year</b>	<b>3,323.3</b>		<b>2,223.1</b>	
Minority interests	4.1		2.6	
<b>GROUP NET INCOME FOR THE YEAR</b>	<b>3,327.4</b>		<b>2,225.7</b>	

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Environment, ecology, vitality, strengthening  
our roots and expanding

*"Pictorial Archives  
1800 Woodcuts by Thomas Bewick  
and his School", 1962  
woodcut*



**Form and content of the Consolidated Financial Statements**

The consolidated financial statements include the Parent Company, ENEL S.p.a., and the companies over which it exercises either direct or indirect control, via a majority of the voting rights, as defined by art. 2359 of the Italian Civil Code. The subsidiaries, WIND Telecomunicazioni S.p.a. and CISE S.r.l., have been excluded as both are recently established companies, which were not operative during 1997.

Attachment 1 lists the companies included in consolidation.

The accounting period for all consolidated subsidiaries is from January 1 to December 31 of each year. The Parent Company's 1996 financial statements, prepared in accordance with the format previously established by Law 191 of March 4, 1958, have been appropriately reclassified in order to prepare the consolidated financial statements in accordance with the format prescribed by articles 2424 and 2425 of the Italian Civil Code. An Industry Ministry decree has established that, with effect from the financial year ending December 31, 1997, electricity companies are also required to adopt such a format.

The Consolidated Balance Sheet and Statement of Income as of and for the year ended December 31, 1996, shown here for comparison only, differ from previous versions as a result of a number of reclassifications, rendered necessary in order to reflect the new form of the accounts adopted from autumn 1997 and structured in accordance with the appropriate regulations. Such reclassifications, primarily regarding the separate presentation of industrial buildings previously included among plant and machinery, have not altered the value of consolidated shareholder's equity and net income for the year to December 31, 1996.

The financial statements of consolidated companies are prepared in conformity with the accounting standards established by Italian law, interpreted and integrated by generally accepted accounting principles, adopted on essentially consistent basis throughout the Group. Where necessary, items recorded solely for tax purposes have been reversed on consolidation.

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**Consolidation principles**

The main consolidation principles are the following:

- the book value of consolidated holdings is eliminated against the related shareholder's equity, in accordance with the line-by-line method;
- minority interests in consolidated companies' net income for the year and shareholders' equity are shown under separate items in the Statement of Income and Balance Sheet;
- significant unrealized gains and losses deriving from inter-company transactions are eliminated, as are inter-company payables and receivables, costs and revenues;
- inter-company dividends are eliminated from the Consolidated Statement of Income;
- adjustments to the financial statements of individual companies in order to eliminate items recorded solely for tax purposes and, where appropriate, to make them consistent with Group accounting policies, as well as the other consolidation adjustments, take account, where applicable, of the deferred tax effect, which is reported in the reserve for accrued taxes.

## **Accounting policies**

The accounting policies adopted for the preparation of the consolidated financial statements as of and for the year ended December 31, 1997 are the same as those adopted for the preparation of the 1996 financial statements. The most significant policies are described below.

### **a) Intangible fixed assets**

Intangible fixed assets are stated at purchase or production cost, written down to reflect any other than temporary impairment in value. Such assets are amortized on a straight-line basis over the period they are expected to benefit, which in the case of charges relating to the development of software is three years. The "solidarity contribution", introduced by Law 662 of December 23, 1996, is amortized over three years, representing the deferred payment period, as permitted by the relevant legislation.

### **b) Tangible fixed assets**

Tangible fixed assets are stated at purchase or production cost, including any additional costs directly chargeable to the assets and value adjustments carried out in accordance with Law 576 of December 2, 1975 and Law 72 of March 19, 1983, in addition to the obligatory revaluation of property required by Law 413 of December 30, 1991 and, as regards the assets of the Parent Company, the adjustments carried out in accordance with Law 292 of August 9, 1993. The stated value of primary electrical plant also includes interest charged up to December 31, 1988 on the financing for new construction work. Such assets are written down to reflect any other than temporary impairment in value. The original value, adjusted solely to reflect depreciation, is reinstated in future years should the reasons for such write-downs no longer apply.

Routine maintenance costs are charged to the Statement of Income as incurred.

Tangible fixed assets are depreciated systematically each year on a straight-line basis, utilizing rates of depreciation which reflect the residual useful lives of the related assets, estimated on the basis of specific assessments.

Additional and accelerated depreciation recorded solely for tax purposes in the financial statements of individual companies, as permitted by current legislation, is eliminated, taking into account the related tax effect and the effect on depreciation of charges paid by customers for new connections.

### **c) Financial fixed assets**

Equity investments relating to unconsolidated companies are stated at purchase or subscription cost and written down to reflect any other than temporary impairment in value. In the event of commitments to recapitalize quotas of the shareholders' equity of loss-making companies, where the amount exceeds the complete write-down of the investment, such commitments are covered by the reserve for losses relating to investments. The above accounting policy, applied in the valuation of equity investments where the Group exerts significant influence, does not diverge from the application of the equity method.

Financial receivables are stated at their estimated realizable value.

"Other securities" include ENEL bonds, stated at nominal value, and other bonds stated at purchase cost, written down to reflect any other than temporary impairment in value.

### **d) Inventories**

Raw, ancillary and consumable materials are stated at purchase cost, calculated on the basis of the weighted average cost.

Obsolete or slow moving stocks are written down on the basis of their estimated realizable value or residual use.

"Contract work in progress" is stated on the basis of the contracted amounts due, calculated with reasonable certainty on a percentage-of-completion basis.

**e) Receivables and marketable securities**

Receivables are stated at their estimated realizable value and classified among "Financial fixed assets" and "Current assets" in relation to their nature and purpose. Receivables held as fixed assets, which are not earning interest, are stated at their present value, calculated on the basis of the interest rate applicable at the time of entry in the accounts.

"Other securities" classified under current assets refer to ENEL bonds forming the "Special series reserved for subscription by ENEL employees", which are stated at nominal value, and other bonds and government securities stated at the lower of purchase cost and market value, calculated, for listed securities, on the basis of average stock market prices during the month of December.

**f) Accruals and deferrals**

Accruals and deferrals are calculated in accordance with the accrual basis of accounting. Issue discounts and other issuance costs are amortized in each financial year over the duration of the related loan.

**g) Reserves for risks and charges**

The "Reserve for pensions and similar obligations" relates primarily to the union agreement regarding a supplementary pension fund for managers participating in the scheme at the time. The reserve also includes sums to be paid in lieu of notice to existing employees who have acquired such a right, in accordance with the collective labor contract and current union agreements.

The "Reserve for accrued taxes" relates to the tax effects of adjustments made to the financial statements of individual companies in order to eliminate items recorded solely for tax purposes and to make them consistent with the accounting policies applied throughout the Group, as well as other deferred taxes. Current income taxes are entered under tax liabilities on the basis of the estimated taxable income, in accordance with established regulations and taking account of any applicable exemptions and tax credits due.

"Other reserves" consist of provisions for various losses or liabilities of a determinate nature and of certain or probable occurrence. As of year-end, however, either the payment date or the exact amount relating to such items was not determinable. Provisions reflect the best possible estimates made on the basis of the information available.

**h) Reserve for employee termination indemnities**

The reserve covers the accrued liability to each employee at year-end, in accordance with current legislation and labor agreements, net of any advances paid.

**i) Payables**

Payables are stated at their nominal value.

**l) Capital grants**

Grants received to finance specific construction projects, the value of which is recorded among tangible fixed assets, are deferred and charged to the Statement of Income in correspondence with the provisions for depreciation of the assets to which they refer.

**m) Other grants**

The above are charged to the Statement of Income once the legal right to receive such grants has been acquired and their amount determined.

