

1999 Annual Report



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Enel
Società per azioni
Registered office in Rome
137, Viale Regina Margherita
Share capital
Lire 12,126,150,379,000
fully paid-in
Rome Company Register no. 7050/92
Chamber of Commerce no. 756032
Tax Code 00811720580
VAT Number 00934061003

Contents

Financial highlights	7
Letter to Shareholders	8
Board of Directors and Board of Statutory Auditors	11
The Enel Group	12
Enel and the financial markets	13
Report on operations	
Overview and summary of results	18
Electricity sector reorganization	21
Enel Group strategy	24
The new tariff system	28
Operating review	
Generation	32
Transmission	37
Distribution and sale to captive customers	40
Sales of electricity and services to eligible customers	46
Public and art lighting	48
Post electricity sales services	49
WIND	50
Engineering and contracting	53
Water	55
Real estate and services	56
Information technology	58
Human resources	59
Corporate governance	63
Environmental policy	65
Research and development	67
Subsequent events	69
Other information	72
Enel Group financial data	76

Consolidated Financial Statements at December 31, 1999

Balance Sheet and Income Statement	88
Notes to the accounts	92
Balance Sheet - Assets	96
Balance Sheet - Liabilities	105
Off Balance Sheet Items	115
Income Statement	118
Attachments	
Consolidated Balance Sheet and Income Statement in Euro	124
List of equity investments in subsidiaries and affiliated companies	128
Reports	
Report of the Board of Statutory Auditors	
on the Consolidated Financial Statements	134
Report of the Independent Auditors on the Consolidated Financial Statements	136
U.S. Generally Accepted Accounting Principles (U.S. GAAP)	137



Financial highlights

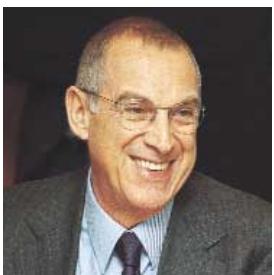
1999		1999	1998	1997	1996	1995
(Million euro)	Income data (in billions of lire)					
20,960	Revenues	40,584	39,788	39,617	38,664	38,320
8,976	Gross operating margin	17,379	16,455	14,712	14,573	14,200
5,385	Operating income	10,426	9,604	8,689	8,235	8,358
4,574	Income before extraordinary items and taxes	8,856	8,124	6,316	5,720	5,019
2,345	Net income	4,541	4,286	3,327	2,226	2,226
(Million euro)	Financial data (in billions of lire)					
36,477	Gross capital employed	70,629	75,205	80,788	80,621	79,199
29,679	Net capital employed	57,467	60,440	65,715	64,927	61,230
12,094	Total financial debt	23,418	24,547	33,175	34,919	36,162
17,577	Shareholders' Equity	34,034	35,880	32,515	30,388	25,920
2,920	Plant and equipment	5,653	5,871	6,466	7,372	7,494
6,978	Cash flow from operations	13,512	15,248	7,993	8,022	6,649
	Other information					
	Energy sold (TWh)	230.5	226.2	219.3	213.8	211.6
	Net energy produced (TWh)	178.8	179.5	177.2	179.9	180.3
	Employees at year-end	78,511	84,938	88,957	95,464	97,937
	Customers at year-end (no./000)	29,674	29,343	29,032	28,727	28,495
	Customers served per employee ⁽¹⁾	384	349	332	306	296
	Main indicators					
	ROI (%) ⁽²⁾	14.3	12.3	10.8	10.2	10.6
	ROE (%) ⁽³⁾	13.0	12.5	10.6	7.5	8.8
	Total financial debt					
	as % of Shareholders' Equity (absolute value)	0.7	0.7	1.0	1.1	1.4
	Operating income/net financial debt (absolute value)	9.2	6.5	4.0	3.3	2.5
(euro)	Per share data (lire)					
0.193	Net income per share	374	353	274	184	184
0.575	Cash flow from operations per share	1,114	1,257	659	662	548
0.125	Dividend per share	232	162	76	99	85

⁽¹⁾ Calculated on the number of employees of the electric sector only

⁽²⁾ Operating income on average gross income employed

⁽³⁾ Net income on average Shareholders' Equity

Letter to Shareholders



To our Shareholders:

1999 has been a year of great results, the best ever recorded in Enel's history. It was also a year of great changes. The electricity sector was liberalized following the application of the Bersani Decree, and the Company began the process of its privatization with the year's largest world public offering, involving more than 3.8 million private and institutional investors in Italy and abroad.

The liberalization of the electricity sector required radical changes to Enel's organization as it resulted in the unbundling of generation, transmission and distribution operations, which have all been transferred to newly incorporated subsidiaries.

The implementation of the Bersani Decree and of the resolutions of the Authority for Electricity and Gas will have long-lasting effects on the organization and the management of the Group, making it increasingly focused on the market. The reorganization will affect particularly business segments such as:

- generation, where Enel is required to sell part of its production capacity so as to reduce its total power generation below 50% of total energy produced or imported into Italy, leaving room for other operators;
- transmission, where Enel will continue to be the owner of the network, while its management is transferred to a State-controlled company (Gestore della Rete - the "System Operator") that will ensure equal access to the network for all energy producers;
- distribution, where due to new legislation imposing the consolidation of urban networks, Enel will sell its metropolitan networks to local municipal utility companies, while the large customer market is gradually opened up to competition.

These changes have been accompanied by the adoption of a policy on the part of the Authority for Electricity and Gas aimed at a gradual reduction of electricity tariffs from 2000 onwards, with the application of a price cap formula starting in 2001.

In this context Enel's management has been actively pursuing the achievement of two objectives:

- the creation within the traditional electricity sector of new business units organized as separate companies. The new companies will concentrate on efficiency increase and cost reduction to offset the erosion of margins resulting from the reduction in tariffs and the loss of some electric activities (loss of some urban distribution networks, of eligible clients, and of generation capacity);
- the diversification of the offer of products and services into new markets and to new customers, to achieve higher revenues and margins in markets free from price constraints and unregulated. WIND currently represents Enel's most significant achievement towards diversification. Since the startup of mobile telephone service in March 1999, WIND's offer, based on an integrated telecommunication service, grew steadily. In its first year, WIND reached 3.5 million customers, of which 1.2 million in fixed telephony and 2.1 million in mobile telephony, in addition to over 200,000 customers for its internet services. With the recent launch of "light tariffs", WIND has gained a highly competitive stand in the market, becoming market leader for new subscriptions.

In October 1999, the transfer of traditional electricity activities to newly incorporated subsidiaries was completed. In power generation, Enel Produzione is now flanked by Erga, a company active in the generation of electric power from renewable sources. Subsidiaries Eurogen, Eletrogen and Interpower were incorporated with the aim of grouping, thereby maximizing their value, generation plants with a total capacity of 15,000 MW, to be sold on the market. The three companies are able to generate a cash flow sufficient to repay their acquisition cost and to finance the revamping of some generation plants to combined-cycle gas-fired technology.

In transmission, the network has been transferred to the subsidiary Terna. Since the network represents the basic infrastructure for the development of the Italian electricity market, Terna will be required to manage it according to criteria of technical excellence and in line with guidelines set by Gestore della Rete.

In the field of distribution, Enel Distribuzione ensures the development and the improvement of the universal service to captive customers, complemented by Enel Trade, which is responsible for eligible customers, to whom the company intends to offer energy at a competitive level in terms of both price and quality of service. Enel.si (formerly Se.m.e.) is the new company for downstream services and services to the general public, a market that, with the introduction of digital meters, will offer strong growth potential. So.l.e. now manages all public lighting networks, focusing on opportunities offered by monument and art illumination, and by the development of urban design projects, applying new technologies that combine lighting and communications features.

Enel.Hydro (formerly ISMES) began operating in the water distribution and treatment sector, bringing its strong technological and engineering skills and know-how to a high-growth market with the aim of becoming a leader also through the acquisition of Acquedotto Pugliese, a large distribution network in Southern Italy.

The diversification of activities, in addition to the telecommunications and traditional electricity sector, has also affected the engineering sector, with the incorporation of Enelpower, active in the international market and focused on developing countries. While retaining its role of EPC (Engineering Procurement Construction) service provider, the company broadened its range of services by developing IPP (Independent Power Producer) capabilities, with the objective of reaching a strong position in the world market.

The real estate and services sector has been transferred to Sei, a company which is presently opening up to international alliances both in the real estate trading sector and in the sector of general services to companies (management of company fleets, building management services, construction and management of office space).

Information technology is a key instrument through which the reengineering of processes within the Enel Group takes place. The sector has been handed over to Enel.it, currently developing one of the largest SAP projects at the international level and managing a total of 50,000 intranet network stations with a know-how that will be offered to the market. Fuel trading and logistics have been assigned to Enel.FTL. The company aims at developing and achieving an efficient use of infrastructure, purchasing fuel at the best market conditions thus increasing the competitiveness of generation plants.

The separation of activities into independent companies and the diversification into new businesses and areas were the first steps in Enel's value enhancement strategy.

The acquisition of Colombo Gas, and the purchase of a number of other natural gas distribution companies currently under negotiation, allows Enel to retrieve sales and margins that may be lost in the transfer of electricity customers to local municipality utility companies.

The upfront acquisition of a strong market position in the gas distribution sector and the commitment to continue developing activities in the future places Enel in a favorable position to exploit the opportunities related to the opening of this market and particularly eligible customers.

The radical changes in the organization of the Company were accompanied by the beginning of the privatization process. The placement of a larger than expected amount of shares in the first phase of the operation led to an initial offer of over 30% of Enel's capital stock, at a price equal to the maximum value of the range, set to euro 4.3 per share. The placement closed with the listing of Enel stock on the Milan and New York stock exchanges on November 2, 1999.

1999 will remain a memorable year in Enel's history, not only for the Company's positive involvement in the liberalization of the Italian electricity market and its own privatization, but also for its economic performance.

In the year Enel recorded its best results ever.

Revenues reached lire 40,584 billion (euro 20,960 million), with a 2% increase on 1998, partly thanks to the domestic economic recovery, and the consequent increase in demand for energy. The gross operating margin was equal to lire 17,379 billion (euro 8,976 million), increasing by 5.6% on the previous year.

Operating income increased to lire 10,426 billion (euro 5,385 million), up 8.6%. Net income reached lire 4,541 billion (euro 2,345 million), increasing by 6% over the previous year, while total debt declined to lire 23,418 billion (euro 12,094 million), down 4.6%. The proposed dividend is equal to lire 232 per share (euro 0.12), for a total payout of lire 2,813 billion (euro 1,453 million), representing a 2.8% yield on the placement share price which adds to the payment made in October 1999 of lire 4,422 billion (euro 2,284 million) as extraordinary dividend.

Strong progress has been made in focusing the Group to the market place, both in diversified businesses and in traditional network services as water and natural gas distribution where synergies with the electric sector may be achieved.

The recent agreement signed between Enel and ICG, one of the major operators of the new economy, opens the way to a number of initiatives in the field of services to businesses and to consumers in Italy and in Europe, confirming the attention paid by the Group to business opportunities in the internet area.

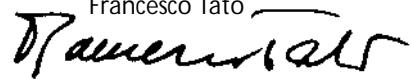
The future value of the Group is linked to the number of customers served, but also to the quality, quantity and innovative content of services supplied. A management aimed at increasing efficiency and reducing costs will accompany the strategic development of the Group, focused on opportunities offered by new technologies.

Based on these two principles, good management and strategic vision, the Enel Group aims at bringing together positive aspects of the old economy and of the new economy, to achieve the basic and sound objective of increasing the value of the Company.

1999 was a year of transition towards a new organization that has seen Enel as main actor and engine of the opening of the electricity market. In 2000, Enel continues to place itself at the center of the economic development of the Country, consolidating its presence as a large integrated industrial group, expanding its activity in the multi-utility and multi-distribution sectors, and reaching high technology Info.com ones, with the objective of maintaining high profits and which will ensure a steady growth in the value of the Group.

Managing Director

Francesco Tatò



Board of Directors and Board of Statutory Auditors

Board of Directors	Board of Statutory Auditors
chairman Chicco Testa	chairman Bruno De Leo
managing director Francesco Tatò	auditors Gustavo Minervini Oreste Piemontese
directors Carlo Angelici Vittorio Grilli Franco Morganti Lorenzo Pellicioli Claudio Poggi	substitute auditors Umberto Aprea Francesco Biliti
	secretary Claudio Sartorelli
	independent auditors Arthur Andersen SpA

Powers entrusted to corporate bodies

Board of Directors

The By-laws entrust the Board of Directors with the broadest powers required to oversee the Company's ordinary and extraordinary management, with particular reference to any actions deemed appropriate in the pursuit and for the attainment of corporate objectives, excluding only those actions reserved by Law and by the corporate By-laws to the Shareholders' Meeting.

Chairman of the Board of Directors

The By-laws entrust the Chairman with the function of legal representation of the Company and corporate signing powers, entitling him to preside over the Shareholders' Meeting, convene and chair Board of Directors' meetings and verify execution of Board resolutions.

Managing Director

The By-laws entrust the Managing Director with the legal representation of the Company and corporate signing powers. Additionally, pursuant to a Board resolution passed on May 27, 1999, the Managing Director exercises all powers related to the Company's administration, with the exception of those otherwise assigned in accordance with the Law and corporate By-laws, and those reserved to the Board of Directors in accordance with the above ruling.

The Enel Group

Enel SpA

electricity generation

Enel Produzione

electricity generation
from renewable, geothermal,
and alternative sources

Erga

electricity generation

Eurogen

electricity generation

Elettrogen

electricity generation

Interpower

electricity transmission

Terna

electricity distribution
and sale

Enel Distribuzione

sale of electricity
to eligible customers

Enel Trade

public lighting

So.I.e.

electrical equipment
maintenance

Enel.si (formerly Se.m.e.)

Enelpower

design and construction of power
plants and transmission facilities

Elettroambiente

electricity generation from waste

Enel.Hydro

(formerly ISMES)

design, construction, and management
of water distribution networks

Sei

general services and real estate management

Dalmazia Trieste

real estate management

Conphoebus

photovoltaic plants and
real estate technologies

Enel.it

information technology
and data transmission services

Sfera

personnel training and development

CESI

services and research for the electricity sector

WIND

telecommunications

ITnet

internet provider

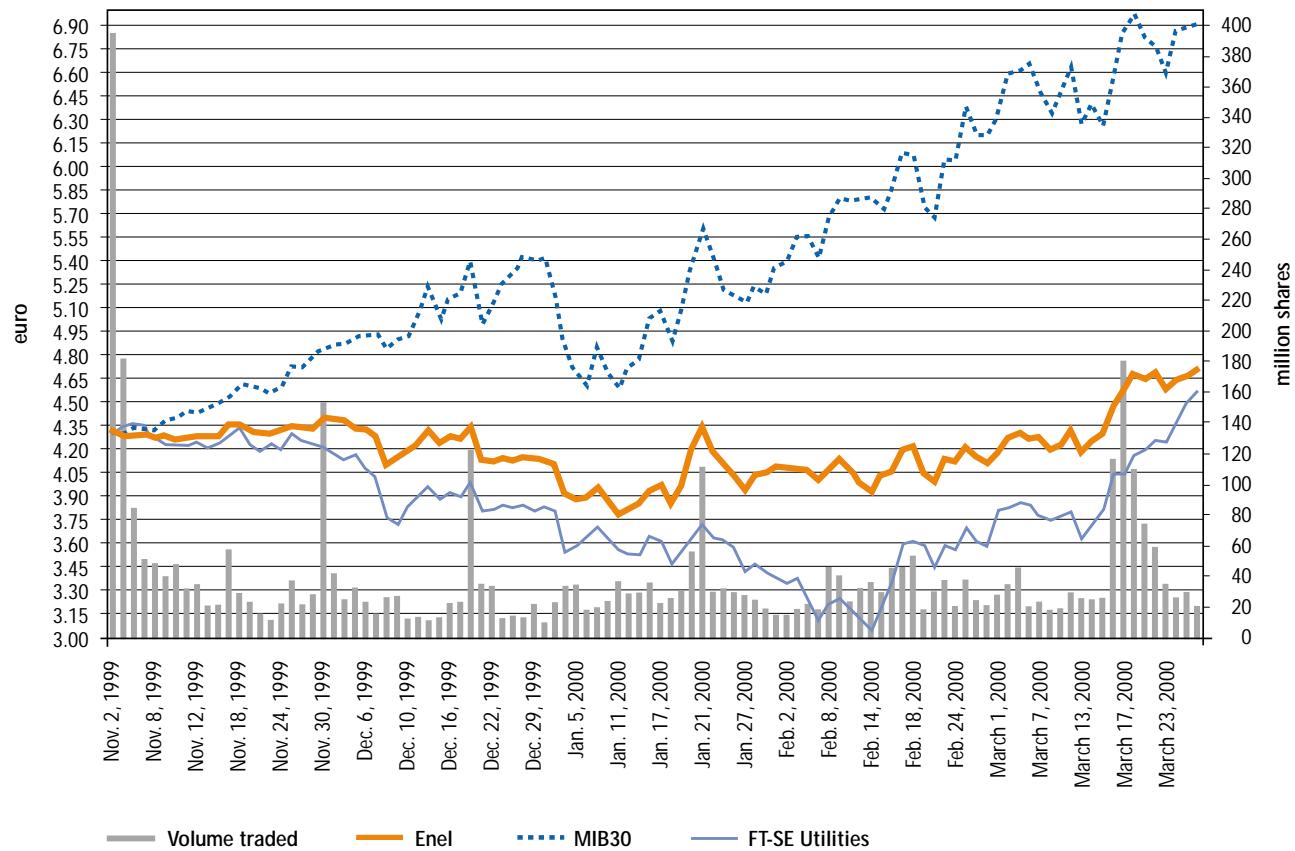
Enel and the financial markets

Enel's privatization, expected since 1995, was launched in 1999. A total of 3,848,802,000 Enel ordinary shares, representing 31.74% of its capital stock, were placed on the market, corresponding to 16.55 million euro (lire 32,045 million). Enel's was Europe's largest initial public offering and the world's second largest, in terms of both value and number of underwriters. Enel shares have been listed on the Italian Stock Exchange and the New York Stock Exchange (NYSE) since November 2, 1999. On December 20, 1999, Enel was included in the MIB30 index, with a quota of 10.74% – the third largest quota in the index after Telecom and Tim. Enel stock was also included in the MSCI index with 60% of its capitalization, and more recently in the Euro Stoxx 50 index. Enel's international market listing was made possible also by the deregulation of the Italian electricity market, beginning in 1999 with the introduction of the Bersani Decree (Law no. 79, March 16, 1999) and the issue of energy sector policies by the Authority for Electricity and Gas. The Company's rapid compliance with new norms regarding the separation into newly incorporated companies of a number of activities and identification of generation capacity to be sold, together with the launch of a business diversification strategy, were positively received by the market, and contributed to the success of the privatization process initiated by the Treasury. Enel's stock placement was carried out through public offers in Italy, the US and Canada, in addition to a private placement reserved for Italian and foreign institutional investors.