**n)Revenues**

Tariff revenues are calculated on the basis of consistent criteria relating to electricity consumption as measured by meter readings carried out at set intervals, including amounts not billed by December 31, whilst pricing is based on the year-end tariff structure established by law and the Electrical Energy and Gas Authority. Revenues from other sales and services are recognized when the service is supplied or the transfer of ownership of the goods concerned takes place.

**o)Translation principles for items denominated in foreign currency**

Receivables and payables originally denominated in foreign currency are translated into lire using the historical exchange rates applicable at the time of the relevant transactions. Should the translation of receivables and payables applying average exchange rates for the month of December, taking account of related hedges, result in a net loss, the related amount is accrued and reflected in provisions to a specific reserve for exchange rate fluctuations. Prudently, any net gains resulting from the translation of long-term items are not accrued.

**p)Forward interest rate transactions**

Interest rate differentials accruing at year-end on financial derivatives, entered into in order to hedge the original interest rates on similar forms of borrowing (in terms of duration and amount), including the conversion of the related interest rates, are stated on an accrual basis in the Statement of Income under financial income and expense, in line with charges deriving from the underlying liabilities.

**Explanation added for the translation into English**

The financial statements have been translated into English from the original version issued in Italian. They have been prepared in accordance with the Italian law related to financial statements, interpreted and integrated by the accounting principles established by the Italian Accounting Profession. Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Italy may not conform with the generally accepted accounting principles in other countries.

## Balance Sheet - Assets

### Fixed assets - Lit. 79,470.4 billion

Fixed assets declined overall by Lit. 1,317.4 billion, as shown in the following table:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Intangible fixed assets	159.3	200.3	-41.0
Tangible fixed assets	76,150.7	75,598.3	+552.4
Financial fixed assets	3,160.4	4,989.2	-1,828.8
<b>Total</b>	<b>79,470.4</b>	<b>80,787.8</b>	<b>-1,317.4</b>

#### Intangible fixed assets - Lit. 159.3 billion

This item refers primarily to the charges relating to the so-called "solidarity contribution", introduced by Law 662 of December 23, 1996. The amortization for 1997 (totaling Lit. 42.6 billion) has been recorded among extraordinary expense, in view of the fact that the item relates to previous years. The item also includes costs incurred by the Parent Company for the purchase and development of advanced software applications that will benefit a number of years.

The decrease of Lit. 41.0 billion results from the following changes during the year:

In billions of lire

		1997
<b>Opening balance as of 12.31.1996</b>		<b>200.3</b>
Changes during 1997:		
- investment		28.1
- amortization		(26.4)
- amortization charged to extraordinary expense		(42.6)
- write-downs		(0.1)
Total changes		(41.0)
<b>Closing balance as of 12.31.1997</b>		<b>159.3</b>

#### Tangible fixed assets - Lit. 76,150.7 billion

Tangible fixed assets are shown in the table on the next page, broken down by category and the activity for which they are used.

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**Tangible fixed assets  
as of December 31, 1997**

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In billions of lire	Electricity			Other activities		
	Gross value	Accumulated technical depreciation	Net value	Gross value	Accumulated technical depreciation	Net value
<b>Land and buildings</b>	<b>19,042.5</b>	<b>5,149.4</b>	<b>13,893.1</b>	<b>467.9</b>	<b>69.8</b>	<b>398.1</b>
% of accumulated depreciation			27.0%			14.9%
<b>Plant and machinery</b>	<b>114,960.5</b>	<b>65,639.5</b>	<b>49,321.0</b>	<b>176.4</b>	<b>148.1</b>	<b>28.3</b>
% of accumulated depreciation			57.1%			84.0%
<b>Ind. and comm. equip.</b>	<b>988.2</b>	<b>689.1</b>	<b>299.1</b>	<b>92.9</b>	<b>76.8</b>	<b>16.1</b>
% of accumulated depreciation			69.7%			82.7%
<b>Other assets</b>	<b>2,662.6</b>	<b>2,091.5</b>	<b>571.1</b>	<b>33.9</b>	<b>27.0</b>	<b>6.9</b>
% of accumulated depreciation			78.6%			79.6%
<b>Assets under construction and advances</b>	<b>11,614.4</b>		<b>11,614.4</b>	<b>2.6</b>		<b>2.6</b>
<b>Total</b>	<b>149,268.2</b>	<b>73,569.5</b>	<b>75,698.7</b>	<b>773.7</b>	<b>321.7</b>	<b>452.0</b>
<b>% of accumulated depreciation</b>			<b>53.4</b>			<b>41.7</b>

Gross value	Total as of 12.31.1997		Total as of 12.31.1996		Change	
	Accumulated technical depreciation	Net value (a)	Net value (b)	Amount (a-b)	%	
19,510.4	5,219.2	14,291.2	13,977.6	313.6	2.2	
		26.8%	11.6%			
115,136.9	65,787.6	49,349.3	46,205.7	3,143.6	6.8	
		57.1%	53.9%			
1,081.1	765.9	315.2	349.6	-34.4	-9.8	
		70.8%	68.5%			
2,696.5	2,118.5	578.0	690.9	-112.9	-16.3	
		78.6%	52.8%			
11,617.0		11,617.0	14,374.5	-2,757.5	-19.2	
150,041.9	73,891.2	76,150.7	75,598.3	552.4	0.7	
		53.4	51.8			

The Lit. 552.4 billion increase in net tangible fixed assets as of December 31, 1997 results from the following changes during the year:

In billions of lire

<b>Opening balance as of 12.31.1996</b>		<b>75,598.3</b>
<b>Changes during 1997:</b>		
- investment		6,465.6
- depreciation		(5,669.0)
- disposals		(119.8)
- write-downs		(132.7)
- other changes		8.3
Total changes		552.4
<b>Closing balance as of 12.31.1997</b>		<b>76,150.7</b>

The gross value of the various asset categories reflects the values stated in the financial statements of Group companies, while accumulated depreciation is the result of a recalculation using technical rates determined by the companies taking into account the residual useful life of related assets. Such rates are applied on a straight-line basis to the book value of the assets concerned.

#### **Financial fixed assets - Lit. 3,160.4 billion**

The Lit. 1,828.8 billion decrease in such items is analyzed below:

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In billions of lire	<b>as of 12.31.1997</b>	<b>as of 12.31.1996</b>	<b>1997-1996</b>
Unconsolidated equity investments	17.3	411.4	-394.1
Receivables:			
- due from the Electricity Industry Equalization Fund as reimbursement for nuclear-related charges	2,383.3	3,496.3	-1,113.0
- reserve for write-downs	(390.0)	-	-390.0
- due from the Electricity Industry Equalization Fund as reimbursement for nuclear-related charges, net of reserve for write-downs	1,993.3	3,496.3	-1,503.0
- amounts due from INPS for contributions relief (Law 151/1993)	663.8	796.1	-132.3
- other	475.1	171.8	+303.3
Total receivables	3,132.2	4,464.2	-1,332.0
Other securities	10.9	113.6	-102.7
<b>Total</b>	<b>3,160.4</b>	<b>4,989.2</b>	<b>-1,828.8</b>

Unconsolidated equity investments, amounting to Lit. 17.3 billion, are detailed in Attachment 2. Of the Lit. 394.1 billion decrease, Lit. 400.4 billion is due to the write-down of the holding in the associated company NERSA. The company's regularly approved financial statements for the year to December 31, 1997 report shareholders' equity in deficit following the accrual of the future costs of shutting-down the nuclear power station at Creys-Malville, as recently decided by the French government. The reserve for losses relating to investments represents the estimated additional charges to be borne by ENEL in connection to its withdrawal, calculated on the basis of currently available information.

"Amounts due from the Electricity Industry Equalization Fund as reimbursements for nuclear-related charges" represent the remaining charges to be reimbursed to the Parent Company following the government's policy of abandoning nuclear power.

The above receivables, recognized by specific legislation, decreased by Lit. 1,503.0 billion, representing the balance of the amount collected during the year (Lit. 1,309.9 billion), the interest maturing over the same period (Lit. 196.9 billion), calculated at a rate of 72.56% of the ABI (Italian Banking Association) prime rate, and the extraordinary write-down of Lit. 390 billion. Such a write-down has been carried out in view of the Authority's resolution 58/1998 of June 12, 1998, which questions the adequacy of the criteria applied in the calculation of the reimbursement of a number of items. Further information is provided in the Report on Operations under the section, "Litigation". Following the Authority's further resolution (no. 70/1997) provisionally reducing the surcharge levied in order to cover reimbursements to ENEL for nuclear-related charges, the amounts received are sufficient to cover annual interest payments and the repayment of principal over a period of approximately 12 years.

The "Amounts due from INPS" (the National Institute of Social Insurance), totaling Lit. 663.8 billion, reflects the current value, calculated at an annual interest rate of 9.60%, effective at the time the item was entered in the accounts, of past relief for employees operating in the South of Italy (the Mezzogiorno). Such relief was approved by Constitutional Court sentence 261 of June 12, 1991 and the relevant reimbursements are to be paid in installments up to 2001, in accordance with Law 151/1993, without any surcharge to take account of revaluations or interest.

"Other", amounting to Lit. 475.1 billion, primarily relates to taxes paid in advance on employee termination indemnities in accordance with Law 662/1996, loans to employees in order to finance first-time house-buyers or provide assistance to cover family necessities of an exceptional nature, and other minor sums.

"Other securities", amounting to Lit. 10.9 billion, are mainly represented by bonds issued by the Parent Company and deposited with EU institutions as guarantees for loans granted to the associated company NERSA (Lit. 9.3 billion). The decrease of Lit. 102.7 billion is principally due to the release of such guarantees carried out in relation to repayment of the loans.

### **Current assets - Lit. 15,461.6 billions**

The Lit. 95.5 billion increase with respect to December 31, 1996 results from the following changes during the year:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Inventories	1,715.9	2,248.2	-532.3
Receivables due from:			
- customers	5,283.3	5,105.9	+177.4
- associated companies	7.4	6.6	+0.8
- Electricity Industry Equalization Fund	6,835.4	6,869.5	-34.1
- other third parties	1,096.4	799.9	+296.5
Total	13,222.5	12,781.9	+440.6
Financial assets not held as fixed assets	136.2	149.6	-13.4
Liquid funds	387.0	186.4	+200.6
<b>Total</b>	<b>15,461.6</b>	<b>15,366.1</b>	<b>+95.5</b>

At the end of 1997, "Inventories" consist of Lit. 962.8 billion (56.1%) in fuel to be used in the generation of electricity, Lit. 653.0 billion (38.0%) of materials used in the operation, maintenance and construction of plants, and the remaining Lit. 100.1 billion (5.9%) represented by work in progress and advances paid. The decrease with respect to December 31, 1996 was due essentially to more efficient stock management aimed at reducing inventory levels.

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"Receivables due from customers", stated net of accumulated write-downs of Lit. 335.1 billion, relate primarily to payments due for electricity supplies, services and interest, and include amounts to be billed. The increase in amounts due from customers is linked primarily to the greater quantity of electricity billed in the fourth quarter of the year as a result of the economic recovery.

"Receivables due from the Electricity Industry Equalization Fund" represent the sums payable to the Parent Company as contributions for fuel costs, as well as for direct generation and purchases of electricity from other producers, using renewable and similar energy sources.

The above receivables break down as follows:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Contributions for fuel cost and imports of electricity	4,954.1	5,480.6	-526.5
Contributions for tariff equalization	-	5.9	-5.9
Contributions for the purchase of electricity and for incentives for new generation using renewable and similar energy sources	1,881.3	1,383.0	+498.3
<b>Total</b>	<b>6,835.4</b>	<b>6,869.5</b>	<b>-34.1</b>

The amount due from the Fund, totaling Lit. 6,835.4 billion, is partially offset by a payable to the Equalization Fund, amounting to Lit. 2,372.9 billion as shown in the liabilities. The net receivable, as of December 31, 1997, totals Lit. 4,462.5 billion, against Lit. 4,344.3 billion as of December 31, 1996, an increase of Lit. 118.2 billion.

The principal changes in the above item are as follows:

- a decrease of Lit. 526.5 billion in the item "Contributions for fuel cost and imports of electricity", primarily due to the adjustment of the surcharge in order to cover the past deficit of the Electricity Industry Equalization Fund;
- an increase of Lit. 498.3 billion in the item "Contributions for the purchase of electricity and for incentives

for new generation using renewable and similar energy sources". Such a rise was due to the greater quantity of electricity purchased by third parties during the year, in addition to supplementary contributions for the generation of electricity from renewable sources, granted to the Parent Company following exercise of the option provided by CIP Directive 6/1992 and recorded among extraordinary income, in that the sum relates to previous years. Further contributions for imports of electricity are expected to be received, following the resolution issued by the Lombardy Administrative Court (T.A.R.) on December 20, 1997, as described in the section "Litigation". The Parent Company has also begun proceedings with the aim of obtaining additional contributions in the form of incentives for plant revamping and upgrading, in accordance with CIP Directive 6/1992.

The category "Other third parties" comprises sundry items, summarized as follows:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Advances to suppliers and third parties	590.1	589.5	+0.6
Tax credits, including related interest	297.4	29.5	+267.9
Contributions and similar amounts due from social security institutions	10.6	17.9	-7.3
Accounts to be settled with suppliers	71.0	56.9	+14.1
Amounts due from former electricity companies	16.4	16.0	+0.4
Accrued interest receivable	3.8	13.5	-9.7
Sundries	107.1	76.6	+30.5
<b>Total</b>	<b>1,096.4</b>	<b>799.9</b>	<b>+296.5</b>

Advances paid to third parties refer to Lit. 399.5 billion relating to the advanced billing of electricity purchased from a foreign producer, in accordance with contractual agreements.

Such agreements allow for the issue of an overall provisional invoice prior to the start of the year in which the electricity is to be supplied, with payment to be made monthly on the basis of the energy effectively supplied.

"Financial assets not held as fixed assets" relate primarily to bonds issued by the Parent Company relating to "the special series reserved for ENEL employees" and repurchased from personnel.

"Liquid funds", totaling Lit. 387.0 billion, represent the credit balances of accounts held with banks and post offices and cash and notes in hand. The increase of Lit. 200.6 billion was principally due to short-term money market transactions, generating net interest income.

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### **Accrued income and prepaid expenses - Lire 235.2 billion**

The account is broken down as follows, in accordance with art. 38 (f) of Decree Law 127/1991:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Accrued income:			
- interest income	1.7	3.0	-1.3
- grants and other	27.6	20.3	+7.3
<b>Total accrued income</b>	<b>29.3</b>	<b>23.3</b>	<b>+6.0</b>
Prepaid expenses:			
- discounts on bond issues	25.8	35.4	-9.6
- loan issue charges	20.5	25.1	-4.6
- interest expense	58.5	63.7	-5.2
- water rates for industrial use	70.7	71.1	-0.4
- insurance premiums	11.6	10.5	+1.1
- rental expense	9.2	11.1	-1.9
- other expenses	9.6	6.0	+3.6
<b>Total prepaid expenses</b>	<b>205.9</b>	<b>222.9</b>	<b>-17.0</b>
<b>TOTAL</b>	<b>235.2</b>	<b>246.2</b>	<b>-11.0</b>

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In accordance with 38 (e) of Decree Law 127/1991, the following table provides a breakdown of receivables and accrued income by maturity:

In billions of lire	Within one year	Between 2 and 5 years	Beyond 5 years	Total
<b>Receivables held as financial fixed assets</b>				
- Due from others	193.9	578.0	367.0	1,138.9
- Due from the Electricity Industry Equalization Fund for nuclear-related costs	178.8	580.2	1,234.3 <sup>(*)</sup>	1,993.3
Total receivables held as financial fixed assets	372.7	1,158.2	1,601.3	3,132.2
<b>Current receivables</b>				
- Due from customers	4,829.7	422.8	30.8	5,283.3
- Due from associated companies	7.4	-	-	7.4
- Due from the Electricity Industry Equalization Fund	6,835.4	-	-	6,835.4
- Due from others	1,094.4	2.0	-	1,096.4
Total current receivables	12,766.9	424.8	30.8	13,222.5
<b>Accrued income</b>	<b>29.3</b>	-	-	<b>29.3</b>
<b>TOTAL</b>	<b>13,168.9</b>	<b>1,583.0</b>	<b>1,632.1</b>	<b>16,384.0</b>

<sup>(\*)</sup>At the current rate, full collection of receivables would take approximately 12 years.