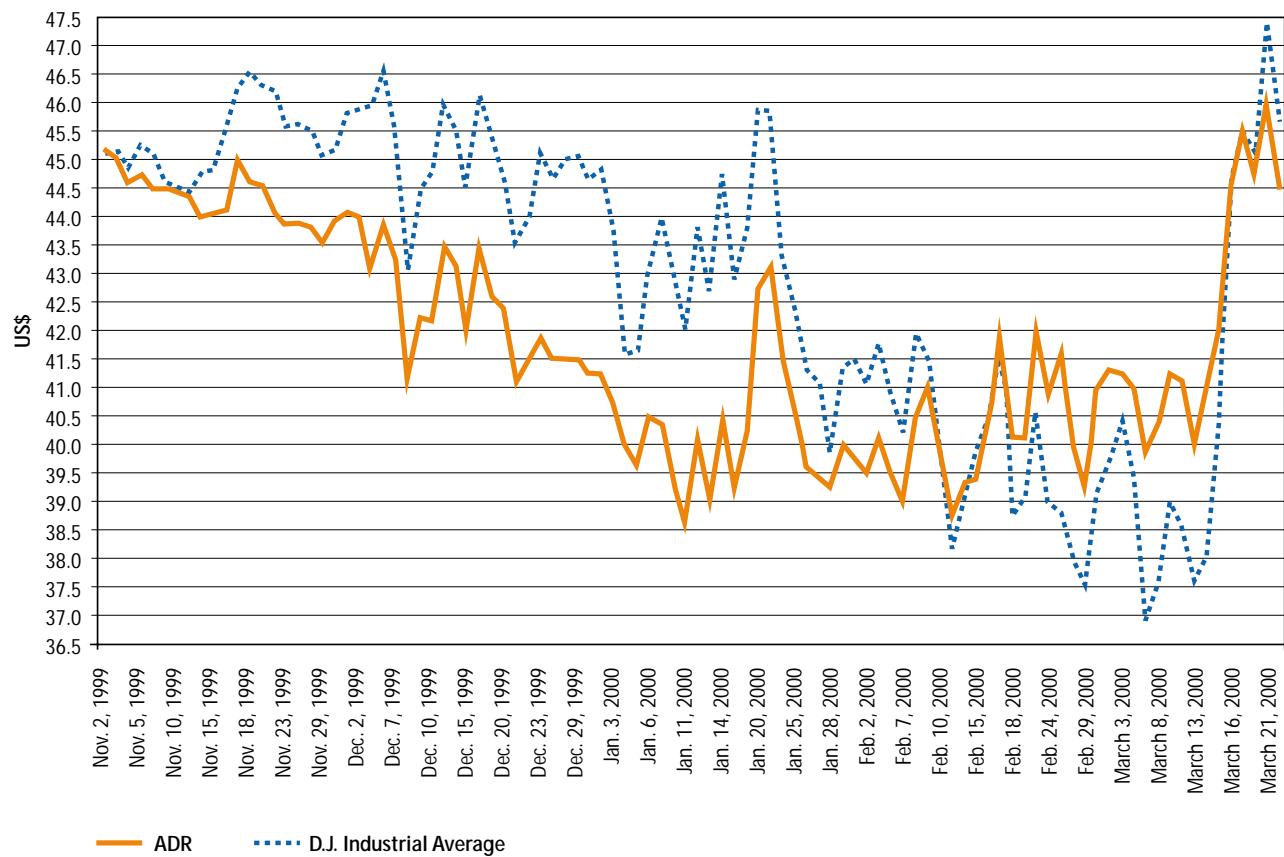
A total of 3,830,922 investors requested to purchase Enel stock, with total demand exceeding the value of the Company's entire capital stock. Among the investors, 70,303 Enel employees (about 87% of those eligible), underwrote 1.5% of Enel's capital stock. No discount was reserved for employees, with the exception of bonus shares in a ratio of 11 shares for every 200 shares held for a period of at least one year (for the general public, the allocation was 10 shares for every 200 shares held for at least one year). The placement price was 4.3 euro per share on the Italian stock market and \$45.2274 per ADR (each ADR certificate represents 10 shares) on the NYSE.

In the last two months of 1999, Enel's share price fluctuated around the placement price, as shown in the chart below, settling at year-end at a value about 4% below the 4.3 euro placement price. In the same period the general index for European utilities declined by over 7%. In a market in which the utilities sector was heavily penalized among other things by rising interest rates in the second half of the year, Enel shares showed a strong resistance allowing for the subsequent satisfactory recovery in share price. In the 1st quarter of 2000 Enel's share price returned to the level registered at the beginning of the year, eventually rising above the placement price since March 20, when the stock was included in the Euro Stoxx 50 index. At the end of March, Enel shares traded at around 4.7 euros, with a first-quarter performance (up 20.5%) in line with that of the MIB30 index (up about 22%) and far better than that of the European utilities index (up about 5%).

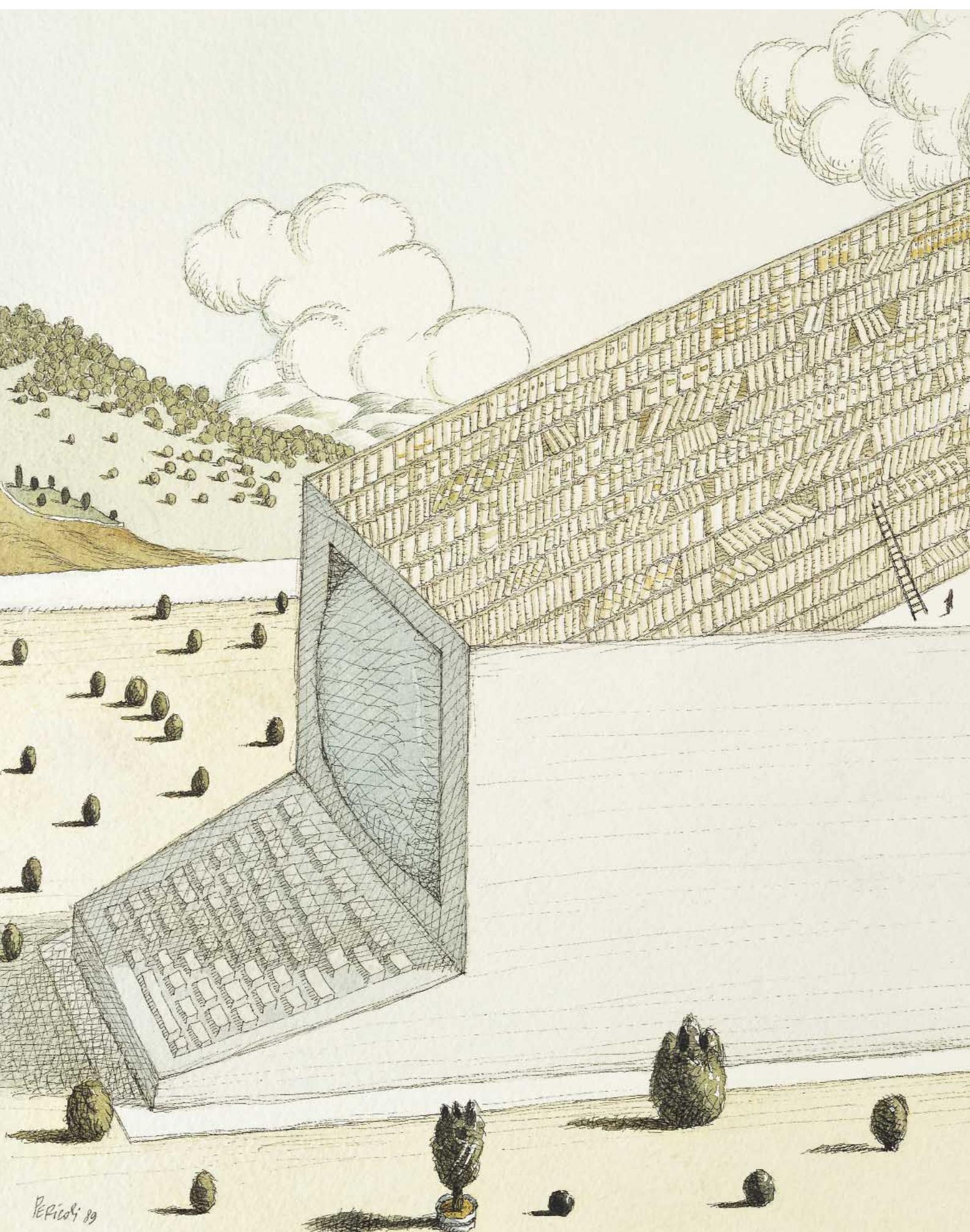
Enel stock performance (official listed quotes / daily traded volume) MIB30 and FT-SE Utilities Indexes



Enel ADR performance at the NYSE vs. DJ Index



Report on operations



Overview and summary of results

In 1999, the Enel Group operated in an economic scenario characterized by gradual recovery in the second half of the year, after a period of slow growth in the Italian economy that had lasted since 1996. Gross Domestic Product average yearly growth increased to 1.4% from 1.2% in 1998, while in the second half of 1999 GDP growth was in line with the average registered by countries in the euro area. Starting in June, industrial output began a recovery phase. Due to the drop registered in the first half of the year (down 1.5%), however, the production index was up only 0.1%. The acceleration was due to a sharp increase in gross fixed asset investment (up 44%), particularly in the construction sector, while other key components of domestic demand (up 2.0% as compared to 2.1% in 1998), and consumption in particular, registered a slight increase. As in 1998, the positive contribution of domestic demand to GDP was countered by a negative foreign trade performance.

The slowdown in inflation came to a halt in 1999, due primarily to higher international oil prices, whose effect was made stronger by the depreciation of the euro against the dollar from 1.121 to 1.011 euro/\$. A trend of moderate wage increases in recent years resulted in relative price stability, keeping the average rate of inflation for 1999 at 1.7%, as compared to 1.9% in 1998. This moderate price increase, however, did not interrupt the process of convergence towards the European average inflation rate, which was slightly increasing in the euro major area countries. In November, this performance led the European Central Bank to increase the official discount rate back to the level registered at the beginning of the year (3%), following a cut to 2.5% in April. The trend continued in 2000, to the point that in March the European Central Bank increased the discount rate further to 3.5%.

With reference to the fuel market, crude prices in 1999 followed a steadily rising trend, accelerating sharply in the third quarter, reaching by the end of the year prices close to all-time high levels. The growth trend resulted in an average yearly increase of Brent oil prices of about 40% versus 1998 (from an average price of \$12.74/barrel in 1998 to \$17.9/barrel in 1999).

Price of fuels used by Enel rose in line with those of crude oil. The increase was more pronounced for high-Sulphur fuel oil vis-a-vis low-Sulphur fuel oil, due also to a steady high level of demand for high-Sulphur fuel oil on the Mediterranean market. Average low-Sulphur fuel oil prices (based on Platt's CIF Mediterranean index) climbed from \$79.9 per ton in 1998 to \$100.4 per ton in 1999, while those of high-Sulphur fuel oil, based on the same index, climbed from \$66.3 per ton in 1998 to \$92.1 per ton in 1999. Natural gas prices mirrored the oil market's performance, posting rates of growth that were more or less pronounced depending on the different types of indexing of contracts. The price of coal registered a steady decline in the first half of the year, reaching all-time low levels in a number of markets around the end of summer. A reverse trend subsequently occurred, promoted by robust winter season demand, related to adjustments in inventory levels and increased coal use in response to the high cost of energy from hydrocarbons. The average price for the mix used by the Authority for Electricity and Gas for the purpose of reimbursing fuel costs were equal to \$44.2 per ton in 1998 and \$42.5 per ton in 1999, according to Coal Week International indexes.

Electric energy consumption in Italy amounted to 267.4 billion kWh, increasing by 2.5% with respect to the previous year (2.8% in 1998). This result reflects the economic scenario outlined above, characterized by a stable first half of the year, with energy consumption rising by 1% with respect to the same period in the previous year, and much stronger growth in the second half of the year.

The rise in demand for electricity was widespread throughout Italy (up 1.8% in the Northwest of the country, up 2.3% in the Northeast, up 2.5% in Central Italy and up 2.2% in the South), reaching a peak at 3.9% in Sicily and Sardinia.

Having taken in 1999 all precautions for a timely verification of computerized procedures and software applications in use, the Enel Group did not suffer any consequence either for the organization or its customers resulting from the Year 2000 change of date event.

The table below provides data on electric energy flows in Italy and on the Enel network in 1999 and the previous fiscal year:

Millions of kWh	Enel	Others	Total	Enel	Others	Total	Enel	Others	Total
Gross energy generation	188,973	76,719	265,692	189,684	70,102	259,786	-0.4%	9.4%	2.3%
Own consumption	(10,160)	(2,858)	(13,018)	(10,200)	(2,643)	(12,843)	-0.4%	8.1%	1.4%
Net energy generation	178,813	73,861	252,674	179,484	67,459	246,943	-0.4%	9.5%	2.3%
Imports ⁽¹⁾	42,538	1	42,539	41,633	-	41,633	2.2%	-	2.2%
Purchases from domestic producers ⁽¹⁾	47,858	(47,858)	-	41,508	(41,508)	-	15.3%	15.3%	-
Energy delivered to Enel's network	269,209	-	-	262,625	-	-	2.5%	-	-
Sales to third parties	(11,961)	11,961	-	(9,989)	9,989	-	19.7%	19.7%	-
Sales to foreign operators	(528)	(1)	(529)	(901)	-	(901)	-41.4%	-	-41.3%
Pumping	(8,800)	(84)	(8,884)	(8,285)	(73)	(8,358)	6.2%	15.1%	6.3%
Energy absorbed by network	247,920	37,880	285,800	243,450	35,867	279,317	1.8%	5.6%	2.3%
Enel sales to wholesalers	(8,556)	8,556	-	(9,315)	9,315	-	-8.1%	-8.1%	-
Energy lost on network	(16,431)	(1,969)	(18,400)	(16,329)	(2,179)	(18,508)	0.6%	-9.6%	-0.6%
Total energy consumption	222,933	44,467	267,400	217,806	43,003	260,809	2.4%	3.4%	2.5%

⁽¹⁾ Purchases and exchanges

The increase in demand for electricity, amounting to 6.5 billion kWh in 1999, was met by an increase in net domestic generation equal to 5.6 billion kWh and by higher imports amounting to 0.9 billion kWh.

The increase in net domestic generation derived exclusively from third-party plants (which accounted for an increase of 6.4 billion kWh), due to the startup of new CIP 6 plants, while net generation from Enel plants was down 0.7 billion kWh. A large part of the additional energy produced by third parties was sold to Enel at prices resulting from incentives provided by CIP 6/92.

The net domestic generation which amounted to 252.7 billion kWh (an increase of 2.3% compared to 1998), was generated by Enel plants for 178.8 billion kWh (down 0.4% from prior year) and by plants of third-party producers, for 73.9 billion kWh (up 9.5% versus prior year).

The net domestic generation was forced from hydroelectric sources, for 51.0 billion kWh (up 9.1% compared to 1998), traditional thermal sources, for 197.2 billion kWh (up 0.6%), geo-thermal sources, for 4.1 billion kWh (up 4.3%), and finally, eolic and photovoltaic sources for 0.4 billion kWh (up 62%).

Financial results for 1999 were excellent, the best ever reported by the Company. The improvement over 1998 is due to increased revenues resulting from higher sale volumes, and to lower operating costs, resulting from the streamlining of activities and processes as well as lower financial expenses related to a reduction in average debt.

The table below provides a summary of key financial data:

In billions of lire	1999	1998
Net income	4,541	4,286
Gross operating margin	17,379	16,455
Operating income	10,426	9,604
Cash flow from operations	13,512	15,248
Ordinary and extraordinary dividend distribution	6,386	922
Total debt	23,418	24,547
Consolidated Shareholders' Equity	34,034	35,880
Debt/equity ratio	0.7	0.7

Investments in plant and equipment amounted to lire 5,653 billion, down slightly from the previous year (lire 5,871 billion), and break down as follows:

In billions of lire	1999	1998
Generation plants	1,578	1,869
Power lines and transformation stations	436	594
Distribution networks	3,246	3,007
Land, buildings and other fixed assets	393	401
TOTAL	5,653	5,871

Expenses for research and development activities carried out in 1999 by Enel Group companies were equal to lire 280 billion (as compared with lire 350 billion in 1998), in addition to investments in prototype plants and other investments, amounting to about lire 20 billion (lire 30 billion in 1998).

At December 31, 1999, the Group employed 78,511 persons (excluding employees of WIND, Sogin and Gestore della Rete di Trasmissione Nazionale), against 83,482 employed at December 31, 1998 (on a comparable basis). The 7.5% reduction was mainly due to incentives to early retirement.

Electricity sector reorganization

On February 19, 1999, Italy's Council of Ministers approved a legislative decree providing for the deregulation of the electricity market, in compliance with European Union Directive 96/92. The new legislation went into effect on April 1, 1999.

Under the new law, activities ranging from generation to import, export, purchase and sale of electric energy are deregulated (safeguarding public interest). Such activities may still be carried out by a single entity, provided that its accounting and management activities are kept separate from other activities, according to terms established by the Authority for Electricity and Gas. In the case of Enel, the decree calls for the setting up of separate companies for the following activities: generation, transmission, distribution, and sale to "eligible" clients.

Eligible clients are defined as those customers who consume annually, gross of own production, over 30 million kWh of electricity, including consortia in which individual participants have a consumption level of at least 2 million kWh per year. The limit is reduced to 20 million kWh effective January 2000 and to 9 million kWh effective January 2002.

Transmission activities, electric energy dispatching and unified management of the domestic transmission network are given in concession to the "Gestore della Rete di Trasmissione Nazionale" (Independent System Operator, ISO), represented by a company spun-off from Enel whose shares are to be transferred to the Italian Treasury free of charge. ISO stipulates with the companies that own distribution networks (Enel, municipal companies and other entities) agreements for the maintenance and development of the network and its interconnections.

ISO will be required to form a special company (the so-called "Single Buyer"), to ensure continuity, safety and efficiency of electric energy supply services to captive clients. Based on consumption estimates prepared annually, the Single Buyer stipulates purchase contracts with producers and sale contracts with distributors, assuring a single tariff to captive clients.

Initially, open market transactions will take place through direct bilateral contracts between operators, and the related exchanges of energy will follow the principle of pass-through dispatching.

By January 1, 2001, an electric energy "trading exchange" will be formed, to which all producers and eligible clients will have access. From that moment on, dispatching will be carried out in accordance with economic criteria, with the exception of renewable sources and co-generation energy which will have priority dispatching in the network. Starting on January 1, 2003, no operator will be allowed to generate more than 50% of the energy produced or imported in Italy. In accordance with this limitation, by the same date (which may be extended by one year) Enel will be required to sell no less than 15,000 MW of its generation capacity. To this end, Enel has prepared a plan for the sale of a number of its plants which has been confirmed (on August 4, 1999) by a Government Decree.

Distribution companies are required to connect to their networks any requesting party, without affecting or impairing service continuity.

Only one distribution license will be granted in each municipal territory served. In the event there exists more than one distributor in a given area, the aggregation of all distributors in that area must be planned based on agreements among the parties involved. Distributors must develop initiatives aimed at aggregation and submit an agreement proposal to the Minister of Industry by March 31, 2000. Within sixty days, the Minister issues a decision. In the event that no proposal is submitted, or that a proposal is rejected by the Minister of Industry, distribution companies controlled by local entities that serve at least 20% of users in their area may request that Enel sell at market prices distribution activities in the cities involved. Companies controlled by local entities having no less than 100,000 end users, may request to the Minister of Industry to allow for consensual aggregation of areas that are contiguous to their own.

In this new context, Enel's role is shifting from operation into one of providing strategic direction and coordination of industrial operations and all other activities carried out by its subsidiaries. In the electricity sector, activities carried out by Enel Group companies include: generation, distribution and sale of electric energy to captive customers, sale to eligible clients, ownership of transmission network (and related development and maintenance of the network).

In accordance with its new role, on August 1, 1999 Enel's public lighting division was transferred to subsidiary So.I.e. On the following day, activities related to electric energy transmission and dispatching were transferred to Gestore della Rete di Trasmissione Nazionale. On October 1, 1999 Enel's electric energy generation division was transferred to the following companies: Enel Produzione, Eurogen, Elettrogen, Interpower and Erga (renewable energy). Activities relating to the ownership of the transmission network were transferred to Terna, and those relating to distribution and sale to captive customers were transferred to Enel Distribuzione.

Finally, on November 1, 1999, discontinued nuclear activities were transferred to Sogin. At the same time, subsidiaries Enel Trade and Se.m.e., responsible respectively for sales to eligible clients and services and maintenance of electrical equipment, were incorporated.

Electric energy imports

In the course of 1999, the Authority for Electricity and Gas defined rules for electric energy imports, applicable effective January 1, 2000. A share of 48% of total international transportation capacity, equal to the share of imports covered by long-term contracts, is reserved to the captive market while the remaining share is sold on the open market. With regard to open market imports, given a level of demand for imports that exceeded available capacity, the Authority ruled, through resolution no. 180 of December 3, 1999, to limit overall quota of each importer to 20% of total available transportation capacity, with a threshold of 15% of available capacity on any individual congested interconnections.