## Balance Sheet - Liabilities and shareholder's equity

### **Group shareholder's equity - Lit. 32,515.1 billion**

The Lit. 2,127 billion increase with respect to December 31, 1996 was due to the following changes:

In billions of lire	Changes during 1997			<b>as of 12.31.1997</b>
	Allocation of 1996 net income	Other changes	Balance of changes	
<b>as of 12.31.1996</b>				
Share capital	12,126.2			12,126.2
Revaluation reserve	23.4		-7.1	16.3
Legal reserve	138.4	+63.7		202.1
Reserve as per Law 292/1993	10,607.2			10,607.2
Other reserves	1,922.0			1,922.0
Retained earnings	3,345.2	+961.6	+7.1	4,313.9
Net income for the year	2,225.7	-2,225.7	+3,327.4	3,327.4
<b>Total</b>	<b>30,388.1</b>	<b>-1,200.4</b>	<b>+3,327.4</b>	<b>32,515.1</b>

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The balance of the share capital, which is unchanged with respect to December 31, 1996, relates to that of ENEL S.p.a., the amount of which was determined by the Treasury Minister's Decree of July 14, 1992, on the basis of the provisions of Decree Law 333/1992, converted into Law 359/1992, which transformed ENEL into a joint stock company. The share capital consists of 12,126,150,379 shares with a par value of Lit. 1,000 each, giving a total of Lit. 12,126,150,379,000.

The "Reserve as per Law 292/1993" comprises the sum of Lit. 7,334.6 billion authorized by the Treasury Minister with the Decree of January 19, 1995. In 1996, a further Lit. 3,272.6 billion was transferred from the reserve for accrued taxes, representing the residual equalization tax no longer due following the Finance Ministry's clarification of the tax status of the reserve in question.

The "Other reserves" reflect payments made by the Treasury between 1992 and 1994 to reimburse ENEL for repayments of principal on loans obtained in previous years under finance laws 41/1986 and 910/1986, and which were to be fully serviced by the government. Under such laws, the amounts in question should have been credited to the endowment fund of ENEL, the then State institution. Following ENEL's transformation into a joint stock company with share capital determined on the basis of net worth of the State institution as of December 31, 1991, the reimbursements received from the Treasury during the period 1992-1994, in accordance with the above-mentioned legislation and within the limits established by Laws 415/1991 (the 1992 Finance Law) and 438/1992, have been provisionally recorded in this special equity reserve.

With regard to this reserve, following the Finance Ministry's decision of July 12, 1996, as confirmed by Council of State opinion 203 of February 27, 1996, the reserve - given its origin - is to be considered to all effects part of the Company's share capital. As such, the reserve is exempt from registration tax on release in accordance with art. 19 of Decree Law 333/1992 (converted into Law 359/1992). The above decision was based on the fact that the reimbursements are linked to ENEL's transformation into a joint stock company and the definitive determination of its shareholder's equity.

The reconciliation of the Parent Company's shareholder's equity and net income for 1996 and 1997 is presented in the following table:

In billions of lire	Net income for the year	Shareholder's equity	Net income for the year	Shareholder's equity
				1996
Balances per Parent Company's financial statements	976.3	26,535.9	1,272.1	26,753.5
Items recorded solely for tax purposes (additional depreciation and reserve for capital grants) net of tax effect	2,357.0	5,956.0	964.4	3,605.6
Effects of consolidating the financial statements of subsidiaries	(4.3)	23.9	(13.0)	28.1
Other consolidation adjustments	(1.6)	(0.7)	2.2	0.9
<b>Balances per consolidated financial statements</b>	<b>3,327.4</b>	<b>32,515.1</b>	<b>2,225.7</b>	<b>30,388.1</b>

### **Reserves for risks and charges - Lit. 10,708.3 billion**

The reserves, totaling Lit. 10,708.3 billion, decreased by Lit. 184.1 billion with respect to the previous year and are analyzed below:

In billions of lire	as of 12.31.1997	as of 12.31.1996	1997-1996
			1997-1996
Pensions and similar obligations	2,546.1	2,486.5	+59.6
Accrued taxes	4,450.8	4,554.8	-104.0
Other	3,711.4	3,851.1	-139.7
<b>Total</b>	<b>10,708.3</b>	<b>10,892.4</b>	<b>-184.1</b>

The following table shows the changes during the year in the above reserves:

In billions of lire	Changes during the year				as of 12.31.1997
	Provisions		Releases	Other changes	
	as of 12.31.1996				
<b>Reserve for pensions and similar obligations</b>	<b>2,486.5</b>	<b>335.1</b>	<b>(280.4)</b>	<b>4.9</b>	<b>2,546.1</b>
Reserve for accrued taxes:					
- deferred taxes on current value of contributions relief as per Law 151/1993	411.4	–	(66.8)	(106.4)	238.2
- deferred taxes on consolidation adjustments	4,143.4	994.3	–	(925.1)	4,212.6
<b>Total reserve for accrued taxes</b>	<b>4,554.8</b>	<b>994.3</b>	<b>(66.8)</b>	<b>(1,031.5)</b>	<b>4,450.8</b>
Other reserves:					
- exchange rate fluctuations	411.4	38.9	(93.7)	–	356.6
- legal disputes and other risks	898.2	440.3	(68.1)	3.7	1,274.1
- treatment and disposal of nuclear fuel	640.2	42.9	(24.5)	–	658.6
- decommissioning of inactive nuclear plants	673.6	45.1	(67.1)	–	651.6
- losses relating to investments in associated companies	1,153.4	–	(397.4)	–	756.0
- charges for early retirement scheme	74.3	266.0	(325.8)	–	14.5
<b>Total other reserves</b>	<b>3,851.1</b>	<b>833.2</b>	<b>(976.6)</b>	<b>3.7</b>	<b>3,711.4</b>
<b>TOTAL</b>	<b>10,892.4</b>	<b>2,162.6</b>	<b>(1,323.8)</b>	<b>(1,022.9)</b>	<b>10,708.3</b>

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The "Reserve for pensions and similar obligations" primarily represents the present value of future liabilities connected with union agreements regarding a supplementary pension fund for managers participating in the scheme. The reserve also includes sums to be paid in lieu of notice to existing employees who have acquired such a right, in accordance with collective labor contracts and current union agreements.

Changes relate to rights maturing during the year and the related disbursements.

With regard to the "Reserve for accrued taxes", the following should be noted:

- the release of Lit. 66.8 billion from the "Reserve for deferred taxes on current value of contributions relief as per Law 151/1993" relates to the current year portion of such taxes due with respect to the installment collected in 1997 from INPS. The other changes relate to the reduction in future tax liabilities following the abolition of ILOR (Local Income Tax);
- the increase of Lit. 69.2 billion in the "Reserve for deferred taxes on consolidation adjustments" relates to provisions amounting to Lit. 994.3 billion for adjustments carried out during the year, principally linked to the elimination of additional and accelerated depreciation, as well as to the reduction of Lit. 923.7 billion made necessary following the introduction of IRAP in place of the above-mentioned ILOR. This latter sum was charged to extraordinary income.

The "Reserve for exchange rate fluctuations" covers potential exchange rate losses on foreign currency items, calculated on the basis of average exchange rates for the month of December 1997, which are substantially in line with those at year-end.

The "Reserve for legal disputes and other risks" covers potential liabilities that, according to the Parent Company's internal and external legal advisors, could result from current legal proceedings (primarily relating to supply contracts, labor disputes and plant operations), without taking into account the effects of proceedings in which a favorable outcome is expected or those in which an adverse outcome cannot be reasonably estimated. Further information regarding the latter is provided in the Report on Operations, under the section "Litigation", and in the following section "Commitments and risks not recorded in the Balance

Sheet". Calculation of the amount required is based on both the estimated charges that could derive from litigation or other disputes arising during the year, and updated estimates of charges relating to disputes in previous years. The reserve does not include any provision relating to the dispute over the Vajont event. In contrast to what is stated above, it is thought that, although the claims against ENEL are substantial, they are matched by the Parent Company's counterclaims, since the latter form part of the same proceedings and relate to the same event. The reserve also includes provisions for potential charges and losses on the disposal or alternative use of assets relating to suspended investment projects. Such provisions were estimated on the basis of the information currently available.

1997 saw the Parent Company make an extraordinary provision of Lit. 440.0 billion to cover estimated potential charges linked to the possible withdrawal from an investment project, which is currently suspended.

Changes in the reserve relating to nuclear plants were linked to the release of funds to cover expenses sustained during the year, and provisions to ensure coverage of the present value of future charges to be incurred.

With regard to the "Reserve for losses relating to investments in associated companies", following the French government's decision, announced in February 1998, to proceed with the closure of the nuclear power station at Creys-Malville, operated by the associated company, NERSA, the original nature of the reserve has been altered. Instead of covering costs deriving from the Parent Company's participation in the above project, the reserve is now to be used to cover the cost of its withdrawal.

Releases of Lit. 172.7 billion relate to the increased cost of commitments to purchase electricity, in accordance with previous agreements connected to the project, whilst further releases totaling Lit. 224.7 billion partially cover the write-down of the equity investment in NERSA. After the above releases, the remaining balance is considered sufficient to cover any further charges connected to ENEL's withdrawal from the project, as estimated on the basis of the information currently available.

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The "Reserve for charges for early retirement scheme" consists of provisions for extraordinary costs linked to the temporary offer of agreed early retirement packages, forming part of the Parent Company's reorganization. Changes relate to sums falling due during the year and charged to extraordinary expense, and amounts disbursed.

#### **Reserve for employee termination indemnities - Lit. 4,722.1 billion**

The balance represents provisions for employee termination indemnities made in accordance with Law 297 of May 29, 1982, net of advances paid to personnel to cover "medical expenses" and "first-time house purchases".

The decrease of Lit. 81.4 billion with respect to December 31, 1996 results from the following changes during the year:

In billions of lire

Balance as of December 31, 1996	4,803.5
Provisions	501.6
Releases	(583.0)
Total changes	(81.4)
<b>Balance as of December 31, 1997</b>	<b>4,722.1</b>

## Bonds and amounts due to banks - Lit. 33,348.6 billion

The Group's total short- and long-term borrowing as of December 31, 1997 amounts to Lit. 33,348.6 billion, a decrease of Lit. 1,601.4 billion with respect to the previous year, as analyzed below:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Bonds	16,387.5	17,902.4	-1,514.9
Long-term loans	15,786.1	16,305.5	-519.4
Total long-term borrowing	32,173.6	34,207.9	-2,034.3
Short-term loans	1,175.0	742.1	+432.9
<b>Total short- and long-term borrowing</b>	<b>33,348.6</b>	<b>34,950.0</b>	<b>-1,601.4</b>

The above reflects the sum of the Parent Company's bonds issued, including both those deposited in guarantee and those held in the securities portfolio. Taking into account such elements, as well as liquid funds, the Group's net borrowing as of December 31, 1997 amounts to Lit. 32,818.4 billion, against the Lit. 34,507.6 billion of 1996 year-end, representing a decrease of Lit. 1,689.2 billion, as analyzed below:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996	
Gross long-term borrowing:				
- Bonds	16,387.5	17,902.4	-1,514.9	
- Amounts due to banks	15,786.1	16,305.5	-519.4	
Total	32,173.6	34,207.9	-2,034.3	
Less:				
- Bonds deposited in guarantee	(9.3)	(106.1)	(-96.8)	
- Special series bonds reserved for ENEL employees	(127.2)	(143.1)	(-15.9)	
- Other bonds	(6.7)	(6.8)	(-0.1)	
Net long-term borrowing	32,030.4	33,951.9	-1,921.5	
Short-term borrowing (liquid funds):				
- Amounts due to banks	1,175.0	742.1	+432.9	
- Liquid funds	(387.0)	(186.4)	(+200.6)	
Net short-term borrowing	788.0	555.7	+232.3	
<b>Total net borrowing</b>	<b>32,818.4</b>	<b>34,507.6</b>	<b>-1,689.2</b>	<b>71</b>

Net long-term borrowing at 1997 year-end, amounting to Lit. 32,030.4 billion, relates to Lit. 26,499.5 billion in lira loans, Lit. 2,650.0 billion in Eurolira loans and Lit. 2,880.9 billion in loans denominated in foreign currency, primarily ECU, US dollars, and pound sterling.

It should also be noted that, as already mentioned in the summary of results, the aforesaid total borrowing is influenced by amounts due from the Equalization Fund for items recoverable in the next few years in connection with nuclear-related charges (Lit. 1,993.3 billion at 1997 year-end, net of the extraordinary write-down of Lit. 390 billion), and for those regarding the delay in adjusting the thermal surcharge and incentives for generation from renewable and similar sources (Lit. 4,462.5 billion, net of the related payable), as well as by amounts due from INPS for contributions relief prior to 1991, which are due to be reimbursed to the Parent Company in accordance with Law 151/1993 (amounting to a current balance of Lit. 643.6 billion, as of December 31, 1997). Net of these items, the Group's effective borrowing as of December 31, 1997 would amount to Lit. 25,719 billion.

"Amounts due to banks" as of December 31, 1997 includes the residual value of Lit. 16 million relating to

borrowing incurred by a former electricity company transferred to ENEL, backed by a mortgage on real estate in Rome, at Viale del Policlinico 131.

The Lit. 1,689.2 billion reduction in borrowing with respect to 1996 year-end results from the following changes during the year:

In billions of lire

		1997
Long-term borrowing:		
- new loans		+1,084.3
- capital installments reimbursed		-3,118.6
- change in ENEL bonds in portfolio		+112.8
Total		-1,921.5
Short-term borrowing:		
- change during 1997		+232.3
<b>Change in net borrowing</b>		<b>-1,689.2</b>

New loans, amounting to Lit. 1,084.3 billion, relate to the issue of bonds on the domestic market, totaling Lit. 124.4 billion, Lit. 409.9 billion in loans raised in Italy and Eurolira loans of Lit. 550 billion.

Borrowing of Lit. 3,900 billion is hedged against interest rate fluctuations by options (zero cost collars), whilst Lit. 800 billion is hedged by basic risk swaps.

In addition to the information provided in the section "Background and summary of 1997 Group results", the uses and sources of funds are analyzed in the attached "Consolidated Statement of Cash Flows".