Regulation of electric energy transmission service

With the issue of resolution no. 13 of February 18, 1999, the Authority for Electricity and Gas determined the tariffs for the transmission of electric energy. The resolution identified various tariff components to be paid for network usage: one component aims at covering power costs, independently of the distance between production and consumption location. Other components refer to system use, the so-called auxiliary services such as dynamic services, voltage regulation services, dispatching, measuring systems, and power reserves. In addition to power and network usage components there are other components aimed at covering "system costs".

Definition of "system costs"

On January 26, 2000, the Minister of Industry issued a decree identifying the following electric system charges:

- compensation to producer-distributor companies for the unrecoverable share of costs incurred in electric energy generation (the so-called "stranded costs") following the implementation of European Directive 96/92/EU;
- compensation for higher price recognized for electric energy generated by hydroelectric and geothermal plants owned by producer-distributor companies;
- costs related to decommissioning of nuclear power plants and the closing of the nuclear fuel cycle;
- research and development costs deemed to be of general interest to the electric system;
- enforcement of special tariff conditions applicable by Law.

In particular, the decree establishes eligibility criteria for stranded costs, quantifies expenses and defines terms for reintegration and compensation, within a maximum amount of lire 15,000 billion.

Unrecoverable costs associated with production plants will be reimbursed over a period of seven years, while the term for the reimbursement of the higher costs deriving from relocation of activities connected with natural gas imports from Nigeria and the related contractual commitments has been established at ten years, effective January 1, 2000.

Decommissioning of nuclear plants and the closing of the nuclear fuel cycle

To implement the provisions of the Bersani Decree, in May 1999 Enel SpA formed a nuclear plant management company, Sogin - Società Gestione Impianti Nucleari, which on November 1, 1999 took over Enel's nuclear operations.

Assets transferred to the new company related to receivables from Cassa Conguaglio (Electricity Equalization Fund) amounting to lire 896 billion, cash totaling lire 717 billion which funded a provision for future charges amounting to a total of lire 1,543 billion. Net assets transferred to the new company amounted to lire 30 billion.

Pursuant to the same decree, Sogin shares will be transferred by Enel to the Italian Treasury for free, based on specific provisions that are expected to be issued by early 2000. For this reason, Sogin is not included in the area of consolidation.

In the future the Enel Group will incur in no additional expense related to the decommissioning of nuclear plants and the deactivation of the fuel, since the costs incurred by Sogin will be covered, besides the funds received at the time of the transfer, by "system costs".

Incorporation of Gestore della Rete di Trasmissione Nazionale

As part of the electricity sector's reorganization, in April 1999 Enel SpA incorporated Gestore della Rete di Trasmissione Nazionale (ISO) which, effective August 2, 1999, took over the electric energy transmission and dispatching activities operated by Enel, including the centralized management of the domestic transmission network. Network ownership has not been transferred. Total assets transferred to the new company amounted to lire 98 billion, in addition to liabilities amounting to about lire 80 billion.

As all the shares in Gestore della Rete di Trasmissione Nazionale were transferred free of charge to the Treasury Ministry on April 1, 2000, the company was not included in the area of consolidation.

Enel Group strategy

Strategic guidelines of the Enel Group

In 1999 Enel has been confronted with a number of changes and issues that may without doubt be defined as historic in the life of the Group.

The year has indeed seen the simultaneous liberalization of the electricity market, with the introduction of the Bersani Decree, and the beginning of its privatization, with the placement in the market of 31.74% of its capital stock.

The two events have given rise to a number of constraints and opportunities which are reflected in a range of strategic choices aimed at sustaining over time the growth in the Company's value.

As for the constraints, the opening of the market to competition and the expected reduction in tariffs will result in a reduction in the market share and the volume of sales of the Group. Enel will react taking advantage of opportunities offered by the process, already under way, of diversification into a multi-utility company, distributing and offering services in particular in the gas and water sectors.

Moreover, the unbundling of activities into separate companies imposed by the Law will allow Enel to better concentrate its effort, began in 1996, to improve efficiency and to exploit its already strong know-how acquired in sectors under restructuring, as the water sector, and in those that are presently opening up, such as natural gas. Such strategy will be pursued also through acquisitions of other companies in these sectors. The coordinated management of these activities will allow profit margins to grow over time. Enel is ready to seize opportunities for value growth offered by high-growth markets such as the telecommunications sector and those that make up the new economy exploiting internal synergies between WIND and Enel.it, and those among these companies and Group operating companies that offer a range of applications and services to businesses and consumers.

No strategy can be successfully implemented without the contribution of the human resources factor. The Company has initiated since 1996 a restructuring of the organization, introducing changes in the management culture aiming at promoting efficiency and encouraging innovative management.

The key objectives of Enel Group's strategy are:

- a plan for continued significant reduction of operating costs, both direct and indirect;
- diversification into other sectors of activity and transformation from the monopoly of the Italian electricity sector to a multi-utility company offering to clients integrated service packages.

In the context of this transformation, the Enel Group will combine traditional electricity services with new services including gas, water and telecommunications: the latter being already provided by the Group's subsidiary WIND.

A key factor of the diversification process under way is represented by the Enel Group's ability to exploit synergies in supplying a growing number of network services, in terms of both cost sharing and know-how, thus exploiting the full potential of its client portfolio. With the acquisition of Colombo Gas and Acquedotto Pugliese – the latter currently being finalized – the Enel Group is taking significant initial steps in this direction, entering the water and gas distribution sectors.

The short- to medium-term objective is to provide services in addition to electricity to a client base whose size is sufficient to ensure the attainment of economies of scale, resulting in a concrete increase in revenues, and a reduction in operating costs among diversified activities.

The Enel Group's primary market will be the domestic market, in which it will be possible to reap significant opportunities for an entry into sectors akin to the electric one, thanks also to possible agreements with municipality companies that already hold concessions for the distribution and supply of services in their areas.

In 1999, the Enel Group focused its diversification activities in the gas and water sectors, building its presence in telecommunications through WIND. The telecommunications subsidiary has been operational since March 1, 1999, recording a very satisfactory growth performance. In addition, initiatives were taken to implement two key provisions of the Bersani Decree concerning the management of the electricity distribution network in urban areas and the sale of 15,000 MW of power generation capacity.

Distribution of electricity in urban areas

As previously highlighted, Legislative Decree 79/99 provides for the issuance in each city of a single concession for the distribution of electricity. In case there exist more than one distributor in a single city area, these must aggregate through agreements.

In the event no agreement is reached by March 31, 2000, distribution companies controlled by local municipalities that serve at least 20% of clients in their municipal territory may request that the Enel Group sell at market prices the businesses of distribution in the city. By Law, such sales must occur by March 31, 2001.

In this context, Enel sold the Trieste distribution network to ACEGAS. The agreement, involving about 1,000 customers, was the only one finalized by March 31, 2000.

Enel has identified those municipalities with greater strategic relevance in terms of number and type of clients, and has initiated negotiations to assess the feasibility of agreements. In this context, in July the Enel Group signed a memorandum of understanding with the local public service company of the City of Parma (AMPS) to evaluate joint initiatives in electric energy distribution and the integrated supply of other services in the City of Parma and neighbouring cities.

Sale of 15,000 MW of generating power

The Decree no. 79/99 setting the reorganization of the electricity sector establishes that, effective year 2003, no operator may generate or import more than 50% of total electric energy produced and imported in Italy. By the end of 2002, the Enel Group will therefore be required to dispose of at least 15,000 MW of its generation capacity.

The Enel Group has therefore initiated a plan, based on guidelines defined by the Ministry of Industry, to dispose of part of its power plants, by creating three new separate power generation companies. Such plan was approved on August 4, 1999 by a Decree of the President of the Council of Ministers.

Accordingly, on October 1, 1999 Enel incorporated three generation companies:

¥ Eurogen	with a total generation capacity of	7,008 MW
¥ Eletrogen	" " "	5,438 MW
¥ Interpower	" " "	2,611 MW

In line with government objectives, the three companies were given an adequate size and a technologically diversified generation capacity endowment so as to ensure efficient production and high flexibility in fuel purchase and usage.

In accordance with the Law, the terms of disposal of the three companies provide for the divestment through direct negotiation, with the possibility of divestment through a public offer of a portion of capital stock of Eurogen, if deemed necessary.

Following the disposal of the companies, in 2003 the Enel Group will have a share of total domestic generation equal to about 40%.

Telecommunications

WIND currently represents the most significant example of its diversification strategy. It is currently the only company combining fixed and mobile telephone services, data transmission and Internet. On March 1, 1999, WIND launched fixed and mobile telephone services throughout Italy, reaching at year-end over two million active lines for corporate and private customers.

In July 1999, the Enel Group's telecommunications services division (STC) was transferred to WIND, while the development of infrastructure in telecommunications continued, principally with the deployment of a Fiber Optic National Transmission Network that uses SDH technology, a national network for voice telephony, a national data network and a proprietary mobile telephone network.

Effective September, 1999, WIND acquired ITnet, one of Italy's largest providers of Internet services to corporate clients. Established in 1994, ITnet is an Internet Service Provider specializing in supply of network connection and value-added services to corporations, with a portfolio of several thousand customers.

With this acquisition, WIND is now able to supply a full range of services to corporate clients. In addition to basic connection and development of corporate intranet, the range of services offered by WIND includes application hosting and housing, and electronic commerce services.

Gas distribution

The market of gas distribution in Italy is extremely fragmented, numbering over 700 distributors that include private companies, municipal companies and consortia. The two largest operators in terms of revenues, Italgas and Camuzzi, account for more than 30% of the market.

An in-depth review of the sector led to the identification of a number of companies, including Colombo Gas, as potential vehicles for the Enel Group to enter the gas distribution market.

Colombo Gas, acquired by the Enel Group in March 2000, is a company operating in gas distribution directly and through its subsidiaries, in various areas of the Lombardy region.

In the early months of 1999, Colombo Gas expanded its user pool in the area of Pavia and the suburbs of Milan, respectively through the acquisition of Compi.Gas and Arcalgas, increasing its customer portfolio to over 76,000 individual and industrial clients.

In 1998, the companies that are currently part of the Colombo Gas Group supplied a total of about 190 million cubic meters of gas, of which about 77% to domestic clients and the remaining 23% to industrial clients. The Group currently manages concessions for gas distribution in 61 cities, with an average residual life of over 20 years.

For the Enel Group, the investment in the Colombo Gas Group represents an attractive opportunity, considering the limited outlay (equal to lire 104.5 billion) and the fact that Colombo Gas operates in areas in which the Enel Group is already active and is not required to sell its local distribution networks.

Water sector

The Enel Group is active in the water sector through subsidiary Enel.Hydro (formerly ISMES). As for the gas sector, the water sector is extremely fragmented in Italy. Sector regulation (Galli Law of 1994), still in the implementation phase, encourages entrepreneurial growth, promoting the assignment of the integrated management of water distribution and treatment to a single company covering each Optimal Territorial Area (*Ambito Territoriale Ottimale*, or ATO).

Enel.Hydro's strategic objective is to bid for concessions for the integrated water management in ATOs, either independently or in partnership with other companies. In the second half of 1999 the Government, as part of the process of divestment of state-owned companies and industrial development in Southern Italy (*Mezzogiorno*), expressed the intention to give Enel control over Acquedotto Pugliese, which, with a customer base of about 4 and a half million users, is Italy's largest supplier of integrated water services. As part of the same process, Enel will be given control also of Ente Lucania and SOGESID.

The total value of the transaction will be defined by 2000, once an evaluation by advisors appointed by the Treasury Ministry and due diligence on the part of Enel are completed. A request of lire 3,100 billion was formulated by the Italian Treasury for the purchase allowing Enel to secure control of Acquedotto Pugliese through subsidiary Enel.Hydro.

International strategy

The international electricity market is currently undergoing deep changes, as a result of both new regulations and the introduction of new Internet-based technologies.

Recently, some of the main operators carried out mergers and acquisitions, triggering a process that will significantly modify the competitive context of utilities in the coming years. The European energy market, moreover, is becoming increasingly international, with three main exchange areas for electric energy, which can be identified as Central Europe, Scandinavia and the Mediterranean.

In this context, while acknowledging that the Italian market is its principal area of operations, Enel intends to consolidate and strengthen its international role. In particular, by leveraging its sizeable financial resources, Enel will pursue a targeted strategy of expansion focusing principally on the European market, identifying initiatives geared to the maximization of shareholder value.

Among Enel Group companies, Enelpower is the one with the strongest international character. The company aims to become a world-level operator in building and managing projects in the field of electricity generation.

In 1999, Enelpower formed a joint venture to operate in the sector of electric energy and to develop generating plants in Greece and neighbouring countries. The company has already acquired important orders for the construction and expansion of electric plants in Greece, the United Kingdom, Saudi Arabia and Argentina.

The new tariff system

In the new context introduced by the Bersani Decree in compliance of EU norms regarding the electricity sector, the Authority for Electricity and Gas regulates tariffs for the access to the transmission and distribution networks, their use and the supply of electrical services to captive customers.

Regulations issued by the Authority in 1999

Tariffs for the supply of electricity services to captive customers have been set by the Authority at the end of a process that took place during 1998 and 1999. Resolutions issued at the end of December 1999 and the related regulations issued thereafter, allowed the setting of tariffs effective January 1, 2000 in the context of an established regulatory framework.

New regulations establish conditions for the supply of electricity, in addition to norms regarding quality and continuity of service. Minimum electric energy supply conditions and the principle of non-discrimination among customers are also established. Meter reading and billing frequency, bill payment conditions, overdue collection, suspension of supply and installment payment conditions, in addition to guarantee deposits and complaint procedures are regulated by the norms.

Regulations impose on the suppliers general service levels, providing for the automatic reimbursement to the customer in case requirements are not met. Such requirements refer to the supply of the most frequent services (preparation of estimates, first connection, start of service, cut-off, resumption of service for overdue customers).

New regulations define moreover the general level of the energy supply service (with reference to long-term interruptions of service without notice), requiring operators to supply the Authority with data on power continuity indicators by area.

New tariffs and generation cost coverage calculation methods have been set by specific resolutions dated December 29, 1999.

New tariff regulations

New tariff regulations are based on a system of tariff constraints – maximum price limits net of taxes – which distributors-suppliers may apply to captive customers.

Such limits are set so as to ensure the coverage of costs recognized for the supply of electric energy, in addition to the covering of system charges and costs incurred in the general interest of the community.

Recognized costs are those incurred in different phases: purchase, transportation, distribution and sale of electric energy, with the exclusion of extraordinary costs and those relating to activities not directly connected with electricity.

Distributors are free to offer tariff options to all customers of the same class in accordance with rules set by the Authority. Such offers must be open to all customers in the same class while the standard of service is set by the Authority. Prices applied by distribution companies are controlled, while prices for the supply to households are set directly by the Authority.

Electric tariffs applied are the same for each class of customers throughout the national territory. Distributors may therefore offer tariffs in a non-discriminatory fashion to all users, provided supply conditions are equal.

In addition to base tariff schemes, distributors may offer special tariffs to customers of the same class, provided that commercial code guidelines are followed ensuring transparency and correctness.

The Authority has defined nine classes of customers according to two criteria: the voltage of the electricity supplied and the type of use, for which distinction is made only between households and public lighting.

The price of electric energy is made up – in addition to the components aimed at covering recognized electricity purchase, transmission, distribution and sale costs – also by components aimed at covering specific system charges or costs incurred in the general interest as described below:

Component	Relating to	Paid by
A2	Nuclear abandonment costs	Captive and eligible customers
A3	Incentives to generation from renewable sources	Captive and eligible customers
A4	Contributions replacing special tariff regimes	All customers excluding household consumption
A5	Research and development, environmental protection and technological innovation charges	Captive and eligible customers
UC1	Unbalances in equalization mechanisms	Captive customers
UC2	Further component in favor of electricity generation carried out by generation/distribution companies for the captive market	Captive customers
GR	Gradual introduction of new tariffs	Captive customers

Tariffs for the supply of electricity to captive customers (excluding household consumption)

For each class of customers, distribution companies may offer tariff options, provided that:

- actual tariff revenues must not exceed the limit set by the Authority according to cost components (purchase, transmission and sale of electric energy);
- total expenditure of each customer (net of taxes) may not exceed a limit set by the Authority.

The new tariff system introduces new tariffs gradually. For an initial period that terminates on June 30, 2000, tariffs in force at December 31, 1999 reduced according to customer class will be applied in place of new tariff options.

Beginning July 1, 2000, base tariff options for the year 2000 will be offered by each operator in line with the limitations set.

Tariffs for household consumption

Tariffs for household consumption are set by the Authority. Distribution companies may offer to customers of the same class further tariff options, provided such offers do not discriminate among customers, are in line with commercial code guidelines and are approved by the Authority. The new tariff system will come into force in 2003, while up until such time a provisional regime will apply.

In the standard tariff system (applied starting January 1, 2003), the Authority set household consumption tariffs as shown in the table that follows:

Tariff component	Referring to
Fixed amount (lire per customer)	Covering of sales costs
Electricity supplied (lire per kWh supplied)	Covering of part of the transportation cost on the distribution network
Electric energy received (lire per kWh)	Covering of the transportation cost on the transmission network and part of distribution costs
Electric energy received (lire per kWh)	Covering of electric energy purchase costs
Other (lire per kWh)	Covering of system charges and costs incurred for general interest

To achieve a gradual introduction of the new tariff system, the Authority resolved the provisional application (from January 1, 2000 to December 31, 2002) of two tariffs: one for residential customers with supply of up to 3 kW, and the second one for all other residential customers.

For low-income customers, the Authority set a subsidized tariff to be applied nationally to the supply of up to 3 kW. Facilitations include reduced fixed amounts, the elimination of the component referring to the electricity supplied and differentiation of contributions for energy received.

Impact on revenues of the application of the new tariff system

The limits set by the new tariff system will result in a reduction in revenues in line with projections made by the Authority and delivered to the Italian Government in July 1999. Based on the breakdown and level of sales for 1999, the reduction in tariffs for the year 2000 relating to fixed-cost components (with the exception of the cost of fuel) is estimated at about 10.8%.

Starting with 2001, revenues will be affected by the method used in the determination of adjustments to the different tariff components. Transmission, distribution and sale tariff components (which make up about half of tariff components, excluding fuels) will be reduced as a result of the application of the price-cap (the annual increase in costs recognized is equal to 4% in real terms for the period 2001-2003). The generation tariff component will instead follow market performance, within the price limits set by the Authority. The further revenue component (lire 6 per kWh) in favor of generation carried out by generation-distribution companies will apply until 2001.

Operating review



Generation

In line with new regulations introduced in Italy which limit to 50% the share of electricity generated or imported into Italy by any single entity, Enel spun off its Generation Division and transferred it to a new company, Enel Produzione and to three other companies, Eurogen, Eletrogen and Interpower, to be disposed of by the end of 2002.

The plants belonging to the three companies to be disposed of are comparable to those currently owned by Enel Produzione both in terms of fuels employed, type of demand met (plant mix) and geographic distribution. Generation capacity assigned to the three companies is the following:

- Eurogen: 7,008 MW (10.9% of which hydroelectric);
- Eletrogen: 5,438 MW (18.6% of which hydroelectric);
- Interpower: 2,611 MW (2.4% of which hydroelectric).

Along with the plants, the three companies received employees and financial resources, equity and debt, in such a way as to minimize the cost of capital and optimize equity structure.

With the aim of increasing the Group's competitiveness and to enhance the value of certain assets, Erga was incorporated as a company operating in the field of renewable energy sources. Plants have been selected on technical considerations (geothermal, wind and photovoltaic plants), location and business criteria.

Energy Management

Enel Produzione set up a new organizational structure called Energy Management with the aim of:

- providing a reference point for energy markets by elaborating short- and medium-term production plans based on demand for energy and available supply;
- performing pre-dispatching and monitoring their operations in real time;
- signing sale contracts for energy and related services with the Single Buyer and Enel Trade;
- entering daily quotes on the Energy Exchange (when operating), based on functional objectives and analysis of market-related risks;
- preparing fuel consumption forecasts based on production plans, in order to ensure their supply.

Electricity generation and fuel consumption

In 1999 net energy generation amounted to 178,813 million kWh, in line with generation in the preceding year (down 0.4%). While thermal energy generation decreased by 2.9%, a significant increase was registered in hydroelectric energy (up 9.3%), due to good water supply, and in generation from renewable sources.