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### Payables - Lit. 12,936.8 billion

With the exclusion of bonds issued and bank loans, the Group's payables decreased by Lit. 1,455.8 billion and break down as follows:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Due to other providers of finance	0.1	0.1	-
Advances received	1,865.8	1,595.2	+270.6
Trade payables	5,348.4	5,358.9	-10.5
Due to associated companies	30.8	72.6	-41.8
Taxes due	692.5	1,748.4	-1,055.9
Due to social security institutions	503.2	760.5	-257.3
Due to the Electricity Industry Equalization Fund	2,372.9	2,525.2	-152.3
Other payables	2,123.1	2,331.7	-208.6
<b>Total</b>	<b>12,936.8</b>	<b>14,392.6</b>	<b>-1,455.8</b>

"Advances received" represent sums paid by customers at the time of subscribing to electricity supply contracts. The increase of Lit. 270.6 billion relates principally to advances received from customers as advance payment for high-voltage connections in progress at year-end.

"Trade payables" include the amounts due for invoices received and to be received relating to purchases and services rendered by the end of 1997.

"Taxes due" include taxes payable by Group companies, as well as withholding taxes to be paid to the government and other public bodies. The item decreased by Lit. 1,055.9 billion with respect to December 31, 1996, primarily due to the reduction in payables for revenue tax and surtax on electricity consumption

following the introduction of new payment procedures by Law 30/1997 (monthly instead of bimonthly payments). As regards the Parent Company, the fiscal year 1990 and those subsequent to 1991 have as yet to be closed.

"Due to social security institutions" relate to both contributions payable by Group companies and those withheld from employees. The item also includes the liability to social security institutions relating to the so-called "solidarity contribution", introduced by Law 662 of December 23, 1996. The total amount decreased mainly due to changes in the terms of payment of contributions to the Electricity Workers' Welfare Fund (monthly rather than quarterly), in addition to payment of amounts due in the form of "solidarity contributions".

"Due to the Electricity Industry Equalization Fund" represents the Parent Company's liability in relation to the thermal surcharge billed to customers and charges to be borne by ENEL, in accordance with CIP Directive 24/1983, to be settled on a bimonthly basis by offsetting the liability against the amounts due from the Fund as reported under assets in the Balance Sheet. The decrease of Lit. 152.3 billion is due to changes in settlement procedures with the Fund.

"Other payables" include various liabilities as analyzed below:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996	
Due to bondholders as interest, other income and securities to be redeemed	572.8	574.7	-1.9	
Due to customers as reimbursements and other items	341.8	320.4	+21.4	
Due as interest	70.7	97.3	-26.6	
Accrued vacation pay and overtime worked during December, etc.	168.2	193.2	-25.0	
Other amounts due to employees and other personnel-related items	116.1	272.0	-155.9	
Due as water rates, contributions for urban infrastructure work, etc.	560.6	598.1	-37.5	
Due to employee associations	120.1	144.0	-23.9	
Sundries	172.8	132.0	+40.8	
<b>Total</b>	<b>2,123.1</b>	<b>2,331.7</b>	<b>-208.6</b>	<b>1997</b> <b>73</b>

The main change with respect to December 31, 1996 relates to a decrease of Lit. 155.9 billion in employee termination indemnities to be disbursed as a result of a reduction in the number of employees leaving the Group during 1997.

"Sundries" include Lit. 110.4 billion representing the value (including accrued interest) of materials and equipment originating from nuclear power stations under decommissioning. Such materials and equipment, which were formerly held to be obsolete, have been sold to third parties. For the payment of this amount ENEL is waiting for the decision of the relevant authorities.

### **Accrued expenses and deferred income - Lit. 911.6 billion**

The item is analyzed below, together with a breakdown of changes during the year:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Accrued expenses:			
- interest on loans	602.2	712.9	-110.7
- increase in the capital of index-linked bonds	13.7	18.4	-4.7
- insurance premiums	9.3	-	+9.3
- other (rentals, leases, etc.)	2.6	4.3	-1.7
<b>Total accrued expenses</b>	<b>627.8</b>	<b>735.6</b>	<b>-107.8</b>
Deferred income:			
- premiums on bond issues	7.1	9.0	-1.9
- interest income	49.7	7.4	+42.3
- grants from third parties for work in progress	192.8	173.1	+19.7
- other	34.2	19.1	+15.1
<b>Total deferred income</b>	<b>283.8</b>	<b>208.6</b>	<b>+75.2</b>
<b>Total accrued expenses and deferred income</b>	<b>911.6</b>	<b>944.2</b>	<b>-32.6</b>

The decrease of Lit. 110.7 billion in interest due on loans is principally due to the drop in interest rates that took place during the year and the reduction in borrowing.

In accordance with art. 38 (e) of Decree Law 127/1991, the following table provides a breakdown of payables and accrued expenses by maturity as of December 31, 1997.

In billions of lire	Within	Between	Beyond	Total
	one year	2 and 5 years	5 years	
<b>Borrowing</b>				
Bonds	1,549.3	9,735.9	5,102.3	16,387.5
Due to banks	3,666.5	10,694.2	2,600.4	16,961.1
Total borrowing	5,215.8	20,430.1	7,702.7	33,348.6
<b>Other payables</b>				
Due to other financial institutions	0.1	-	-	0.1
Advances	1,848.8	17.0	-	1,865.8
Trade payables	5,155.6	105.5	87.3	5,348.4
Due to associated companies	30.8	-	-	30.8
Taxes due	692.5	-	-	692.5
Due to social security institutions	478.1	16.6	8.5	503.2
Due to the Electricity Industry Equalization Fund	2,372.9	-	-	2,372.9
Other payables	1,395.1	696.1	31.9	2,123.1
Total other payables	11,973.9	835.2	127.7	12,936.8
<b>Accrued expenses</b>				
	627.8	-	-	627.8
<b>Total</b>	<b>17,817.5</b>	<b>21,265.3</b>	<b>7,830.4</b>	<b>46,913.2</b>

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### **Memorandum accounts - Lit. 158,540.1 billion**

The memorandum accounts reflect the value of guarantees, sureties, risks and commitments assumed by the Group, as follows:

In billions of lire

	as of 12.31.1997	as of 12.31.1996	1997-1996
Guarantees granted:			
- Sureties granted to associated companies	367.0	389.8	-22.8
Other memorandum accounts:			
- Commitments to suppliers	156,878.7	149,392.4	+7,486.3
- Commitments for forward currency purchases	493.4	-	+493.4
- Commitments for forward currency sales	433.7	-	+433.7
- Sundry guarantees to lending institutions	365.6	871.0	-505.4
- Third party securities received as guarantee	1.7	1.7	-
Total other memorandum accounts	158,173.1	150,265.1	+7,908.0
<b>Total</b>	<b>158,540.1</b>	<b>150,654.9</b>	<b>+7,885.2</b>

The item, "Commitments to suppliers", relates to orders of a long-term nature and not completely expired at the end of the year, made by Group companies and includes supplies and work (Lit. 2,943 billion), contract work (Lit. 1,310 billion), fuel supply contracts (Lit. 54,036 billion) and electricity supply contracts (Lit. 98,590 billion).

### **Commitments and risks not recorded in the Balance Sheet**

With reference to the problems linked to limits on exposure to electrical and magnetic fields generated by the nominal frequency present in residential buildings and outside spaces, previously covered by the Cabinet Decree of April 23, 1992, it should be noted that during 1997 and early 1998 a number of proposals for legislation were put forward. Whilst such proposals define general principles, the actual limits to be respected and the deadlines for ensuring respect of those limits are to be defined by later legislation. Similar initiatives have been undertaken at regional level. The issue is therefore receiving great attention, particularly thanks to the strength of public opinion on the subject. It is not, however, possible to estimate the potential charges to be met by ENEL, given the absence of consistent guidelines.

Moreover, the Parent Company is involved in a number of outstanding disputes regarding the urbanistic and environmental aspects of the construction and operation of several generating plants as well as transmission and distribution lines. Adverse outcomes to the above disputes could lead to future results which at the moment are not predictable and therefore have not been taken into consideration for the calculation of the reserve for legal disputes and other risks. On the basis of the legal opinions obtained, however, - even if in a limited number of disputes it is not possible to completely exclude adverse outcomes - it would generally appear to be unlikely that any negative outcomes to the disputes would be of such an impact to place in question the construction and operation of the plants and lines concerned.