Net generation (Millions of kWh)						
	1999	1998		1999-1998		
Thermal	136,946	76.6%	141,019	78.6%	-4,073	-2.9%
Hydroelectric	37,707	21.1%	34,486	19.2%	3,221	9.3%
Geothermal	4,128	2.3%	3,958	2.2%	170	4.3%
Other sources	32	0.0%	21	0.0%	11	52.4%
TOTAL	178,813	100.0%	179,484	100.0%	-671	-0.4%

The following table shows the breakdown of total gross thermal generation by type of fuel employed.

	Millions of kWh	%	Millions of kWh	%	Millions of kWh	%
	1999		1998		1999-1998	
Heavy fuel oil (S>0.5%)	51,027	34.9%	64,536	42.9%	-13,509	-20.9%
Light fuel oil (S<0.5%)	19,892	13.6%	25,076	16.7%	-5,184	-20.7%
Natural gas	46,390	31.7%	35,607	23.7%	10,783	30.3%
Coal	23,365	16.0%	22,844	15.2%	521	2.3%
Gasoil	640	0.4%	303	0.2%	337	111.2%
Orimulsion and other fuels	4,979	3.4%	2,090	1.4%	2,889	138.2%
TOTAL	146,293	100%	150,456	100%	-4,163	-2.8%

The breakdown of gross generation by fuel type shows an increase in the use of natural gas and orimulsion.

Total natural gas volumes purchased increased by 28.3%, from 8.8 billion cubic meters in 1998 to 11.3 billion cubic meters in 1999, due to the effect of Enel's share in the contract with SNAM and the beginning of supplies of natural gas from Nigeria under a long-term contract.

The increase in natural gas use was particularly significant in the Montalto di Castro, Priolo Gargallo and Tavazzano power stations.

Natural gas purchases	Billion cubic meters	Billion cubic meters
	1999	1998
Nigerian gas	0.5	-
Sonatrach	3.9	3.9
SNAM (long-term)	6.9	4.9
TOTALE	11.3	8.8

Generation plants

Capital expenditure for the year breaks down as follows:

In billions of lire	1999	1998	1999-1998
Thermal plants	1,179	1,327	-148
Hydroelectric plants	254	359	-105
Geothermal plants	138	175	-37
Plants fired with renewable sources	7	8	-1
TOTAL	1,578	1,869	-291
			-15.6%

33

Lower capital expenditure in thermal plant as compared to 1998 is mainly due to the completion of environmental compliance works, most of which started in previous years. Lower capital expenditure in new plants was offset by increased expenditure in conversion to combined-cycle technology (mainly groups 1 and 2 in La Spezia).

With regards to hydroelectric and geo-thermal plants, the decrease in expenditure is due mainly to the completion of new construction and the upgrade of existing plants.

Net efficient generation capacity of Enel plants at December 31, 1999 amounted to 55,841 MW. The breakdown by type of plant for the Group as a whole and for each company is contained in the table below:

Net efficient generation capacity (MW)	1999	1998
Thermal	38,648	39,850
Hydroelectric	16,581	16,470
Geothermal	584	547
Wind and Photovoltaic	28	27
TOTAL	55,841	56,894

Net efficient generation capacity by company (MW)	Enel Produzione	Eurogen	Eletrogen	Interpower	Erga	at Dec. 31,1999
Thermal	25,434	6,242	4,424	2,548	-	38,648
Hydroelectric	13,758	766	1,014	63	980	16,581
Geothermal	-	-	-	-	584	584
Wind and Photovoltaic	-	-	-	-	28	28
TOTAL	39,192	7,008	5,438	2,611	1,592	55,841

Despite the increase in hydroelectric generation capacity, due to the entry into service of the San Giacomo al Vomano plant, and of geothermal, wind and photovoltaic generation capacity, following the entry into service of the Latera (geo), Selva (geo) and Monte Arci (wind) plants, net total efficient generation capacity decreased by 1,053 MW, due essentially to the decrease in thermal generation capacity following the non-availability for operation of the Alessandria, Civitavecchia, Mercure and Santa Gilla power plants, and the placing into reserve of a number of groups at the Torvaldaliga, Tavazzano and Chivasso plants.

Management expectations of operations in 2000

Management will focus on improving fuel efficiency, through the optimization of fuels employed, the improvement of plant utilization rates, the reduction of labor costs, as well as further reduction of the use of external resources. Capital expenditure will be directed to the optimization of operations and the completion of selected projects for technology upgrades of plants.

1999 results of operations of electricity generation companies

Enel Produzione

Enel Produzione is Enel's electricity generation subsidiary. It was incorporated on October 13, 1998, and became operational on October 1, 1999, when it received its assets from Enel.

Results of operations achieved in the three months from October 1 to December 31, 1999 show a gross generation capacity of 31,678 million kWh. Its net generation capacity amounts to 30,134 million kWh and is absorbed by Enel Distribuzione (29,117 million kWh) and Enel Trade (1,017 million kWh). Revenues amounted to lire 2,077.2 billion, to which must be added contributions from the Electricity Equalization Fund for lire 1,317.2 billion.

Total revenues amounted to lire 3,511.6 billion and included other income and revenues for services rendered to other group companies and third parties.

Operating costs amounted to lire 2,333.3 billion, of which lire 1,263.4 billion relating to fuel.

Operating income amounted to lire 1,178.3 billion (33.6% of total revenues).

Income taxes amounted to lire 356.9 billion, while the company reported a net income of lire 353.1 billion.

Net capital employed amounted to lire 18,679 billion as compared to net equity of lire 13,784 billion and net financial debt of lire 4,895 billion.

Eurogen

This company, operating in the generation of thermal and hydroelectric power, was established on October 1, 1999 by Enel through the transfer of part of its generation business.

In 1999 the company initiated a survey of available resources. The survey aims at establishing the number of employees and the company structure required for the efficient management and operation of the company.

Total revenues amounted to lire 719.1 billion, while operating costs totaled lire 520.2 billion, of which lire 46.4 billion was represented by amortization and depreciation charges. Operating income amounted to lire 198.9 billion. Net income for 1999 (for the last quarter of the year) amounted to lire 115.5 billion.

Capital expenditure amounted to lire 68.6 billion, mainly directed to works for environmental compliance of groups 5 and 6 of the S. Filippo del Mela power station.

Net capital employed amounted to lire 2,230.8 billion, of which approximately 14% represented by equity (lire 321 billion) and the remaining share represented by financial debt with the Parent Company (lire 1,909.8 billion).

Eletrogen

The company, operating in the generation of thermal and hydroelectric power, was established on October 1, 1999 by Enel through the transfer of part of its generation business.

Total revenues amounted to lire 620.8 billion, while operating costs amounted to lire 443.3 billion, of which lire 79.3 billion represented by amortization and depreciation charges.

Operating income amounted to lire 177.5 billion (28.6% of total revenues). Net income for the three-month period of operation (October to December 1999) amounted to lire 81.5 billion.

At December 31, 1999, net capital employed amounted to lire 2,643 billion, of which approximately lire 360 billion lire was represented by equity and the remaining share represented by financial debt with the Parent Company (lire 2,283 billion).

Interpower

The company, operating in the generation of thermal and hydroelectric power, was established on October 1, 1999 by Enel through the transfer of part of its generation business.

Total revenues amounted to lire 331.7 billion, while operating costs amounted to lire 212.7 billion, of which lire 19.8 billion represented by amortization and depreciation charges.

Operating income amounted to lire 119 billion. Net income for the three-month period (October to December 1999) amounted to lire 63.4 billion.

Net capital employed amounted to lire 807.7 billion, of which approximately 31% (lire 252.6 billion) was represented by equity and the remaining share by financial debt with the Parent Company (lire 555.1 billion).

Erga

Erga was established on May 31, 1999 with the specific purpose of operating and developing electricity generation from renewable sources. It is operative in the geothermal, wind, photovoltaic and mini-hydroelectric plant power generation.

In the last quarter of 1999 the company generated about 200 million kWh, due among other things to the coming into service of geothermal and wind plants and good water supply in the hydroelectric area.

Revenues, amounting to lire 238 billion, refer mainly to the sale of electricity to Enel Distribuzione (lire 125 billion) and to grants paid by the Electricity Equalization Fund (lire 106 billion).

Operating costs amounted to lire 147 billion and were represented mainly by payroll and related costs (lire 53 billion), amortization and depreciation charges (lire 58 billion), and lease and rentals (lire 27 billion, of which 10 from other Enel Group companies).

Net income amounting to lire 32 billion, included lire 17 billion of extraordinary income.

At December 31, 1999 net capital employed amounted to lire 2,258 billion, of which lire 1,253 billion represented by equity and lire 1,005 billion by net financial debt.

Transmission

Until the changes introduced by new legislation in the Italian electricity industry, the Enel's Transmission Division was in charge of dispatching electricity, managing the transmission network and purchasing electricity from producers in Italy and outside Italy. In 1999 these functions have been attributed to two newly established companies: Gestore della Rete di Trasmissione Nazionale (ISO) and Terna. Each of these companies has different mission and objectives, and separate ownership. Enel conferred to each company the relevant business units effective August 2, 1999 and October 1, 1999 respectively, while it preserved the purchase of electricity.

The ISO is in charge of transmission and dispatching, as well as of the unified management of the domestic transmission network. From April 1, 2000, the ownership of the company was transferred free of charge from Enel to the Italian Treasury.

Terna is a company in charge of operating and maintaining high voltage domestic transmission network equipment as well as of the development of such network according to guidelines issued by the ISO. This company shall remain part of the Enel group.

Electricity purchases

The most significant activity in 1999 was the purchase of electricity from third parties in Italy and outside Italy. In the past this activity was managed by the Transmission Division and is presently carried out by Enel until the Single Buyer becomes operational as part of the ISO.

	Amount in millions of kWh	Total cost in billions of lire	Unit cost lire/kWh	Amount in millions of kWh	Total cost in billions of lire	Unit cost lire/kWh
	1999			1998		
Domestic suppliers	35,978	4,038.9	112.26	31,445	3,552.5	112.97
Foreign suppliers:						
- long-term contracts	29,493	2,289.0	77.61	30,873	2,340.4	75.81
- yearly contracts	9,465	342.8	36.21	6,632	212.2	31.99
- spot contracts	2,672	75.4	28.22	3,060	90.2	29.50
	41,630	2,707.2	65.03	40,565	2,642.8	65.15
Total	77,608	6,746.1	86.93	72,010	6,195.3	86.03
Electricity exchanged	-	85.0	-	-	110.8	-
TOTAL		6,831.1			6,306.1	

Domestic purchases from third parties increased by 4,533 million kWh (up 14.4%) due to the coming into operation of new generation plants, under the provisions of CIP Resolution no. 6/92. The slight decrease in unit average costs results from various factors, including the application of Authority's resolutions.

The 1,065 million kWh increase in purchases from outside Italy (up 2.6%) is due to increased yearly supplies (up 2,833 million kWh, mainly from ATEL, EGL and FMB), partially offset by the decrease in spot purchases (down 388 million kWh) and in long-term contracts (down 1,380 million kWh). In the latter case, the reduction results mainly from lower withdrawals from Electricité de France (EdF) and from the expiration of the contract with BKW in late 1998.

The breakdown of unit average costs by type of contract shows that the increase of 1.80 lire/kWh over 1998 in long-term contracts is mainly due to lower withdrawals from the additional EdF supply, as well as from the indexation clauses contained in existing contracts.

The increase by 4.22 lire/kWh in yearly contracts is attributable mainly to a one-time supply at very favorable terms obtained in 1998. In spot contracts the decrease resulted from a careful policy aimed at seizing opportunities offered by the market.

In 1999 the streamlining of transmission systems' operation and maintenance (Network 98 Project) became fully operational. This project was started in the second half of 1998 and resulted in significant efficiency improvements in transmission operating processes through the streamlining of operations and the improved maintenance of plants, the simplification and standardization of technical specifications and of schedules, and a decrease in purchasing costs of main components.

In 1999 costs decreased by 17.7%, from 300.5 billion lire in 1998 to 247.7 billion lire in the current year.

Capital expenditure

In 1999 capital expenditure in high-voltage power lines amounted to lire 436 billion and breaks down as follows:

In billions of lire	1999	1998	1999-1998
Expenditure on equipment in operation	170	174	-4
New equipment	266	420	-154
TOTAL	436	594	-158
			-26.6%

The decrease over 1998 is attributable mainly to the streamlining and optimization of investments in ordinary operations.

Expenditure on new equipment is directed to the following projects.

E-NET project

The project consists in the construction of a 11,220 kilometer long national fiber optic telecommunications network using existing high-voltage power lines.

In 1999 a total of 2,360 kilometers of 380, 220 and 150 KV lines were laid, bringing the total of fiber optics laid in the 1997-1999 period to 6,083 kilometers.

Terminals for the completion of the initial project as well as the necessary extensions will be built in 2000.

Italy-Greece direct power-line

In 1999 work for the construction of a direct power-line between Italy and Greece continued.

The project will result in a connection between the European and the Greek network, allowing for more efficient operation of the electrical systems of the two connected countries and favoring the interconnection of a higher number of countries in the Mediterranean basin. This project falls within the scope of projects promoted by the European Union which is financing 40% of the total expenditure (euro 339 million). The project is expected to be completed in the first half of 2001.

Plant and equipment

As part of the streamlining of plant management, in 1999 transmission and distribution activities were separated. In April, 17 transformation stations were transferred to the Distribution Division, while approximately 2,800 kilometers of three-phase lines were disposed of. After the definition of the perimeter of the Domestic Transmission Network, Terna was assigned approximately 14,500 three-phase lines (mainly 150-132 kV ones) and 32 transformation stations formerly managed by Enel's Distribution and Generation Division.

This resulted in a significant increase in plant and equipment, as showed in the following table:

	No. at Dec. 31, 1999	km	No. at Dec. 31, 1998	km
Stations	248	-	235	-
Transformers	541	-	555	-
Bays	3,582	-	3,310	-
Lines	-	33,464	-	21,934
Three-phase lines	1,739	37,150	927	25,310

Results of operations of Terna

Terna's results of operations relate to the fourth quarter of 1999. The company closed the year reporting a net income of lire 21.8 billion, after amortization and depreciation charges on tangible assets of lire 160 billion (of which lire 106.4 billion of ordinary depreciation and lire 53.6 billion represented by additional depreciation), and interest paid to the Parent Company amounting to lire 18 billion.

Revenues from sales and services amounted to lire 362 billion and were almost entirely related to the payment of tariffs for the use of the domestic transmission network.

Operating costs amounted to lire 248 billion and, in addition to amortization and depreciation charges, included lire 78 billion for payroll and related costs and lire 67 billion for external charges.

Operating income amounted to lire 124.2 billion (33.4% of revenues).

Extraordinary expenses amounted to lire 5.7 billion and referred mainly to early retirement incentives.

Income taxes amounted to approximately lire 25 billion. IRPEG (income taxes) amounted to lire 18.4 billion and IRAP (local taxes) to lire 6.5 billion.

Net capital employed amounted to lire 5,572 billion, while net equity amounted to lire 4,094 billion and net financial debt to lire 1,478 billion.

Management expectations of operations in 2000

In 2000 operations of Terna will aim at maximizing revenues and increasing operating efficiency.

With regards to the first issue, since the company's revenues from its core business are determined by the Authority, Terna will aim at developing new business opportunities in non-regulated areas, by using assets and experience acquired in the field of operation, maintenance and construction of high-voltage plants.

In May 1999 a project aiming at identifying the most promising segments and potential markets, taking into account diversification strategies of other international operators, was started. The results of this project were included in the 2000-2004 strategic plan and a relevant turnover is expected (lire 8-10 billion) already in 2000.

Distribution and sale to captive customers

In line with restructuring of operations required by the Bersani Decree, on October 1, 1999 the business units in charge of distribution and sale of electricity to captive customers was conferred to newly established company Enel Distribuzione.

The company's objective is the distribution and sale of electricity to all customers allowed to conclude supply contracts only with the distributor operating in the geographical area where such customers are located (captive customers).

Electricity sales

Electricity sold in 1999 amounted to 229,525 million kWh, representing a 1.5% increase over 1998, despite the beginning of operation in the free market of Enel Trade, which acquired 982 million kWh. The number of customers served increased by 1.1% to 29,674,086, at December 31, 1999.

	Billions of lire	Millions of kWh	lire/kWh	Billions of lire	Millions of kWh	lire/kWh	Millions of kWh
	1999			1998			1999-1998
High-voltage	1,521	38,235	39.8	1,593	40,160	39.7	-4.8%
Medium-voltage	7,189	77,787	92.4	7,033	75,293	93.4	3.3%
Low-voltage	17,018	100,633	169.1	16,401	96,668	169.7	4.1%
Railways	126	4,400	28.7	141	4,703	30.0	-6.4%
Resellers and sales abroad	459	8,470	54.1	509	9,344	54.4	-9.4%
TOTAL	26,313	229,525	114.6	25,677	226,168	113.5	1.5%

The total increase in electricity sold resulted from increased sales of low-voltage electricity (up 4.1%) and medium-voltage electricity (up 3.3%), and from lower sales of high-voltage electricity (down 4.8%).

The change in the composition of sales towards higher unit revenue voltage resulted in a lire 637 billion increase in revenues (up 2.5% over 1998).

In order to make a homogenous comparison with 1998 results, it is necessary to take into account the results of Enel Trade, a company which started operating on the free market in the second half of 1999, to which Enel conferred relevant customers. Enel Trade sold 869 million kWh of high-voltage and 113 million kWh of medium-voltage electricity. On a comparable basis high-voltage volumes sold decreased by 2.6%, while total volumes increased by 1.9%.

The decrease in withdrawals by resellers (down 9.4%) is due to the creation of a consortium, from which some resellers in Piemonte, Valle d'Aosta and Triveneto make their purchases. The breakdown of sales by type of customer shows weak industrial sector demand, recovering slightly in the second half of 1999 due to an improved economic situation in the iron and steel segment (up 6.3% in the fourth quarter of 1999) and positive results of the construction and mechanical industries in the first half of 1999.

In millions of kWh	1999	1998	1999-1998
Industry	107,478	107,042	436
Services	54,129	51,721	2,408
Agriculture	4,474	4,331	143
Household and general services	54,974	53,642	1,332
TOTAL DIRECT CUSTOMERS	221,055	216,736	4,319
			2.0%

The breakdown of sales by geographic area confirms lower growth in Northern Italy, where industry concentration is highest (up 0.3%), despite an increase in the number of customers higher than the domestic average.

Sales in Central Italy, where services are most developed, recorded a stronger increase, particularly in the Lazio Region and in Tuscany.

Consumption in Southern Italy was affected by an extraordinary event that took place in Puglia relating to a shortage in generation by an independent power generator, that was forced to purchase unexpected amounts of electricity for a number of months.

	Electricity sold (in millions of kWh)			No. of customers		
	1999	1998	1999-1998	Dec. 31, 1999	Dec. 31, 1998	1999-1998
Northern Italy	123,176	122,857	0.3%	13,292,125	13,117,618	1.3%
Central Italy	43,141	41,779	3.3%	5,590,575	5,519,171	1.3%
Southern Italy	36,614	35,341	3.6%	7,122,235	7,069,401	0.7%
Islands	21,999	21,217	3.7%	3,669,151	3,637,210	0.9%
Railways	4,400	4,703	-6.4%	-	-	-
Outside Italy	195	271	-28.0%	-	-	-
TOTAL	229,525	226,168	1.5%	29,674,086	29,343,400	1.1%

Services to customers

Issues regarding the quality of service provided and customer satisfaction were formalized at Enel starting in 1996, when a Charter of Services was issued (the Charter is available on Enel's web page www.enel.it). This process was developed into a project called "Integrated System for Customer Satisfaction Appraisal" aimed at surveying customer satisfaction and identifying possible improvements. The joint analysis of indicators set out in the Charter and the quality indicators from the Survey confirmed progress for 1999.

The Authority for Electricity and Gas has recently issued guidelines concerning the provision of electricity services.

The guidelines define general levels and specific quality thresholds, identify maximum time necessary for each kind of service provided and impose the automatic payment of penalties in case of lack of compliance, while requiring utilities to provide more detailed information on any aspect that may concern customers.

New regulations concerning specific quality thresholds will be in force from July 1, 2000, while those regarding general levels will take effect starting January 1, 2001.

Enel Distribuzione seeks a closer relationship to its customers, setting information and service standards that go well beyond those set by the Authority.

Enel Distribuzione has moreover initiated two relevant projects that will determine a significant improvement in the quality of service provided. These are the "meter project" and the "call center project".

The first project provides for the replacement of analog meters with a digital system allowing for the remote reading of electricity consumption. The new system will result in the reorganization of operations and sales, as well as the management of accounts. The new meters will allow to activate and deactivate energy supply, and to change the amount of electricity supplied from a remote location. They will also allow to measure consumption independently from contract terms and conditions, to introduce different tariffs varying according to the time of consumption, as well as innovative terms related to seasonal phenomena or temporary occupation of dwellings.

Enel believes that the increase in automation of operations resulting from the installation of new meters will produce significant savings and increase revenues through the provision of new services. The project was launched in October 1999 and is presently in the executive phase, which includes the design of the new meters. In the second half of 2000 the

resulting prototypes will undergo testing and control before starting actual manufacturing, which is expected to begin before the end of 2000. Installation will take place between 2001 and 2004.

With the "call center project", Enel Distribuzione plans to revise its system of telephone assistance to customers, reducing the existing 74 autonomous local call centers and the approximately 120 telephone numbers assigned to a much smaller number of call national centers (6-8) that may be accessed nationwide by dialing the same telephone number. Call centers will provide a wide range of services, allowing customers to perform with one telephone call many frequently requested operations, such as activation, deactivation, automatic meter reading and payments, information on tariffs and notice of disruption and malfunction.

Following the concentration of existing local call centers, the new structure will allow to obtain significant cost synergies and a more efficient allocation of employees while improving service quality.

After a first phase which included the definition of the model, the design and implementation phase is now under way. Such phase will be followed by a development and implementation phase. A pilot call center is expected to start operating in the fourth quarter of 2000.

Enel is promoting the use of electric equipment for air conditioning ("Climawatt") directed both to customers and planners/designers. In line with new regulations on tariffs issued by the Authority, Enel intends to offer a range of new customized tariffs.

Reorganization

Since 1999 Enel Distribuzione is divided into 14 Area Divisions, which include 74 Operation Units that coordinate 300 Zones.

The company is surveying its organizational setup and its main operating processes in order to increase efficiency and reduce costs in light of new market condition and tariff structure. The final objective of this analysis is to make the necessary changes in the organization to enable it to face the strong impact of changes introduced by the new call centers and electronic meters.

In 1999 a first analysis of capital expenditure, orders to contractors, administration and sales activities was carried out. Its results showed that the company may achieve significant improvements in efficacy and efficiency.

The analysis will continue in 2000 when network management practices and other staff operations will be reviewed.

Capital expenditure and existing plant and equipment

In line with corporate strategic lines, capital expenditure was aimed at the upgrade of the distribution network, and at improving service quality and safety. In 1999 capital expenditure amounted to lire 3,246 billion and breaks down as follows:

In billions of lire	1999	1998	1999-1998	
Distribution networks:				
High-voltage	485	573	-88	-15.4%
Medium- and low-voltage	2,723	2,380	343	14.4%
Public lighting	38	54	-16	-29.6%
TOTAL DISTRIBUTION NETWORKS	3,246	3,007	239	8.0%

Capital expenditure on medium-voltage networks increased over 1998, while capital expenditure on high- and low-voltage networks decreased from the previous year. Increased expenditure resulted from stronger attention paid to improving service quality. Investments in this field amounted to lire 1,150 billion, as compared to approximately lire 900 billion in 1998.

Expenditure for the development and maintenance of networks covered approximately 60% of total expenditure.

During the year 356 kilometers were added to high-voltage lines, while 177 kilometers underwent upgrade or renewal. A total of 45 new primary stations and satellite centers entered into service, while 177 of these were upgraded or renewed. The medium-voltage network was extended by 3,103 kilometers. About 9,373 kilometers of lines were added to the low-voltage network and the number of secondary sub-stations increased by 4,617. Over 30% of total expenditure was directed to the improvement of service quality, with particular attention to areas in Southern Italy.

In order to reduce environmental impact, Enel guidelines provide for the use of aerial cables or cables laid underground for medium- and low-voltage lines crossing environmentally relevant areas.

The most advanced technological solutions are applied to all lines, and in particular to high-voltage lines. In addition to a careful technical evaluation of routes, this helps to minimize environmental impact.

Alongside the existing regulations at the national level, the Italian Government is currently preparing a new law on electromagnetic fields which will regulate exposure limits, thresholds and quality objectives, as well as general guidelines for reclaiming contaminated areas and criteria for the recovery of expenses borne.

Enel Distribuzione planned its future capital expenditure in full compliance with limits on electromagnetic field strength and minimum distances set by existing laws.

At December 31, 1999 and 1998 existing networks were the following:

	km at Dec. 31, 1999	No. at Dec. 31, 1999	km at Dec. 31, 1998	No. at Dec. 31, 1998	km 1999-1998	No. 1999-1998
High-voltage:						
Lines	20,188	-	32,217	-	-12,029	-
Sub-stations	-	1,864	-	1,826	-	38
Medium-voltage:						
Lines	328,188	-	325,085	-	3,103	-
Sub-stations and transformers	-	403,507	-	398,472	-	5,035
Low-voltage:						
Lines	702,699	-	693,326	-	9,373	-

High-tension lines decreased by about 12,000 kilometers due to the transfer of some lines to Terna, to whom the Bersani Decree assigns the maintenance, operating management and development of the transmission network.

Management expectations of operations in 2000

The change in tariffs introduced in late 1999, which will be gradually applied in 2000, is based on the recognition of actual costs borne for the provision of services and is going to affect the company's results of operations. A decrease in tariffs of approximately 10.8% over 1999 is expected in 2000.

Sales volumes are expected to decrease in 2000 due to large customers switching to other producers, distributors or wholesalers operating on the free market in Italy and outside Italy, as provided for by recently introduced regulations.

Such decrease is expected to be offset in part by the payment of dispatching services to the company that owns the distribution networks.

In 1999 a plan aimed at reducing operating costs significantly was launched. The plan should show its effects from 2000.

In the light of the expected negative effects of the deep change in the electricity market in Italy, management intends to concentrate on cost reduction through increased efficiency of operating processes and efficacy in service provision.

Costs reductions will concern purchases, contracts and payroll, alongside with reorganization of processes, strengthening of domestic sales and the introduction of new technologies. These policies are expected to offset the possible decrease in profit margins.

Measures to improve service quality will be further enhanced in order to meet and surpass standards set by the Authority.

Results of operations of Enel Distribuzione

Data for 1999 relate only to the last quarter of the year. Sales volumes amounted to 57,477 million kWh, with corresponding revenues from tariffs amounting to lire 6,783 billion. Total revenues for the period amounted to lire 7,318 billion, while operating income amounted to lire 1,071 billion, corresponding to 14.6% of revenues. Net income for the period amounted to lire 408 billion, while income taxes amounted to lire 401 billion. Net capital employed amounted to lire 11,802 billion, of which lire 18,587 billion were represented by fixed assets, lire 4,244 billion by negative net working capital and lire 2,541 billion by reserves. Net equity amounted to lire 12,707 billion, while net cash and securities amounted to lire 905 billion.

Sales of electricity and services to eligible customers

In compliance with the provisions of the "Bersani Decree", the Enel Group created a separate company, Enel Trade, for the sale of electricity to eligible customers. The company became operational on October 1, 1999, in line with the provisions of the decree.

Enel Trade aims at becoming the leading company on the free market providing an integrated supply of electricity and high value added customized services to large industrial clients. In 1999 Enel Trade's activity was directed mainly to the definition of its organizational structure, the accumulation of professional capacity and the sale of electricity to eligible end users.

Enel Trade has an efficient and flexible organization consistent with its market orientation, and is active in the following fields: Energy Purchase, Marketing and New Products, Sales. To strengthen relations with large industrial customers, who are typically complex groups with a high number of different locations, a specific National Accounts Department was created within the sales division.

Enel Trade intends to create a privileged and highly personalized relationship with its customers managed by an Account Manager, offering price policies and types of contracts capable of meeting a wide range of requests from the various groups of eligible customers, as well as a range of high value added additional services.

The reference market

According to the criteria set by the new Law, the potential free market amounts to about 80 billion kWh per year, about 30% of total electricity demand in Italy. This market is expected to grow in the future as eligibility thresholds are progressively reduced, enabling a larger number of customers to enter the market. In 2000 the eligibility threshold will be reduced to 20 million kWh for end users with a single site, while dropping to 1 million kWh for customers belonging to consortia, generating an estimated potential market of about 100 billion kWh.

The Bersani Decree provides for a further reduction of thresholds in 2002. End users with a single site and consortia will have an eligibility threshold of 9 million kWh, while all customers with more than one site will be deemed eligible if their consumption in the previous year exceeded a total of 40 million kWh.

On the supply side, in 1999, electricity available on the free market derived only from domestic generation. This fact affected the actual size of the free market and supply prices. Starting in 2000 electricity generated outside Italy will also be available on the free market.

From January 1, 2001 the Energy Exchange is expected to be operational and will represent the primary arena for the negotiation of contracts also on the free market.

Results of operations of Enel Trade

Enel Trade, operating only in the last quarter of 1999, sold a total amount of electricity equal to 982 million kWh.

This is a positive result, keeping into account the slow and gradual development of a free market in Italy. The gradual development is due to three factors. First of all, the need to devise a structure and set the rules for the functioning of a free market in accordance with rules set by the Bersani Decree and the relevant implementation measures. The second factor is the low availability of imported electricity to be sold on this market, while the third is the longer than expected time needed by eligible customers to terminate existing contracts on the captive market.

Results of operations showed revenues amounting to lire 101.9 billion. Despite the startup phase, operating costs were kept low and allowed to achieve a gross operating margin amounting to lire 14.9 billion. Operating income was equal to lire 14.7 billion, while income after taxes amounted to lire 8.5 billion.

At December 31, 1999 net capital employed was negative (lire 9.1 billion), while net equity was equal to lire 8.7 billion and cash and securities amounted to lire 17.8 billion, representing the balance of the cash management account set up by the Parent Company.

Management expectations of operations for 2000

Management estimates that Enel Trade will have a market share for 2000 equal to 50%, based on an estimated supply of about 40 billion kWh on the free market. Enel Trade's present and future market target is represented by large Italian corporations for which electricity is one of the major components of the production process.

Enel Trade intends to consolidate its leading position on the Italian market through the following strategic lines:

- development of an excellent sales network by enhancing existing resources and accumulating new specific know-how;
- consolidation of the electricity purchase activities with the creation of a trading room, allowing Enel Trade to trade also in the future Energy Exchange, seizing all opportunities offered by the market;
- increase of its range of high value added services to customers adding services such as Internet-based on-line monitoring of consumption, technical advisory and outsourcing of the management of equipment installed at the customer's site.

Public and art lighting

The Enel Group assigned the integrated design, construction and management of its public and artistic lighting equipment to So.I.e., a company established in 1998 and operating since mid-1999. Enel conferred to So.I.e. company its "public lighting" business unit, formerly part of the Distribution Division.

The Italian market for public lighting consists of about 8.2 million light centers, 5 million of which are managed directly by Municipalities.

The new company inherited from Enel a wealth of technical and artistic competence and manages over 1,300,000 light centers, serving 4,500 Municipalities.

In 1999, in addition to the startup of the company, So.I.e. acquired over 50,000 light centers, signed conventions with regions (Puglia, Campania, Calabria and Abruzzo), created new products such as the Communication Lamp (on display at Wall Street on the day Enel shares were listed on the New York Stock Exchange), a bus stop sign powered by with solar panels and stations for recharging electric vehicles.

Results of operations of So.I.e.

The financial year consisted of the period from August to December 1999. Revenues and changes in work in progress for third parties amounted to about lire 65 billion. Operating income amounted to lire 17.0 billion. Net income amounting to lire 5.6 billion discounted amortization and depreciation charges recorded only for tax purposes amounting to lire 3.6 billion, financial charges amounting to lire 1.0 billion and income taxes totaling lire 6.8 billion.

The reclassified balance sheet included net fixed assets amounting to lire 193.3 billion and net capital employed amounting to lire 32.5 billion. Net equity was lire 15.8 billion while net financial debt amounted to lire 16.7 billion.

Post electricity sales services

Se.m.e. (Servizi manutenzione elettrica) received Enel's service business for indoor electric equipment of any kind and for any type of voltage, belonging to electricity users (Enel and non Enel customers).

Its major activities include design, construction, maintenance, management, emergency repair and any other service needed for the full efficiency, reliability and safety of indoor electric equipment.

Se.m.e. started its operations in October 1999, with the transfer of 250 contracts formerly managed by Enel's Distribution Division. In the three-month period 50 new contracts were signed.

Revenues and change in work in progress amounted to lire 1.5 billion, in line with costs. Net income was close to breakeven, with a net loss of lire 57 million. Fixed assets amounted to lire 5.8 billion and equity to lire 1.6 billion.

The Italian telecommunications market

In 1999 the market for mobile telephones in Italy continued to register a positive trend. The number of owners of mobile phones increased by 9,700,000 (they were 20,300,000 at December 31, 1998) bringing the total to 30 million owners, with a market penetration of 53%, increasing by 48% over 1998.

At year-end Telecom Italia Mobile ("TIM") had a customer base of 18,500,000 (with an increase of over 4,200,000 customers) and a 61% market share. Omnitel reported 10,500,000 customers, a 34.6% market share, with a net annual increase similar to that of TIM. WIND started its mobile phone services on March 1, 1999 reaching a 1,300,000 customers portfolio and a 4.4% market share by the end of the year.

Prepaid cards continued to increase their share, reaching 90% of net purchases. GSM digital technology maintained its leadership and cell phones, dual-band technology in particular, have become consumer goods. Dual-band phones sold represented over 35% of all mobile phones sold in 1999.

In 1999 the market for traditional telephony opened up to competition, allowing users to choose their local telephone service provider ("carrier selection"). Over 70 companies applied for fixed telephone licenses, though a large number never entered the market. In 1999 the number of customers of companies competing with Telecom Italia increased by 2,800,000, reaching a total of 3,500,000.

The offer of converging communication services has become an absolute priority in 1999. This is confirmed by the fact that all mobile and fixed telephone companies offer integrated Internet services alongside with their voice services.

In 1999 WIND successfully launched a wide range of fixed, mobile and Internet services for companies and private customers. To ensure the provision of these services WIND made direct access to its network available through radio relay systems and/or telephone lines leased from Telecom Italia (for services directed to companies). Indirect access (for companies and private customers) was made available through "carrier selection", allowing customers to select their preferred provider for long distance calls by dialing an access code.

As already mentioned, WIND started its mobile and fixed phone service to private clients on March 1, 1999. Mobile telephone services began with the direct coverage of 8 cities and roaming agreements with TIM for the rest of the Italian territory. Roaming agreements allow WIND customers to access all areas through other companies' service. WIND has subsequently signed a roaming agreement with Omnitel which became operational on July 1, 1999.

The company succeeded in acquiring rapidly a relevant position in the Italian market by offering innovative products such as "Noi Wind" – the first converging fixed/mobile phone service – new types of tariffs for mobile phones, "Wind Attiva" – a prepaid service with pre-activated SIM cards – and "Best Option Plan", a unique service in Italy directed to all mobile and fixed WIND customers which periodically checks the customer's bills, picks the best option for the customer and credits any savings achieved.

On July 1, 1999 Enel's telecommunication unit (STC) was conferred to WIND. Following the transfer, WIND now controls assets, plant and infrastructure formerly owned and used by Enel for its own private network of fixed voice phone, data transmission, mobile phone and remote monitoring of plants. At the same date WIND and Enel signed an outsourcing agreement according to which WIND will provide to Enel all the services formerly provided by STC and a number of other new telecommunications services.

On September 1, 1999, WIND acquired ITnet, one of the largest Internet providers in Italy, specialized in the provision of Internet services to companies.

At the beginning of October 1999, WIND was able to provide its customers with integrated access to voice communication and data transmission. In the last quarter of the year, testing of new innovative products, such as "GSM on the Net" and a Private Virtual Network integrating fixed and mobile phones, has started.

In November 1999 "Inwind", a free Internet access service and a gateway integrated with mobile phone services, was launched. This service allows to notify and to send and receive e-mail through the short message service (SMS).

At December 31, 1999 WIND had over 2 million active lines for companies and private customers generating a total traffic of over 800 million minutes. WIND's Internet service attracted over 62,000 customers in less than six weeks. At the same date, WIND's mobile network was active in over 200 cities, covering 46% of the population.

In 1999 WIND's employees more than doubled, from 1,272 at December 31, 1998 to 3,423 employees at December 31, 1999, representing a 169% increase.

Results of operations of WIND Telecomunicazioni

In 1999, net sales from operations amounted to lire 791 billion.

In 1999 the company started its development phase with a negative balance between revenues and costs amounting to lire 1,104 billion. Depreciation and amortization charges amounted to lire 220 billion.

In 1999 WIND reported a net loss of lire 812 billion, and recorded deferred tax receivables calculated on losses reported for the first three years, amounting in 1999 to lire 288 billion.

Capital expenditure amounted to lire 1,690 billion, of which lire 1,344 billion relating to tangible assets, lire 328 billion to intangible assets and lire 18 billion to investments. Total capital expenditure, since the company's incorporation and until December 31, 1999, amounted to lire 2,045 billion.

At December 31, 1999, net financial debt amounted to lire 387 billion, represented by a factoring credit line and short-term credit lines which generated interests expenses amounting to lire 5 billion. Cash was invested mainly through repurchase and resell agreements and commercial paper, generating financial income of lire 10 billion.

Net capital employed amounted to lire 1,277 billion, against a net equity of lire 890 billion and net financial debt amounting to lire 387 billion.

Management expectations of operations in 2000

On January 15, 2000 the Authority for Communications published its decision on rules for granting licenses for third generation mobile phones ("Universal Mobile Telecommunication System", UMTS). Following such decision, five licenses are to be assigned by tender offer. The criteria for the evaluation of offers and requirements for participation will be issued in early 2000. WIND believes it will qualify to apply for one of these licenses.

WIND's objective for 2000 is to strengthen its development in all business lines.

Penetration of the mobile phone market is expected to grow further. The opening up of the local call market is also expected to erode the leading operator's market share to the advantage of competitors such as WIND. At the same time, Internet connections will continue to increase, in line with trends in other European countries.

WIND expects to increase its market share in these developing areas, building on the good position acquired in only one year of activity and its unique ability to provide a complete range of services in fixed, mobile and Internet communications. WIND intends moreover to become leader in the provision of services to companies.

With regards to financial performance, WIND expects to increase its revenues in 2000. Net margin will be negatively affected by the high costs of domestic roaming supplied by other mobile operators and by the costs related to the acquisition of a high number of new customers.

The company expects the operating margin to remain negative in 2000, as is typical of startup and post-startup phases in the telecommunication industry, although a significant improvement is expected in the third and fourth quarter of 2000.

Engineering and contracting

In January 1999 Enel's Engineering and Contracting Unit was divided into two separate companies in charge respectively of "Engineering and Contracting", and "Hydroelectric Power" activities.

The first company is active in the field of design and construction of thermal plants, power lines and stations, as well as the development of energy projects outside Italy. On January 1, 2000, this business unit was conferred to Enelpower, a company established for this purpose in 1999.

The second company operates in the area of design and construction of hydroelectric and hydraulic plants. This business unit was conferred to Enel.Hydro (formerly ISMES) into which all Enel Group resources and know-how in the water sector have been concentrated.

In 1999 the Engineering and Contracting Unit concentrated its activity along three main lines:

- "operations", where it worked towards increasing operating efficiency in the execution of orders existing at December 1998 (represented almost exclusively by construction on behalf of Enel);
- "organization", with the objective of creating a customer-oriented and market-oriented structure;
- "development", seeking to acquire external orders through "competitive bidding" and developing sales in international markets.

With regards to the first context, innovations for reducing plant costs, while maintaining performance and completion terms, were introduced.

Relevant savings were obtained (over lire 100 billion) over budgeted expenses, while complying with all performance and completion requirements.

All work in progress relating to orders from other Enel Group companies have been defined through specific contracts agreements.