In addition, any eventual costs to be borne by ENEL in relation to such disputes would, in the ordinary course of events, be considered additional capital expenditure and would therefore be financed by future income.

During the last quarter of 1997, the Parent Company entered into foreign currency options in order to optimize the management of its foreign exchange transactions in the form of US dollars, the standard currency for transactions involving fuel used in thermal plants. The options will expire during the first four months of 1998 and, in view of end-of-year exchange rates and those seen during the early months of 1998, will produce insignificant differentials.

## Statement of Income

### **Value of production**

#### **Revenues from sales and services - Lit. 37,791.5 billion**

This item breaks down as follows:

In billions of lire

	1997	1996	1997-1996	1997
Revenues from electricity supplies:				
- tariff revenues	24,996.2	25,002.1	-5.9	-
- contributions from the Equalization Fund for fuel cost, etc.	12,709.0	11,764.2	+944.8	+8.0%
Total	37,705.2	36,766.3	+938.9	+2.6%
Other revenues	86.3	74.9	+11.4	+15.2%
<b>Total</b>	<b>37,791.5</b>	<b>36,841.2</b>	<b>+950.3</b>	<b>+2.6%</b>
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The amount for "Tariff revenues" remained in line with the total for 1996, despite a 2.6% increase in the quantity of electricity sold, as a result of the abolition, from July 1, 1996, of the so-called "price-shares".

A breakdown of electricity supplies by customer category is provided in the following table, as compared with the figures for the previous year:

In billions of lire

	1997	1996	1997-1996	
Customer category:				
- agriculture	611.9	590.9	+21.0	+3.6%
- manufacturing	8,921.4	8,728.9	+192.5	+2.2%
- services	6,882.2	6,634.3	+247.9	+3.7%
- household and general building services	8,093.0	8,530.6	-437.6	-5.1%
Total sales to final customers	24,508.5	24,484.7	+23.8	+0.1%
Distributors and exports	487.7	517.4	-29.7	-5.7%
<b>Total</b>	<b>24,996.2</b>	<b>25,002.1</b>	<b>-5.9</b>	<b>...</b>

The Lit. 944.8 billion increase in "Contributions for fuel cost, etc." (up 8%) relates primarily to the greater quantity of subsidized electricity purchased from both other domestic producers (up 8,007 million kWh, equal to a rise of 43%) and foreign producers (up 1,551 million kWh, an increase of 4.2%).

Contributions received during the first half of the year were determined on the basis of existing regulations also taking into account, in relation to thermal generation, of the definitive criteria laid down by the Authority in Directive no. 16 of March 11, 1998. As of July 1, 1997, contributions for thermal generation and the purchase of electricity abroad were determined on the basis of new criteria introduced by Authority Directive no. 70/1997.

### Capitalized production - Lit. 2,008.7 billion

The item consists of personnel costs and the cost of materials stocks linked to the construction of plants. The total decreased by Lit. 528.1 billion due to the reduced amount of capital expenditure.

### Other income and revenues - Lit. 2,124.9 billion

This item relates to the Parent Company's revenues from connections, research grants and other income from ordinary activities. There was an overall decrease of Lit. 69.6 billion (down 3.2%), as analyzed below:

In billions of lire

	1997	1996	1997-1996
Operating grants:			
- revenues from connections	1,028.3	924.8	+103.5
- research grants	14.5	17.6	-3.1
Total	1,042.8	942.4	+100.4
Sundries			
<b>Total</b>	<b>2,124.9</b>	<b>2,194.5</b>	<b>-69.6</b>

"Revenues from connections" include connection grants paid by customers, charges for repositioning equipment and handling charges for new contracts and transfers. The increase of Lit. 103.5 billion (up 11.2%) was primarily due to the adjustments introduced by the Industry Ministry decree of July 19, 1996.

The item "Sundries" breaks down as follows:

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In billions of lire

	1997	1996	1997-1996
Amounts billed to Electricité de France	292.4	369.3	-76.9
Sale of sundry materials	112.6	125.9	-13.3
Recoveries for damages and similar	120.0	116.8	+3.2
Recoveries of plant maintenance and repair expenses	132.1	122.6	+9.5
Income from services rendered to third parties	30.7	25.7	+5.0
Income from electricity sold on an exchange basis and revenues from third parties for use of transmission lines	143.8	122.7	+21.1
Recovery of sums due from customers written down in previous years	54.1	81.8	-27.7
Other income	196.4	287.3	-90.9
<b>Total</b>	<b>1,082.1</b>	<b>1,252.1</b>	<b>-170.0</b>

Amounts billed to Electricité de France form part of the agreement regulating relations between the shareholders in the associated company, NERSA. The amount billed is offset by a charge of equal amount recorded under the item "Services", as later described.

The decrease in other income relates primarily to the reduced revenues for connections and voltage increases of the Parent Company, in relation to the state of work on high-voltage lines.

## Cost of production

### Raw, ancillary and consumable materials and goods for resale - Lit. 14,755.3 billion

This item breaks down as follows:

In billions of lire

	1997	1996	1997-1996
Purchase of fuel	7,434.1	7,661.1	-227.0
Domestic and foreign purchases of electricity and exchanges	6,073.1	4,790.8	+1,282.3
Operating materials and supplies	268.2	353.7	-85.5
Materials stocks for investment and other items	979.9	1,684.0	-704.1
<b>Total</b>	<b>14,755.3</b>	<b>14,489.6</b>	<b>+265.7</b>
			<b>+1.8%</b>

There was a Lit. 227 billion decrease in fuel costs (a drop of 3%) due to the above-mentioned reduction in stocks and lower fuel consumption linked to reduced generation. The item "Domestic and foreign purchases of electricity and exchanges" shows an increase of Lit. 1,282.3 billion, equal to 26.8%, primarily due to the greater quantity of subsidized electricity purchased from other domestic producers, in accordance with Law 9/1991.

The cost of "Operating materials and supplies" fell 24.2% as a result of both the Group's cost-cutting strategy and improved stock management.

### Services - Lit. 2,219.9 billion

The item breaks down as follows:

In billions of lire

	1997	1996	1997-1996	1997
Third-party services for maintenance and repairs	1,202.6	1,638.5	-435.9	-26.6%
Insurance	90.7	70.2	+20.5	+29.2%
Water, electricity, gas and heating	36.1	41.4	-5.3	-12.8%
Telephone, postage and telegraph	254.9	256.7	-1.8	-0.7%
Consultancy	47.7	54.0	-6.3	-11.7%
Reimbursement of employees' travel expenses	61.7	71.6	-9.9	-13.8%
Transport and vehicle hire	74.3	53.5	+20.8	+38.9%
Other	451.9	423.6	+28.3	+6.7%
<b>Total</b>	<b>2,219.9</b>	<b>2,609.5</b>	<b>-389.6</b>	<b>-14.9%</b>

The item "Other" includes Lit. 292.4 billion invoiced to the Parent Company as part of the agreement regulating relations among NERSA's shareholders. These costs are offset by revenues of the same amount recorded under "Other income and revenues", as mentioned earlier.

The overall decrease of Lit. 389.6 billion with respect to the previous year reflects the benefits deriving from the Group's cost-cutting measures.

### Leases and rentals - Lit. 423.9 billion

This item totals Lit. 423.9 billion, representing an increase of Lit. 28.0 billion, equal to 7.1%:

In billions of lire

	1997	1996	1997-1996
Rentals and leases	92.4	102.0	-9.6
Hire costs	23.6	29.0	-5.4
Grants to local authorities, water rates, etc.	307.5	264.6	+42.9
Other	0.4	0.3	+0.1
<b>Total</b>	<b>423.9</b>	<b>395.9</b>	<b>+28.0</b>
			<b>+7.1%</b>

### **Personnel - Lit. 8,831.1 billion**

Personnel costs declined Lit. 530.5 billion compared to 1996.

The Group headcount at 1997 year-end stood at 88,957, with a decrease of 6,507 (down 6.8%) with respect to December 31, 1996. The average headcount by employee category - as required by point n) of art. 38 of Decree Law 127/1991 - compared with that of the previous year, is provided below:

	Average number		
	1997	1996	1997-1996
Managers	1,206	1,452	-16.9%
Supervisors	5,492	5,867	-6.4%
White-collar	48,799	51,853	-5.9%
Blue-collar	35,300	38,128	-7.4%
<b>Total</b>	<b>90,797</b>	<b>97,300</b>	<b>-6.7%</b>

### **Depreciation of tangible fixed assets - Lit. 5,669.0 billion**

The increase of Lit. 86.4 billion, equal to 1.5%, compared to 1996 is due to the entry into service of new plants during 1997 and the full application of depreciation to those entering service during 1996.

Depreciation is calculated, as far as the electricity industry is concerned, by applying the following main rates to the book value of single assets on a straight-line basis, taking account of customers' contributions:

	Technical depreciation rates
Non-industrial buildings	2.5%
Hydroelectric power stations	2.5%
Thermal power stations	5.0%
Geothermal power stations	8.0%
Power stations using alternative sources of energy	4.7%
Transmission lines	2.85%
Transformer substations	5.0%
Low- and medium-voltage distribution networks	5.0-5.5%

The above rates are halved for assets entering service during the year.

Other Group companies apply ordinary tax rates of depreciation which are in line with the remaining useful lives of the individual assets.

### **Other write-downs of fixed assets - Lit. 132.8 billion**

This item primarily reflects the loss on disposal of assets sold during the early months of 1998, in addition to the write-off of costs for projects abandoned during 1997.

### **Write-downs of current receivables and liquid funds - Lit. 106.2 billion**

This item relates to costs, deriving almost entirely from the Parent Company, for estimated future losses on trade receivables and overdue interest. The item decreased by Lit. 19.9 billion, equal to 15.8%, due to the reduced risk of uncollectability.

## Provisions for risks and other provisions - Lit. 88.3 billion

This item breaks down as follows:

In billions of lire

	1997	1996	1997-1996
Provisions for risks	0.3	171.7	-171.4
Other provisions	88.0	270.6	-182.6
<b>Total</b>	<b>88.3</b>	<b>442.3</b>	<b>-354.0</b>
			<b>-80.0%</b>

"Other provisions", made by the Parent Company alone, include provisions for the treatment and disposal of nuclear fuel (Lit. 42.9 billion) and the decommissioning of inactive nuclear plants (Lit. 45.1 billion).

## Other operating costs - Lit. 439.3 billion

This item includes various taxes, other than income or capital taxes, losses on the disposal of assets, general operating expenses, etc., and decreased by Lit. 74.7 billion (14.5%), due primarily to the reduced losses sustained on the disposal of assets.

The item also includes Directors' and Statutory Auditors' fees for all Group companies.

The fees paid to the Parent Company's Directors and Statutory Auditors are shown below, as required by point o) of art. 38 of Decree 127/1991:

- Directors	Lit. 1,605,828,181
- Statutory Auditors	Lit. 198,517,334

## Financial income and expense – Lit. -2,196.5 billion

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### Other financial income - Lit. 424.9 billion

The item decreased by Lit. 518.5 billion, as analyzed below:

In billions of lire

	1997	1996	1997-1996
Financial income from receivables held as financial fixed assets:			
- interest on amounts due as reimbursement for nuclear-related charges	198.0	341.7	-143.7
- financial income on the amounts due from INPS in the form of contributions relief for employees in Southern Italy dating back to previous years	74.8	86.2	-11.4
- other	26.0	16.0	+10.0
<b>Total</b>	<b>298.8</b>	<b>443.9</b>	<b>-145.1</b>
			<b>-32.7%</b>
Financial income from securities held as fixed assets not representing equity investments	0.3	0.7	-0.4
Financial income from securities held as current assets not representing equity investments	7.2	10.3	-3.1
Financial income different from above:			
- other	118.6	488.5	-369.9
<b>Total</b>	<b>424.9</b>	<b>943.4</b>	<b>-518.5</b>
			<b>-55.0%</b>

The Lit. 145.1 billion reduction in "Financial income from receivables held as financial fixed assets" is for the most part due to lower interest income accruing on amounts due as reimbursement for nuclear-related charges, following the progressive collection of the relevant receivables and the fall in interest rates. Other financial income decreased by Lit. 369.9 billion with respect to the previous year, mainly due to the 1996 surplus of the reserve for exchange rate fluctuations, lower overdue interest billed to customers and reduced interest on bank and post office current accounts, following the fall in interest rates.

### Interest expense and other financial charges - Lit. 2,621.4 billion

This item decreased by Lit. 836.9 billion, equal to a fall of 24.2%, as analyzed below:

In billions of lire

	1997	1996	1997-1996
Interest and other charges on long-term loans:			
- on bonds:			
- interest	1,208.4	1,746.1	-537.7
- premiums on redemption	59.3	90.9	-31.6
Total	1,267.7	1,837.0	-569.3
			-31.0%
- on loans from banks and other financial institutions	1,209.0	1,516.5	-307.5
			-20.3%
Interest on short-term loans from banks and other financial institutions	69.5	44.4	+25.1
			+56.5%
Total	2,546.2	3,397.9	-851.7
			-25.1%
Provisions for estimated exchange rate losses and differentials	39.1	1.0	+38.1
			...
Charges and discounts on bond issues and loans	15.2	19.1	-3.9
			-20.4%
Interest charged by associated companies	3.7	1.3	+2.4
			...
Interest on other payables, bank commissions and fees, and other financial charges	17.2	39.0	-21.8
			-55.9%
<b>Total</b>	<b>2,621.4</b>	<b>3,458.3</b>	<b>-836.9</b>
			<b>-24.2%</b>

The decline of Lit. 851.7 billion, equal to 25.1%, in interest payments on short- and long-term borrowing was due to the fall in interest rates during 1997, in addition to the reduced level of borrowing.

## Write-downs of equity investments - Lit. 175.7 billion

This item is entirely related to the associated company, NERSA, as earlier described in the notes to the Balance Sheet.

### ***Extraordinary income and expense - Lit. 95.4 billion***

This item includes the following components of income:

### Extraordinary income - Lit. 1,291.8 billion

This item refers primarily to the adjustment of the reserve for deferred taxes relating to consolidation adjustments (Lit. 923.7 billion) and the discounting back of contributions relief due from INPS (Lit. 106.4 billion), following the abolition of local income tax (II OR).

The item also includes contributions, relating to previous years, for the generation of electricity using

renewable sources of energy paid to the Parent Company by the Equalization Fund during 1997, following the exercise of the ENEL's option in accordance with CIP Directive 6/1992 (Lit. 216.1 billion).

**Extraordinary expense - Lit. 1,196.4 billion**

This item includes provisions of Lit. 390.0 billion to cover write-downs of amounts due from the Electricity Industry Equalization Fund as reimbursement for nuclear-related charges. Such provisions were made in view of the Authority's resolution 58/1998 of June 12, 1998. The item also includes provisions of Lit. 440.0 billion for legal disputes and other risks, charges of Lit. 266.0 billion linked to the temporary offer of agreed early retirement programs, forming part of the Company's reorganization, the portion of "solidarity contributions" due in accordance with Law 662 of December 23, 1996, totaling Lit. 42.6 billion, and charges of Lit. 51.4 billion relating to the nationalization of former electricity companies.

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The Consolidated Statement of Income for the year ended December 31, 1997 shows a Group net income of Lit. 3,327.4 billion, net of income and capital taxes for the year of Lit. 3,088.4 billion.