The organization of projects was thoroughly revised and a strong emphasis was given to responsibility and efficiency through the creation of multi-functional Project Teams. Processes of major activities were re-designed, identifying the number of employees to be maintained in core business activities (about 700 persons) and reducing operating sites from 5 to 2 (Milan and Rome).

Efforts to increase sales brought to the acquisition of new orders for the construction of plants amounting to about lire 300 billion (in particular from important customers in the United Kingdom and Saudi Arabia). A network of offices has been created in the most promising geographic areas, thus laying the foundation for strategic alliances and partnerships with international operators in the energy industry.

In July 1999, Enelpower acquired its first international contract for the design and construction of a combined-cycle plant for PowerGen, a British independent electricity producer. In July 1999, Enelpower signed an agreement with Exxon Power Investments Company for the joint bidding for the design, construction and operation of thermal plants.

In August 1999, Enelpower established a joint venture, in equal shares with Prometheus Gas and Damco Energy in Greece, that will develop electricity projects and be active in the construction of generating plants in Greece and neighbouring countries.

In November 1999, Enelpower signed a contract amounting to lire 200 billion for the construction of a 130 MW thermal power station in Saudi Arabia. The power station will significantly expand the Saudi electric network.

Enelpower

The company was established on April 27, 1999 and effective January 1, 2000 it received from Enel its "Engineering and Contracting" activity. In 1999, Enelpower did not generate revenues, reporting a net loss of lire 0.2 billion.

Strategic and operating lines

Enelpower intends to concentrate its efforts on the efficient management of contracts acquired and on selected independent power production projects in which it will be able to act as Main Contractor and Developer.

Its main strategic lines are:

- to consolidate in Italy and expand outside Italy its role as a Main Contractor, progressively increasing the share of orders from outside the Enel Group in its portfolio;
- develop projects that in addition to construction include project financing and management, selecting and structuring them to ensure their profitability and economic feasibility, negotiating with partners and customers.

Operations will concentrate on the completion of orders acquired, the achievement of customer satisfaction, the compliance with terms, costs and quality requirements.

Orders acquired in the first months of 2000

In January 2000, Enelco (a company controlled in equal shares by Enelpower, Prometheus Gas and Damco Energy) signed a contract with EPIC (Exxon Power Investment Company – a subsidiary of Exxon Mobil Corporation) and GAMA (a major Turkish construction company) for the construction and operation of a combined-cycle power station in Greece.

Electricity produced by the power station, which will have a capacity of 400-600 MW, will be exported to nearby countries and sold to eligible customers after February 2001, when the Greek electricity market is liberalized.

Enelpower will be in charge of project management, including engineering services and supply of most of the system's equipment and components.

In February 2000, Enelpower signed an agreement for the construction and operation of two combined-cycle power stations with a total capacity of 500 MW in Argentina. The construction of these power stations is expected to be completed in two and a half years, while electricity generation is expected to start by early and late 2003 respectively. These power stations, with a capacity of 240 MW each, will be fueled by Argentinean natural gas supplied by local producers under long-term contracts.

These projects will require a total investment of \$370 million, including the construction of necessary infrastructure. Enelpower will manage the whole project and the engineering and construction work.

In February 2000, Enelpower concluded an agreement with the Becchetti Energy Group for the construction and operation of a 100 MW hydroelectric power station in Southern Albania.

The project provides for the construction of a dam and will require an investment amounting to approximately \$160 million, obtained in part through project financing.

Water

In 1999 all Enel resources in the field of construction and integrated operation of water resources were concentrated. On January 1, 2000, Enel conferred to Enel.Hydro (formerly ISMES) its Hydroelectric business units.

In 1999 Enel's Hydraulic Structures business unit was active in the construction of plants on behalf of Enel involving the coming into operation of plants with a total productive capacity of 128 MW. It also provided consulting services outside Italy, mainly in Africa, and obtained the ISO 9001 qualification for the quality of its operations.

Internal restructuring was directed to the transformation of the former hydroelectric activities of Enel and ISMES, and their unification into Enel.Hydro.

In 2000 Enel.Hydro intends to conclude the acquisition of Acquedotto Pugliese and Apulo Lucano water systems, an essential step for its penetration of the water industry. The acquisition should be completed by the end of the year.

Enel.Hydro (formerly ISMES)

In 1999 revenues from design and consulting activities carried out by Enel.Hydro (formerly ISMES) amounted to lire 37.6 billion. Costs related to the transition and reorganization phase affected results of operations and the company closed the year reporting a net loss of lire 34.3 billion, as compared to a net loss of lire 38.7 billion in 1998.

Gross capital employed amounted to lire 56.2 billion and reserves to lire 28.4 billion. Net financial debt amounted to lire 19.7 billion against a shareholders' equity of lire 8.1 billion.

Real estate and services

Sei

In the first part of 1999, Sei coordinated Enel's Service Unit in the areas of:

- management and development of residential real estate;
- provision of general services and equipment operation in large urban areas;
- operation of motor vehicle fleet and photocopying machines;
- catering.

In the second half of 1999 the following were conferred to Sei:

- all contracts related to Services, Catering, Vehicle Logistics and Distribution Logistics from Enel;
- Enel's real estate business unit.

Sei is now one of the two largest Italian real estate managing companies, in terms of assets managed, with a sound and balanced equity structure.

Sei's activities in its main business areas are summarized below.

Real estate management

All activities performed in 1999 concerned the preparation and completion of the conferral of assets from Enel. The value of real estate property transferred, consisting mainly of office buildings, amounted to about lire 4,400 billion that were added to over lire 300 billion lire of real estate property already owned by the company.

In accordance with the guidelines issued by the Parent Company in November 1999, Sei signed a letter of intent with American Continental Properties Inc. for the creation of a joint venture aiming at the development of real estate conferred by Enel to Sei.

Vehicle Logistics

The restructuring of the vehicle fleet carried out by Enel's Vehicle Logistics Unit in the period 1997-1999 resulted in a 25% decrease in the number of vehicles owned and a more than proportional reduction in costs.

Distribution Logistics

The Distribution Logistics Unit, established in 1999, aims at improving efficiency and the quality of inventory management services provided to Enel Distribuzione and So.I.e.

In 1999, the transport of materials was outsourced and the number of warehouses was drastically reduced (from 80 to 19), leaving related buildings free for future lease or sale. About 250 redundant employees were transferred and assigned to other jobs.

Results of operations

The 1999 financial statements of the company do not reflect actual operations, since conferrals took place in November 1999.

Revenues amounted to lire 283 billion, while net income of lire 7.7 billion discounted extraordinary amortization and depreciation charges recorded only for tax purposes of lire 8.3 billion and income taxes amounting to lire 13.2 billion.

Gross capital employed at December 31, 1999 amounted to lire 4,919 billion, of which lire 4,871 billion relating to fixed assets, consisting almost entirely of real estate property.

Net equity amounted to lire 2,453 billion and net financial debt amounted to lire 2,395 billion.

Management expectations of operations in 2000

The year 2000 began with the completion of the transfer to Sei of the Services, Vehicle Logistics, Catering and Distribution Logistics business units. The remaining units were conferred effective January 1, 2000, after the sale of negative contracts and the transfer to Sei of 1,091 employees.

In line with the letter of intent signed with American Continental Properties Inc., in March 2000 the Board of Directors of Sei approved the creation of a new company for the management and development of a group of 42 buildings for a total value of about lire 1,000 billion.

A 51% share in the new company will be acquired by American Continental Properties Institutional Investors (ACPII). ACPII shareholders include US company ACP, General Electric Pension Fund, Government Investment Corporation of Singapore and Belgian bank KBC. Sei will hold the remaining 49% share in the new company. Following this operation Sei's fixed assets will be reduced by lire 750 billion.

Dalmazia Trieste

Following the transfer of real estate property from Enel to Dalmazia Trieste, the company is now in charge of disposing of real estate property (buildings and land) represented by:

- 1,190 land parcels for a total value of lire 97 billion (most of these areas do not have buildings and are not zoned for building);
- 1,473 residential buildings for a total value of lire 488 billion (containing about 5,850 flats, around half of which are leased);
- 548 buildings for a total value of lire 37 billion (most of which are former hydroelectric stations, distribution sub-stations and similar properties);
- remote transmission plants for a total value of lire 88 billion (273 radio centers and 1,732 supports for antennas) leased to WIND.

Results of operations for 1999 refer exclusively to the building owned by the company located in Rome, via Dalmazia 15. The company reported a net loss of lire 7 billion, due to amortization and depreciation charges recorded exclusively for tax purposes on assets received.

In 1998, the company recorded net income of lire 0.7 billion.

Net fixed assets amounted to lire 84.5 billion and are mainly represented by remote transmission plants received.

Working capital amounted to lire 629 billion, referring almost exclusively to the book value of the assets received and to be sold, which have thus been recorded as "current assets" and included in working capital.

Net capital employed amounted to lire 705 billion, against a net equity amounting to lire 630 billion and net financial debt to lire 75 billion.

Management expectations of operations in 2000

In January 2000, Dalmazia Trieste decided to assign its day-to-day management to Sei. This decision will allow Dalmazia Trieste to concentrate its activity on the sale of its real estate properties.

The sale should include buildings for a total value of about lire 160 billion, with particular attention to leased property (75% of total sales). The company is currently studying innovative sales transactions that include incentives to occupants for the purchase of the apartments.

Information technology

Enel.it was established on October 15, 1999 for the purpose of managing Enel's "Information Technology" business unit. The company became operational at the conferral of Enel's IT business unit on January 1, 2000.

Enel.it is in charge of the Group's information technology activities and provides all necessary services for the management of operating and administrative processes carried out by computer.

Enel.it supports business activities by providing hardware and software, while paying particular attention to the most advanced solutions in the design and development of applications, in addition to providing technical assistance. Besides providing IT support for all Enel Group requirements, the company intends to enter the market directly or through partnerships, providing IT services in addition to designing and providing integrated systems and solutions. Enel.it employs about 1,500 IT and TLC experts and technicians and has consolidated resources that make it an important and recognized operator in the utilities area, in a market dominated by large multinational corporations. Among its assets are: 5 central processors for a total of 4,000 Mips, 14 terabyte of mass memory and 20 robots for the operation of over 100,000 cassettes, 4,000 servers and 50,000 workstations organized in over 1,200 local networks.

Enel.it is working on the definition of application platforms for web pages and in general for all Internet-based activities.

Enel.it is at an advanced stage in the definition of the Power Line Project (providing for the transmission of a telecommunication signal through electric distribution networks) and is working in the area of remote vocational training and e-Commerce.

Results of operations for 1999 refer to the period from October 15 to December 31, 1999 when no operations were performed. The company reported a net loss of lire 13 million resulting from amortization and depreciation charges of lire 3 million and other charges amounting to lire 10 million.

Human resources

The radical changes that affected the Enel Group in 1999 required the adoption of models and systems aiming at better management and a more efficient employment of personnel and an acceleration of the reorganization process.

Policies for the development of human resources

Management and development of human resources at the Enel Group are based on personnel requirements which directed training activities, compensation policies and criteria for new hirings and transfers of employees within the Group.

The introduction of this model was accompanied and supported by the adoption of the SAP HR information system, a management tool that allows to reconcile organizational requirements and employee development.

Within SAP HR a map of Enel's professional system was outlined, showing a breakdown by area, group of tasks and organizational role. The next steps will consist in the definition of professional profiles expected for each role and a comparison with the individual profile of each employee in order to outline development plans and career paths.

The analysis of evaluation processes was focused on employee profiles, performance and potential.

A model has been defined for the selection of personnel providing for the elaboration and approval of an annual hiring plan for the Enel Group, taking into account opportunities available for optimization of human resources through internal transfers. Special attention was paid to the management of employees in key positions, defining specific career paths, training and incentives.

Organization

In 1999 the division into companies of the Enel Group was completed. The resulting structure of the Group allows it to face changes resulting from the liberalization process under way and is in line with the objective of decentralization of activities and responsibilities set by the Bersani Decree.

Enel was transformed into an industrial holding company and its divisions and business units have become separate operating companies. The organization is thus leaner and focused on specific businesses, ensuring stronger management commitment in achieving higher profitability and efficiency for their companies.

Alongside with the creation of separate companies for each activity (generation, transmission and distribution), new business areas were developed.

In 1999 a great amount of work has been dedicated to the definition of policies, processes and sale structures. Group's activities were centered on customers and the creation of shareholders' value, through increased efficiency and speeding up of processes.

A central unit for personnel management and administration (CESAP) has been created with the objective of innovating and improving efficiency.

Compensation and incentive systems

Compensation policies pursued in the past two years have been aimed at developing stronger integration between evaluation methods and compensation systems.

To this end, management evaluation and incentive systems, such as MBO (Management By Objectives) were further developed. In 1999, MBO was extended to higher management positions.

The short-term objective of this process is a wider use of performance-related incentive systems.

With regards to medium- and long-term incentives, on December 18, 1999, Enel's Shareholders' Meeting approved a stock option plan for managers and conferred to the Board of Directors the power to increase Enel's share capital by issuing ordinary shares

to be assigned to managers of Enel and/or its subsidiaries. It also requested the Board of Directors to prepare rules for the implementation of the plan, directing management towards the achievement of strategic goals and linking part of its compensation to the increase in the value of the respective company.

The implementation rules for the stock option plan was approved by the Board of Directors in its meeting of March 3, 2000.

Employees

Enel Group's employees at December 31, 1999 were 78,511. These do not include employees of WIND Telecomunicazioni, those transferred to Gestore della Rete di Trasmissione Nazionale, Sogin and Se.m.e. The latter company (with 16 employees) has been excluded from consolidation.

Personnel

	at Dec. 31, 1999		at Dec. 31, 1998	
Managers	743	1.0%	842	1.0%
Officers	4,917	6.3%	5,334	6.3%
Employees	43,082	54.9%	46,020	54.2%
Workers	29,769	37.8%	32,742	38.5%
TOTAL	78,511	100.0%	84,938	100.0%

The decrease in the number of employees by 6,427 (or 7.6% over the previous year) is due to 581 new hirings, 1,463 employees transferred to companies not included in the consolidation area (WIND, Sogin, Gestore della Rete Nazionale and Se.m.e.) and 5,545 leaves due also to incentives for early retirement.

The following table shows the breakdown of employees by company included in the consolidation area at December 31, 1999:

	Personnel	%
	at Dec. 31, 1999	
Enel SpA:		
Corporate	575	0.7%
Personnel management	1,242	1.6%
Real estate and services	1,128	1.4%
IT	1,469	1.9%
Engineering and Contracting	1,585	2.0%
R&D	1,151	1.5%
Other	59	0.1%
Total	7,209	9.2%
Subsidiaries:		
Enel Distribuzione SpA	47,841	61.0%
Enel Produzione SpA	11,333	14.5%
Erga SpA	2,254	2.9%
Eurogen SpA	2,200	2.8%
Eletrogen SpA	1,801	2.3%
Interpower SpA	1,122	1.4%
Total generation	18,710	23.9%
Terna SpA	3,250	4.1%
CESI SpA	350	0.4%
Conphoebus SpA	76	0.1%
Enel.Hydro SpA	343	0.4%
Sei SpA	416	0.5%
So.I.e. SpA	225	0.3%
Enel Trade SpA	91	0.1%
Total other	4,751	5.9%
TOTAL GROUP	78,511	100.0%

Once the transfer of assets to its subsidiaries is completed in 2000, Enel will become a holding company retaining only personnel management function.

Industrial Relations

In 1999, Industrial Relations activities were focused on the implementation of the Bersani Decree, liberalizing the electric industry in Italy and requiring the Enel Group to separate activities and to sell a minimum of 15,000 MW of its generation capacity by January 1, 2003.

In this context, the Protocol on Industrial Relations signed by Enel and workers' unions provided for the establishment of a Committee with equal representation where the company and the unions examined and discussed the possible consequences of the Legislative Decree and the outlook of the electric industry.

The establishment of new companies, the separation and conferral of business units and the transfer of human resources between Group companies carried out pursuant to newly introduced legislation, resulted in the need to manage the transition and to safeguard workers' interests. Workers' unions and the company's management have identified such need and devised policies in accordance with the respective roles and responsibilities.

Enel's management and representatives of national workers' unions defined a new model of Industrial Relations and the principles governing the transfer of business units and, in general, mobility within and outside the Group.

A Protocol of intents was signed also with the Ministry of Industry defining compensation, regulatory and representation guarantees for all employees affected by the transfer of business units.

After the approval of the decree, Group companies and labor organizations began discussing new rules applying to employees in the electric industry, which take into account the need for flexibility and efficiency and the enhancement of professional skills, preventing "social dumping" practices among companies competing in the same businesses.

The role of Sfera in the management of human resources

In 1999, Sfera was established and began operations. Sfera is a consortium that organizes programs for the training and retraining of personnel.

Major areas of activity include: resource management (vocational training), development (planning and provision of training courses) and management of employment opportunities (identification of requirements of Group companies and employment of personnel within or outside these).

In the present transition and restructuring phase, Sfera is reviewing solutions for the re-employment of personnel within the Group and plans to organize voluntary job creation projects.

Three retraining projects involving 150 employees are presently under way. Approximately 1,200 employees are expected to participate in projects organized by Sfera in 2000.

Corporate governance

The company's corporate governance system is in line with the principles contained in the Self-discipline Code of listed companies and with the recommendations expressed by CONSOB on this issue.

In particular:

- the Board of Directors plays a central role within the company's organization. Positions and managers responsible for the implementation of strategic and organizational policies and for the monitoring of the activity of Group companies report to the Board. The Board of Directors monitors the company's operations, approves financially relevant transactions, paying particular attention to those cases in which they concern related parties or where a possible conflict of interest might emerge. It periodically informs the Board of Statutory Auditors about such transactions, in accordance with Legislative Decree no. 58/98 (the so-called "Draghi Decree").
In 1999, the Board of Directors held 23 meetings attended also by the Board of Statutory Auditors and the Magistrate delegated by the Court of Accounts;
- the Board of Directors is made up primarily of non-executive members (holding no operating position or performing management functions within the company). The number and standing of non-executive members, however, ensures that their opinion has a significant weight in the Board's decision making process;
- the Board of Directors is made up primarily of independent members (who do not receive compensation from the company or any of its subsidiaries, their executive managers or controlling shareholder, that could influence the Board's decisions, nor own shares in an amount that could allow a single or more of them to control the company);
- the Chairman of the Board of Directors coordinates the Board's activities and chairs its meetings, ensuring that the necessary documents and information are provided to the Board's members in good time, so that the Board can express its informed opinion on the matters under examination. The Chairman is essentially the guarantor of the proper application of corporate governance rules;
- the Managing Director refers periodically to the Board of Directors and the Board of Statutory Auditors on the activities for which he holds proxies, submitting to the examination and approval of the Board any atypical or unusual transaction and all transactions with related parties;
- the Board of Directors approved a set of regulations for the management and treatment of confidential information, setting rules for the circulation of information concerning the company and the Group, with particular reference to price sensitive information. This regulation assigns the management of confidential information to the Managing Director;
- the company's By-laws, in accordance with article 4 of Law 474/94 (the so-called "Privatization Law"), provides for the appointment of members of the Board of Directors and of Statutory Auditors through "voting by list". In due time, when the current Board's term is nearing expiration, the option of creating a committee within the Board to evaluate candidates may be examined;
- a compensation committee has been formed within the Board of Directors, consisting of non-executive directors in charge of formulating proposals to the Board concerning: (i) the compensation of the Managing Director and of other directors holding specific offices, (ii) the determination of compensation criteria for top managers, as advised by the Managing Director;
- an internal audit committee has also been formed within the Board of Directors, consisting of non-executive directors, in charge of internal audit, with consulting and proposition functions, and in particular responsible for: (i) evaluating the adequacy of internal audit functions, (ii) evaluating working plans prepared by internal auditors and receiving their periodic reports, (iii) evaluating proposals made by Independent Auditors applying for appointment, as well as plans and proposals contained in Independent

Auditors' letters and report, (iv) submit periodical reports to the Board of Directors on work performed and adequacy of internal audit, (v) perform any other task requested by the Board of Directors, in particular concerning relations with Independent Auditors;

- internal auditing is carried out by a specific unit, which controls the adequacy of procedures chosen for monitoring efficacy, efficiency and costs, their application and the reliability and correctness of accounting records, as well as the safeguard of company assets;
- Independent Auditors have been formally requested to audit the statutory financial statements, the consolidated financial statements and the report on the first six months of each year;
- a specific unit for maintaining good investor relations, particularly those with institutional investors, was established within the external relations department;
- adequate regulation ensures that shareholders' meeting are held properly. Such regulation contains detailed rules governing all phases of the meeting. It also contains a specific clause favoring the collection of proxies from shareholders who are employees of the company or its subsidiaries.

Environmental policy

In the past years the Enel Group has been pursuing an environmental protection policy. Its implementation resulted in significant environmental improvements in all fields of activity as described in detail in Enel's annual Environmental Report published by the Group since 1996.

The radical changes made to Enel's organizational structure in 1999 made it necessary to coordinate environmental activities and policies followed by Group companies to ensure uniformity.

The Group's objective of ensuring sustainable industrial development requires increasing attention to the environment. Each company will follow strategies set at the Group level and pursue the objective of providing high quality products and services while protecting the environment in which it operates.

Such policy has not been based solely on ethical principles, but it is based also on the belief that companies which are sensitive to environmental issues and can show environmentally sound behavior, have a competitive advantage in an increasingly more sensitive market.

Enel's most significant achievements in 1999 were:

- generation from renewable sources increased reaching nearly 20% of total generation in 1999. Since 1990, the reference year of the Kyoto Protocol, Enel's generation from renewable sources rose from 23.4 to 41.8 billion kWh (up 78.6%). The establishment of Erga, the Group's subsidiary active in the renewable sources sector, is a sign of the Enel Group's commitment to developing these sources of energy;
- measures to achieve environmental compliance of thermal plants continued to be applied. At December 31, 1999 62.3% of total power generation had been upgraded, against a 60% objective to be achieved according to current regulation;
- average consumption of thermal generation in 1999 (2,267 kcal/kWh) was in line with 1998 (2,260 kcal/kWh). Similarly losses on the network as a percentage of total demand decreased from 6.7% in 1998 to 6.6% in 1999;
- emissions into the air from generation activities decreased, both in terms of total amounts and per kilowatt of electricity generated. The following results were obtained in 1999:
 - Sulphur oxides (SO₂) down 17% on total generation and down 15% in terms of emissions per thermal g/kWh generated
 - Nitrogen oxides (NO_x) down 19% on total generation and down 17% in terms of emissions per thermal g/kWh generated
 - dust down 19% on total generation and down 17% in terms of emissions per thermal g/kWh generated
 - carbon dioxide (CO₂) down 4% on total generation and down 4% in terms of emissions per thermal kilowatt generated;
- water consumption decreased from 31.4 million cubic meters in 1998 to 29.6 million in 1999 thanks to higher use of waste waters and the desalination of sea water, in addition to the use of untreated sea water for new fume de-sulphurization plants;
- work for the introduction of Environmental Management Systems under the EMAS European Standard continued. Before the end of 2000 the Group plans to obtain such certification for at least 50% of installed capacity. This process involved 21 thermal sites, 3 geothermal and 3 hydroelectric sites (including more than one power station along the same fluvial connection). In 1999, thermal station located at La Casella (Emilia Romagna Region) and the hydroelectric plants located at Cordevole (Veneto Region) obtained EMAS certification. Both had already qualified under the ISO 14001 standard on Environmental Management Systems and were the first thermal and hydroelectric sites in Italy to obtain EMAS certification;
- the use of underground and aerial insulated cables in low- and medium-voltage networks increased;

- approximately 13,800 kilometers were added in 1999 to low-voltage cable networks (7,300 km underground cables and 6,500 aerial insulated cables), while naked conductors networks decreased by about 4,600 km;
- approximately 4,300 kilometers were added in 1999 to medium-voltage cable networks (3,500 km at underground cables and 800 km at aerial insulated cables), while naked conductors networks decreased by about 1,200 km;
- an industrial design contest named "Supports for the environment" inviting designers to design new pylons for high-voltage lines with a softer visual impact was launched. Designs submitted by architects and designers of international reputation are on show in a number of Italian cities;
- the percentage of recyclable waste was high, allowing to minimize disposal. Over 98% of waste produced was recycled, although total waste produced increased due to the entry into service of new fume de-sulphuration systems in thermal plants;
- Enel began promoting efficient electro-technologies based on efficient use of electricity instead of alternative energy sources. Efficient use allows to reduce overall energy requirements and environmental impact. Among these are reversible heat pumps for air conditioning and centers for recharging batteries of electric vehicles.

Enel publishes an annual Environmental Report containing more detailed information.

Research and development

On January 1, 2000, corporate research and development activities were conferred to subsidiary CESI, already active in research, consulting, testing and certification in the electrical industry.

CESI aims to become an international center for electric system research and the provision of specialized services, testing and certification. New orders are expected to generate revenues amounting to lire 230 billion. Basic research will be financed by the "system costs" portion of electricity tariffs. Estimated revenues for research amount to lire 140 billion, about 0.8 lire per kWh.

At December 31, 1999 Enel owned 55% of CESI's share capital, the remaining stake being held by the Gestore della Rete di Trasmissione Nazionale (10%) and by other Group companies.

Enel "Special research" business unit has remained in the Enel Group and has been transferred to the different subsidiaries, according to the specific activity.

Major activities in 1999

The paragraphs that follow summarize the major research activities carried out in 1999 by area.

Generation

Research was directed to the containment of generation costs through the employment of low cost fuels, the use of waste as an energy source, the adoption of advanced cycles and other measures. Research activity included also the evaluation and improvement of structural integrity of components, using non-destructive tests and adopting specific methods to determine the structure of materials. Reliability and availability of plants were increased by determining the optimal of inputs for different types of gas turbines.

With the aim of using low cost fuels (mainly waste and residue from the oil and gas industry) in Enel's thermal plants to reduce electricity generation costs, an analysis of the market for refining residues was carried out. Two potential fuels were thus identified: vacuum residues (tar) and petcoke, both widely available on world markets. For both fuels Enel expects to reach in the short-term the full scale testing stage on a thermal unit, so as to test technologies developed and evaluate specific benefits. The analysis of other new potential fuels will also be carried out.

The Research Unit provided support also to the Generation unit in solving problems posed by the combustion of orimulsion.

With regards to research on component integrity and non-destructive tests, research was directed to the reinforcement of composite materials used in high-pressure pipes.

Transmission and Dispatching

In 1999 the Transmission and Dispatching Area performed studies and research aimed at increasing reliability, safety and efficiency of the electrical transmission system, optimizing dispatching, reducing operation costs and optimizing capital expenditure.

Research activities and specific actions were directed to Enel's Transmission Division and to the Gestore della Rete di Trasmissione Nazionale and to other companies in Italy and outside Italy.

The Transmission and Dispatching Area, in addition to offering Research, Development and Special Services, participated in research projects sponsored by the European Union and in domestic and international bidding. Among these the most important projects were:

- analysis and functional testing of the main components of stations and power lines, study of causes of failure aimed at identifying innovative procedures and methods of maintenance and diagnostics;
- study of new solutions for reducing the visual impact of lines and electromagnetic field strength;

- introduction of innovative techniques to increase transport capacity of connections while reducing environmental impact;
- development of methods and techniques for mitigating electromagnetic fields and reducing soil occupation of electric lines;
- study and testing of cables for 380 KV lines with gas insulation;
- study and testing of telecommunication optic cables for electric lines and analysis of the effects of overcharges on optic guard lines.

Distribution and User Systems

In 1999 this department studied various problems concerning the optimal use of electric vector, the increase in service quality and reliability, the analysis of innovative techniques for improving network performance and customer service.

Special research and service activities were carried out for the Group and third parties. The department participated also in research programs sponsored by Italian and European institutions.

With regards to electricity use, studies and testing of innovative technological applications for the household, services and industrial sector were carried out.

Testing on heat pump systems for household use with combustion and/or electric integration began. An optimal size capable of guaranteeing good heating performance at low cost in cold climate areas was devised.

With regards to distribution networks, the most significant projects concerned Distributed Generation with particular reference to its use in co-generation in industrial and service environments.

Results of operations of CESI

In 1999, CESI (55.03% of which is controlled by Enel), focused its activity on two objectives:

- the creation of an operating structure better suited to market needs. Activities were concentrated on corporate core business while trading and marketing resources were strengthened;
- the conferral to CESI of the "System Research" Unit from Enel.

The company continued to operate in the field of testing, certification and experiments on materials, both for Enel and for third parties.

Revenues amounted to lire 71 billion, down 5% over 1998 due to lower orders from the Enel Group and third parties. Operating costs decreased from lire 79.8 billion in 1998 to lire 71.4 billion, due mainly to lower labor cost resulting from the decrease in the number of employees from 398 to 365. The company's operating income for the year was close to a breakeven.

Net losses amounted to lire 4.5 billion, after financial and extraordinary charges amounting to lire 2.4 billion and income taxes (IRAP) amounting to lire 1.7 billion.

Net capital employed amounted to lire 50 billion (lire 44.6 billion at December 31, 1998), while net equity was equal to lire 30.8 billion and net financial debt amounted to lire 19.2 billion.

Subsequent events

Subsequent events

Subsequent events concerning individual sectors of activity of the Enel Group are described in the operating review. We include below a brief summary of these events:

- on January 15, 2000, rules for the awarding of five licenses for third generation mobile phones ("Universal Mobile Telecommunication System", UMTS) were issued. WIND believes it will qualify to apply for one of these licenses;
- in January 2000, Enelco (a company controlled in equal shares by Enelpower and Greek partners) signed a contract for the construction and operation of a 400-600 MW combined-cycle power station in Greece;
- in February 2000, Enelpower signed an agreement for the construction and operation of two combined-cycle power stations with a total capacity of 500 MW in Argentina;
- in February 2000, Enelpower concluded an agreement with Bechetti Energy Group for the construction and operation of a 100 MW hydroelectric power station in Southern Albania;
- in March 2000 the Board of Directors of Sei approved the creation of a new company for the management and development of a group of 42 buildings, for a total value of about lire 1,000 billion. A 51% share in the new company will be acquired by American Continental Properties Institutional Investors (ACPII) while Sei will hold a 49% interest in the company.

Relevant events subsequent to December 31, 1999 concerning the Group are the following:

- in January, 2000 the reorganization of the Enel Group was completed with the conferral of the Engineering and Contracting business unit to Enelpower, that of the IT division to Enel.it and the conferral of Basic research activities to CESI;
- on March 3, 2000, the Board of Directors of Enel approved the rules for the implementation of a stock option plan resolved by the Extraordinary Shareholders' Meeting held on December 18, 1999. The exercise of options is subject to the achievement of performance levels set by the Board of Directors, among which the increase in Enel stock price in the year in which options are assigned;
- on March 15, 2000, the two major rating agencies, Moody's Investors Service and Standards' & Poor's, rated Enel's medium- to long-term debt Aa3 and AA- respectively. These ratings are appropriate to the Group's credit position and are among the highest obtained by Italian companies. The rating assigned to Enel takes into account the Group's leveraging potential in financing future growth, including the high cash flows generated and strong return on capital employed;
- on March 20, 2000, Enel and Internet Capital Group signed an agreement for the creation of an Internet Application Incubator for Business to Business e-Commerce. The agreement provides for the creation of a joint venture in equal shares between ICG and Enel (subject to the authorization of relevant authorities) for the identification of opportunities on the market, the development of a business plan and the launch of new Business-to-Business initiatives which will be directed also to Enel suppliers. The Incubator will be an independent company with a capital of \$10 million and will base its activity on the strategic and technological know-how in Business-to-Business e-Commerce of ICG and on the deep knowledge of the Italian industry and specific experience acquired by Enel in the field of utilities. With this agreement Enel becomes ICG's privileged partner in Italy and favorite partner in Europe for all utilities (water, electricity and gas);
- on April 1, 2000, the share capital of Gestore della Rete di Trasmissione Nazionale was transferred free of charge from Enel to the Italian Treasury, as provided by the Bersani Decree;
- negotiations are under way with the Valle d'Aosta Region for the sale of all Enel power stations located in the Region and the establishment of a company for electricity distribution in the area.

Management expectations of operations

Enel Group operations in the year 2000 will be affected by regulations and constraints imposed by the environment in which it operates and new projects and action promoted from within. Enel's economic growth strategies will thus be pursued by focusing on both internal and external aspects, with the development of plans aimed at consolidating and upgrading electric activities while expanding into areas such as water and natural gas distribution. Enel will also continue its penetration of the TLC business with specific focus on the INFOCOM area and the launch of Internet based projects.

Enel is also engaged in the implementation of the Bersani Decree, the revision of tariffs and the identification and determination of "stranded costs".

The Bersani Decree restructured the electricity market in Italy and set the timetable for the implementation of changes. These affect company structure and the network system, resulting in the sale of part of Enel's generation capacity and the opening up of a free market, reducing Enel's presence in its core business. In order to transform this constraint into an opportunity, Enel intends to:

- increase efficiency of operations and financial management of the three separate companies created for the sale of 15,000 MW of generation capacity;
- reorganize and streamline urban networks through agreements with municipalities for the development of assets and the offer of new services in local markets;
- improve the efficiency of its transmission network to bring it into line with higher performance levels requested by customers;
- enter the free market through Enel Trade, a company providing energy and additional customized services to eligible customers;
- improve quality and continuity of service supplied to constrained customers by Enel Distribuzione.

The Parent Company, Enel SpA, will become an industrial holding company directing and coordinating its subsidiaries, while preserving for the time being fuel and electricity purchase responsibilities.

The new structure of the organization resulting from the division of activities into separate companies, will strengthen Enel's innovation capacity in the market and the profitability of business areas. Particular attention will thus be paid to innovative projects such as:

- development of Enel's real estate property and offer of new services also outside the Group;
- creation of a trading unit capable of providing integrated management of energy sources and supply markets and a unified risk management;
- development of WIND's technological platform, providing an integrated offer based on fixed and mobile phones, data transmission, Internet and multimedia services, exploiting the existing network and the expansion of markets;
- creation of a unified call center for Enel Distribuzione customers, and launch of the new digital meter project, representing the basis for the development of new services provided to customers;
- development of engineering and contracting activities outside Italy by offering design and construction of electrical plants through Enelpower. The company plans to operate power plants in markets where consumption is expected to grow significantly;
- the expected conclusion of the purchase of Acquedotto Pugliese by Enel.Hydro in the context of the development of activities in the water market and participation in various local initiatives for the development of a more efficient water industry in Italy;
- increased presence in the field of natural gas distribution, with the purchase of Colombo Gas in March 2000. The Enel Group aims at developing a significant presence in the secondary distribution of natural gas, based on Enel Group's existing import capacity, seizing large opportunities offered by the liberalization of the natural gas market in Italy;

- strengthening of the Group's presence in the ITC market through Enel.it with specific attention to internet gateways dedicated to customer service, and to the growth of e-Commerce and e-Procurement.

The tariff revisions imposed by the Authority starting on January 1, 2000 will result in a significant decrease in revenues. The effect of such decrease will be countered by a cost reduction program, an increase in efficiency and in revenues from new businesses.

Operating income for 2000 is expected to be lower than in 1999 due to the joint effect of reduced tariffs and lower sales volumes resulting from the opening up of the market and the entry of new competitors. These will in turn be partially offset by higher consumption, the development of new businesses within Enel's core business and outside it, and by lower operating and variable costs.

Other information

Transactions with unconsolidated subsidiaries

In 1999, the Enel Group concluded transactions with unconsolidated subsidiaries, in particular WIND Telecommunicazioni, Gestore della Rete di Trasmissione Nazionale and Sogin.

The tables that follow include a list of such transactions at December 31, 1999.

In billions of lire	Balance Sheet		Income Statement	
	Receivables	Payables	Costs	Revenues
	at Dec. 31, 1999			
WIND Telecommunicazioni SpA	167	287	212	226
Gestore della Rete di Trasmissione Nazionale SpA	26	58	63	19
Sogin SpA	1	711	-	2
TOTAL	194	1,056	275	247

Transactions with WIND Telecommunicazioni

On July 1, 1999 Enel's Telecommunications business unit was conferred to WIND Telecommunicazioni. The business transferred included telecommunication assets, plant and infrastructure formerly used by Enel for its fixed and mobile telephone network and for data transmission. At the time of the transfer, an outsourcing agreement was concluded between WIND and Enel according to which WIND will provide telecommunications services to the Enel Group. For the first two years of the contract, the amount paid by Enel for these services is in line with costs borne for providing the service, to be adjusted to market prices in subsequent years. Payables and costs recorded by Group companies relate to the provision of telecommunications services by WIND.

On January 1, 1999 a 15-year contract between Enel and WIND for the lease of the fiber optic network owned by Enel became effective. Lease payments are calculated on the basis of an adequate return on capital.

Receivables and revenues relate to the supply of electricity, the rental of buildings and maintenance services supplied.

Transactions with Gestore della Rete di Trasmissione Nazionale

Group companies' receivables and payables refer to sales of materials and services rendered for the upgrade of the monitoring system and the dispatching of remote control signals. Costs relate to the provision of dispatching services, in accordance with the "Bersani Decree".

Payables amounting to lire 13.4 billion relate to current transactions carried out with Enel and to the above mentioned dispatching services.

Transactions with Sogin

Receivables and revenues from Group companies relate to the leasing of buildings. Payables arose from the conferral and relate to amounts needed to cover liabilities conferred.

Transactions with consolidated companies

In 1999 a number of transactions were concluded among Enel Group companies. All transactions have been carried out at current market prices, in accordance with applicable regulations. In the context of Group restructuring, specific tasks have been assigned to the newly incorporated subsidiaries as follows.

The Parent Company is responsible for the following tasks:

- **funding and financial management**

Enel acts as treasury manager for all Group companies, managing all financing transactions and insurance risks;

- **tax issues**

Enel performs tax consulting functions for all Group companies, making VAT payments on behalf of the Group;

- **personnel management**

Enel manages personnel for all Group companies through its CESAP unit. It is in charge also with organizational issues and industrial relations;

- **information technology**

until December 31, 1999 Enel's IT unit leased IT equipment and provided consulting services and assistance to Group companies. On January 1, 2000, this unit was conferred to Enel.it;

- **plant design and construction**

the Engineering and Contracting unit of Enel designs and constructs turn-key plants and provides technical assistance and maintenance to the Group. On January 1, 2000, this unit was conferred to Enelpower;

- **R&D**

Enel R&D unit performed research and development activities for Group companies. On January 1, 2000, these activities were conferred to CESI, Enel.Hydro and Enel Produzione;

- **purchase of electricity outside Italy and from Italian third parties**

Enel is presently in charge of purchases of electricity in Italy and abroad. Electricity is invoiced for the same amount paid by Enel, net of grants from the Electricity Equalization Fund paid to distribution and sale companies;

- **purchase of fuels on behalf of generating companies**

Enel is provisionally in charge of the purchase of fuels for thermal power stations and transfers them at cost to generating companies.

Sei and Dalmazia Trieste manage the Group's real estate properties. Sei is also responsible for the management of the vehicle fleet and general services.

From October 1, 1999, Enel Produzione, Eletrogen, Eurogen, Interpower and Erga, electricity generating subsidiaries, sell electricity generated to Enel Distribuzione and Enel Trade.

All electricity generated is transmitted to Enel Distribuzione through the network owned by Terna.

Enel shares held by Directors and Auditors

Last name	First name	Position	No. of shares bought in 1999	No. of shares sold in 1999	No. of shares owned at Dec. 31, 1999
TATÒ	Francesco	Managing Director	1,500	=	1,500
GRILLI	Vittorio	Director	500	=	500
MORGANTI	Franco	Director	1,500	=	1,500
POGGI	Claudio	Director	5,000	=	5,000
DE LEO	Bruno	Chairman Board St. Auditors	1,000	=	1,000
MINERVINI	Gustavo	Auditor	500	=	500
PIEMONTESE	Oreste	Auditor	1,000	=	1,000

Director and Auditor compensation

Last name	First name	Position	Company	Expiration of term	Emoluments (Lire)			
					Ordinary	Bonus ⁽¹⁾	Contributions	Other compensation
Directors								
TESTA	Enrico	Chairman	Enel	2001 Fin.Yr.	379,851,596	825,000,000	6,799,280	8,400,000
TATÒ	Francesco	Managing Director	Enel	2001 Fin.Yr.	1,176,575,343	2,250,000,000	-	7,200,000
LIMBRUNO	Alfonso	Vice Chairman	Enel	May 1999	81,182,797	-	-	1,800,000
POGGI	Claudio	Director	Enel	2001 Fin.Yr.	71,643,836	-	-	6,600,000
GIOVANNINI	Alberto	Director	Enel	October 1999	81,940,640	-	-	4,800,000
ANGELICI	Carlo	Director	Enel	2001 Fin.Yr.	30,000,000	-	2,014,001	1,800,000
GRILLI	Vittorio	Director	Enel	2001 Fin.Yr.	112,100,456	-	-	6,900,000
MORGANTI	Franco	Director	Enel	2001 Fin.Yr.	4,516,129	-	-	300,000
PELLICOLI	Lorenzo	Director	Enel	2001 Fin.Yr.	-	-	-	-
					1,937,810,797	3,075,000,000	8,813,281	37,800,000
Auditors								
DE LEO	Bruno	Chairman Board of Stat. Auditors	Enel	August 2001	70,000,000	-	5,155,333	11,400,000
MINERVINI	Gustavo	Auditor	Enel	August 2001	50,000,000	-	-	7,800,000
PIEMONTESE	Oreste	Auditor	Enel	August 2001	50,000,000	-	-	10,200,000
					170,000,000	-	5,155,333	29,400,000
TOTAL ENEL SPA					2,107,810,797	3,075,000,000	13,968,614	67,200,000
Subsidiaries								
TESTA	Enrico	Chairman	Elettraambiente	1999 Fin.Yr.	120,000,000	-	-	-
TATÒ	Francesco	Director	Elettraambiente	1999 Fin.Yr.	22,500,000	-	-	-
TESTA	Enrico	Director	Sei	1999 Fin.Yr.	30,000,000	-	-	-
POGGI	Claudio	Director	Sei	1999 Fin.Yr.	17,500,000	-	-	-
TATÒ	Francesco	Chairman	CESI	2001 Fin.Yr.	75,890,411	-	-	-
TATÒ	Francesco	Chairman	Enel.Hydro	1999 Fin.Yr.	101,609,250	-	-	-
DE LEO	Bruno	Chairman Board of Stat. Auditors	Sogin	2001 Fin.Yr.	27,350,000	-	1,732,000	-
MINERVINI	Gustavo	Auditor	Sogin	2001 Fin.Yr.	20,916,667	-	-	-
PIEMONTESE	Oreste	Auditor	Sogin	2001 Fin.Yr.	21,516,667	-	-	-
DE LEO	Bruno	Chairman Board of Stat. Auditors	Gestore R.T.N.	2001 Fin.Yr.	34,133,330	-	2,161,778	-
MINERVINI	Gustavo	Auditor	Gestore R.T.N.	2001 Fin.Yr.	26,566,660	-	-	-
PIEMONTESE	Oreste	Auditor	Gestore R.T.N.	2001 Fin.Yr.	27,166,660	-	-	-
TOTAL SUBSIDIARIES					525,149,645	-	3,893,778	-

⁽¹⁾ Pursuant to the resolution taken by the Board of Directors in its meeting held on March 3, 2000, for activities carried out and results achieved on the occasion of the placement of Enel SpA



Summary Enel Group financial data for 1999 is shown in the table that follows. Income statement data is reported in accordance with international accounting practices and current applicable regulations.

	In billions of lire	%		%		%
		1999	1998	1998-1999		
	Revenues:					
	- Energy sales	26,419	65.1	25,681	64.6	738
	- Electricity Equalization Fund contributions	11,772	29.0	12,063	30.3	(291)
	- Other	2,393	5.9	2,044	5.1	349
	Total revenues	40,584	100.0	39,788	100.0	796
	Operating costs:					
	- Labor costs	7,402	18.2	8,025	20.2	(623)
	- Thermal fuel consumption	6,308	15.5	6,663	16.7	(355)
	- Electricity purchased	6,831	16.8	6,306	15.8	525
	- Leases and rentals	2,518	6.2	2,223	5.6	295
	- Consumables	1,526	3.8	1,585	4.0	(59)
	- Other costs	550	1.4	455	1.1	95
	- Capitalized expenses	(1,930)	(4.8)	(1,924)	(4.8)	(6)
	Total operating costs	23,205	57.2	23,333	58.6	(128)
	GROSS OPERATING MARGIN	17,379	42.8	16,455	41.4	924
	Depreciation and accruals:					
	- Depreciation	6,201	15.3	6,036	15.2	165
	- Accruals and write-downs	752	1.9	815	2.0	(63)
	Total depreciation and accruals	6,953	17.2	6,851	17.2	102
	OPERATING INCOME	10,426	25.6	9,604	24.2	822
	- Net financial income (expense)	(1,131)	(2.8)	(1,480)	(3.7)	349
	- Equity investments	(439)	(1.1)	-	-	(439)
	INCOME BEFORE EXTRAORDINARY ITEMS AND TAXES	8,856	21.7	8,124	20.5	732
	- Net extraordinary gains (losses)	(497)	(1.2)	(321)	(0.8)	(176)
	INCOME BEFORE TAXES	8,359	20.5	7,803	19.7	556
	- Income taxes	3,820	9.4	3,520	8.8	300
	- Minority interests	2	-	3	-	(1)
	NET INCOME	4,541	11.1	4,286	10.9	255
Net income In billions of lire						
	1995	2,226				
	1996	2,226				
	1997	3,327				
	1998	4,286				
	1999	4,541				



Revenues

Revenues increase by lire 796 billion (up 2.0% on 1998). The increase is due to the following items:

- energy sales increase by lire 738 billion (up 2.9%) due to higher volumes sold (up 1.9%) and to the different composition of sales (increase of low- and medium-voltage sales and decrease in high-voltage sales);
- Electricity Equalization Fund contributions decrease by lire 291 billion (down 2.4%) due to lower average fuel prices to which thermal generation and energy purchases are indexed;
- other revenues increase by lire 349 billion (up 17.1%), due mainly to the following factors:
beginning of use of the fiber optic network on the part of WIND, generating leasing revenues and other income for Enel amounting to a total of about lire 120 billion; extraordinary income amounting to lire 120 billion, of which lire 70 billion of provisions no longer needed withdrawn from the provision for risks and charges; increase in work in progress amounting to lire 56 billion and 34 billion increase in contributions from connection fees.

Operating costs

Operating costs, net of capital improvements, decrease by lire 128 billion (down 0.5%). The decline is due to a number of factors which are described below:

- cost of labor declines by lire 623 billion (down 7.8%), mainly due to the decrease in the average number of employees, declining from 86,398 in 1998 to 80,253 in 1999, down 7.1%, due to early retirements spurred by incentives, and the transfer of employees to WIND Telecomunicazioni, Sogin and Gestore della Rete di Trasmissione Nazionale. The reduction in social security contributions and bonuses paid out in 1998 amounting to lire 55 billion contributed to the reduction registered in the year;
- consumption of fuel for thermal consumption decreases by lire 355 billion (down 5.3%), of which lire 161 billion due to lower tariffs and lire 194 billion due to the different impact of the provision for fluctuations in fuel prices, created in 1998 with the accrual of lire 132 billion, from which lire 62 billion have been withdrawn in 1999. The provision allowed to counter the effect of the time lag between adjustments to contributions from the Electricity Equalization Fund and changes in fuel prices.
Overall, while in 1998 contributions had been higher than consumption by lire 288 billion (considering also the above mentioned accrual), in 1999 the two amounts have been equivalent, thanks also to the use of the provision;
- electric energy purchases from third parties increase by lire 525 billion (up 8.3%) following higher quantities purchased (up 7.8%). These higher quantities are represented mainly by purchases from other domestic producers following the coming into operation of new power plants using renewable sources as fuels, pursuant to CIP Regulation no. 6/92. Higher average purchase costs are affected by the higher proportion of energy purchased domestically.

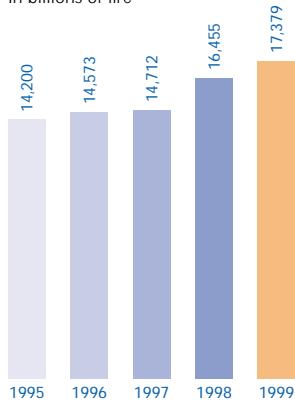
The difference between energy purchase costs and contributions from the Electricity Equalization Fund increased by lire 234 billion in 1999, due to the mechanism introduced by Resolution 70/97 by the Authority based on the performance of fuel costs;

- services received and use of third party assets increase by lire 295 billion (up 13.3%), due mainly to services supplied by WIND Telecomunicazioni amounting to about lire 200 billion, and by Gestore della Rete di Trasmissione Nazionale amounting to about lire 60 billion. Such costs, arising in 1999 following the conferral of assets, are compensated by decreases registered by other items due to the fact that such services were previously provided internally;

- purchases of consumables decrease by lire 59 billion as a result of increased efficiency in the use of resources;
- other costs increase by lire 95 billion (up 20.9%) due mainly to higher pollutant emission taxes paid.

Gross operating margin

In billions of lire



Gross operating margin

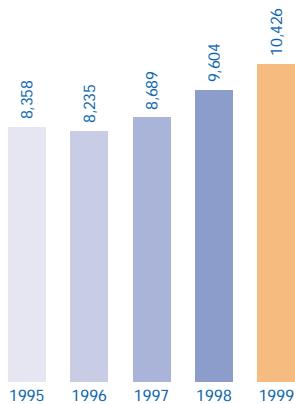
The [gross operating margin](#) increases by lire 924 billion (up 5.6%) due to the following factors that summarize the above comments:

In billions of lire

Increase in energy sales	738
Increase in other revenues	349
Change in energy and fuel purchase costs, net of related contributions from the Electricity Equalization Fund	(520)
Decrease in labor costs	623
Services supplied by WIND and by Gestore della Rete di Trasmissione Nazionale	(260)
Other changes	(6)
TOTAL	924

Operating income

In billions of lire



Operating income

[Operating income](#) increases by lire 822 billion over 1998 (up 8.6%). The difference registered with the increase in gross operating margin is due mainly to lire 165 billion in higher depreciation charges resulting from assets coming into operation in 1998, and lower provisions and write-downs amounting to lire 63 billion.

Operating income as a proportion of total revenues grew from 24.2% in 1998 to 25.6% in 1999.

Net financial charges

[Net financial charges](#) decrease by lire 349 billion (down 23.6%) due mainly to the reduction in average financial debt, decreasing from lire 28,121 billion in 1998 to lire 21,370 billion in 1999.

Net financial charges on total revenues decrease from 3.7% in 1998 to 2.8% in 1999. The ratio between operating income and net financial charges improved from 6.5 in 1998 to 9.2 in 1999.

Equity investments

The balance of lire 439 billion refers to the loss reported by subsidiary WIND Telecomunicazioni valued at equity.

Extraordinary items

[Extraordinary items](#) amount to lire 497 billion, increasing by lire 176 billion over the previous year.

Costs refer mainly to charges on incentives for early retirement of personnel amounting to lire 792 billion, to the accrual of lire 180 billion against derivative contracts restructuring costs, and to extraordinary accruals totaling lire 159 billion against potential charges resulting from abandoned projects and the restructuring of Engineering and Research activities, and to the write-off of lire 80 billion referring to equity investments in Sogin and Gestore della Rete di Trasmissione Nazionale. Extraordinary income includes lire 562 billion of tax prepayments referring to previous fiscal years whose retrieval has been

deemed as certain in 1999, retrieval of indirect taxes which had been deferred in previous years amounting to lire 214 billion, insurance damages paid and other extraordinary income totaling lire 82 billion, and cancellation of debt amounting to lire 49 billion. The balance includes also the negative difference of lire 191 billion between extraordinary capital losses and capital gains. Capital losses refer mainly to the transfer of real estate property to subsidiary Dalmazia Trieste.

Income before taxes

Income before taxes increases by lire 556 billion (up 7.1%) due to the following factors:

In billions of lire

Increase in operating income	822
Decrease in net financial charges	349
Share in the loss of subsidiary WIND valued at equity	(439)
Increase in net extraordinary charges	(176)
TOTAL	556

Income taxes

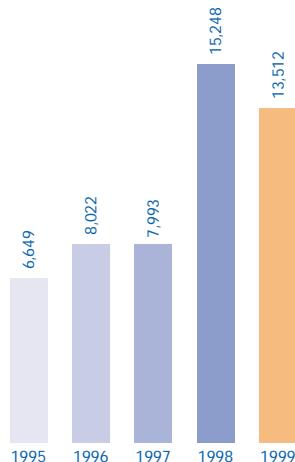
They increase in absolute terms by lire 300 billion. The effective tax rate on income before taxes, calculated by subtracting tax prepayments – recorded among extraordinary income in both years – from income, remains stable at 49%.

Financial flows for 1999 are shown in the statement of cash flows below:

In billions of lire	1999	1998	1999-1998
CASH FLOW FROM OPERATIONS			
Net income	4,541	4,286	255
Depreciation	6,201	6,036	165
Write-down of assets	804	21	783
Net change in other provisions	279	570	(291)
Net change in employee termination indemnity provision	99	162	(63)
Capital gains/losses	94	49	45
Financial income	(356)	(524)	168
Interest charges	1,487	2,004	(517)
Income taxes	3,258	2,931	327
<i>Cash generated by operations before changes in working capital</i>	<i>16,407</i>	<i>15,535</i>	<i>872</i>
(Increase)/Decrease:			
Inventories	(217)	611	(828)
Receivables	(1,349)	18	(1,367)
Accrued income and liabilities, prepaid expenses and deferred income	39	(937)	976
Net current receivables from Electricity Equalization Fund	765	3,433	(2,668)
Payables	1,877	775	1,102
Other liabilities	84	160	(76)
<i>Cash generated by operations</i>	<i>17,606</i>	<i>19,595</i>	<i>(1,989)</i>
Interest charges	356	144	212
Interest expense	(1,842)	(2,264)	422
Income taxes paid	(2,608)	(2,227)	(381)
Cash generated by current operating activities	13,512	15,248	(1,736)
CASH FLOW FROM INVESTMENTS			
Investments in tangible assets	(5,653)	(5,871)	218
Investments in financial assets and other investments	(97)	146	(243)
Disposal of fixed assets	44	267	(223)
Other changes in assets	1,153	(302)	1,455
Cash employed in investing activities	(4,553)	(5,760)	1,207
CASH FLOW FROM FINANCING ACTIVITIES			
Change in medium- and long-term debt	(5,958)	(5,657)	(301)
Change in short-term debt	3,002	(431)	3,433
Dividends paid and reserves distributed	(6,387)	(922)	(5,465)
Other changes in assets	2	(11)	13
Employee termination indemnity advances to employees	(1,445)	-	(1,445)
Cash employed in financing activities	(10,786)	(7,021)	(3,765)
CASH FLOW GENERATED (EMPLOYED)	(1,827)	2,467	(4,294)
BEGINNING CASH BALANCE	2,854	387	2,467
ENDING CASH BALANCE	1,027	2,854	(1,827)

Cash flow from operations

In billions of lire



Cash flow from operations

In 1999 operations generated a cash flow amounting to lire 13,512 billion, declining from the previous year by lire 1,736 billion.

The change is due primarily to the payment of amounts receivable from the Electricity Equalization Fund against thermal generation grants from previous years. Payments amounting to lire 765 billion have been received in 1999, against lire 3,433 billion in 1998.

Cash flow from operations net of the above component was equal to lire 12,747 billion in 1999 against lire 11,815 billion in 1998. The lire 932 billion increase is due almost entirely to operations, before working capital management components. Working capital has been affected by inventory drawdowns totaling lire 200 billion due to the increase in fuel prices in the second half of the year.

Cash flow from investments

Investment in plant and equipment has been equal to lire 5,653 billion, decreasing by lire 218 billion over the previous year due in part to the effect of the streamlining of activities.

The remaining changes relating to fixed assets had a positive contribution to cash flow amounting to about lire 1,100 billion, referring mainly to receivables from Electricity Equalization Fund paid in the year as contributions for charges relating to nuclear power abandonment costs.

Cash flow from financing activities

The current cash flow, net of the effect of investment activities (free cash flow), amounts to lire 8,959 billion in 1999, as compared with lire 9,488 billion in 1998, due mainly to lower payments from the Electricity Equalization Fund.

In 1999, financing activities involved the distribution to the single shareholder of reserves amounting to lire 4,422 billion and the extraordinary distribution of funds from the Employee Termination Indemnity provision to employees for the purchase of Enel shares, for a total of lire 1,445 billion. The total outlay for the year amounts to lire 5,867 billion, in addition to lire 1,043 billion of dividends paid.

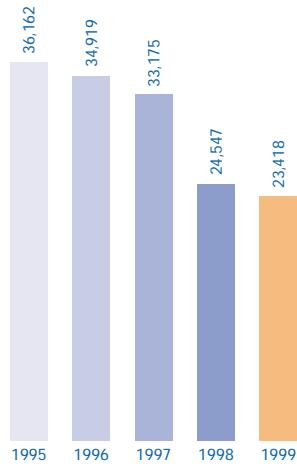
The restructuring of debt through the repayment or renegotiation of high-interest debt and the launch of new issues, among which two eurobond issues for a total of euro 2,200 million, continued. Medium- and long-term debt decreased by lire 5,958 billion, of which lire 569 billion due to the repurchase from employees of a special bond issue reserved to them. Short-term debt increased by lire 3,002 billion due to the early repayment of bond issues made in the second half of the year.

Cash flow employed

The high amount of cash required for financing activities, equal to lire 10,786 billion, is higher than the free cash flow by lire 1,827 billion. As a result, the cash balance at the beginning of the year was reduced from lire 2,854 billion at December 31, 1998 to lire 1,027 billion at the end of 1999.

Total financial debt

In billions of lire

**Total financial debt**

Total financial debt at December 31, 1999 and changes occurred during the year are reported in the table that follows:

In billions of lire

	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Medium- and long-term debt:			
- Medium- and long-term loans	6,890	9,943	(3,053)
- Bonds	14,598	16,951	(2,353)
- Bonds held and discounting of interest on zero-coupon issue	(789)	(237)	(552)
Total medium- and long-term debt	20,699	26,657	(5,958)
Short-term bank loans	3,003	744	2,259
Loans from non-consolidated subsidiaries	743	-	743
Total short-term debt	3,746	744	3,002
Cash at banks and marketable securities	(1,027)	(2,854)	1,827
TOTAL FINANCIAL DEBT	23,418	24,547	(1,129)

Reclassified balance sheet at December 31, 1999

The balance sheet at December 31, 1999 and 1998, reclassified in accordance with internationally adopted accounting standards, is reported in the table that follows:

In billions of lire

	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Fixed assets, net:			
- Tangible and intangible assets	73,534	75,808	(2,274)
- Financial assets	1,442	3,300	(1,858)
Total	74,976	79,108	(4,132)
Net working capital:			
- Trade receivables	5,687	5,328	359
- Inventories	1,944	1,105	839
- Other assets and net receivables from Equalization Fund	1,773	2,104	(331)
- Trade payables	(6,258)	(4,957)	(1,301)
- Net taxes payable	(1,745)	(1,375)	(370)
- Other liabilities	(5,748)	(6,108)	360
Total	(4,347)	(3,903)	(444)
Gross capital employed	70,629	75,205	(4,576)
Provisions:			
- Employee termination indemnity	(2,996)	(4,439)	1,443
- Additional pension contributions	(2,041)	(2,015)	(26)
- Net deferred taxes	(4,974)	(4,544)	(430)
- Other provisions	(3,151)	(3,767)	616
Total	(13,162)	(14,765)	1,603
Net capital employed	57,467	60,440	(2,973)
Group Shareholders' Equity	34,034	35,880	(1,846)
Minority interest	15	13	2
Total financial debt	23,418	24,547	(1,129)
TOTAL	57,467	60,440	(2,973)

Net fixed assets decrease by lire 4,132 billion due to the following:

- a reduction in receivables from the Electricity Equalization Fund due to the payment of lire 1,690 billion of contributions for charges relating to nuclear power abandonment costs, of which lire 896 billion due to the transfer of assets to Sogin, and the difference due to retrievals;
- the reclassification, in view of their sale, of real estate property transferred to Dalmazia Trieste under working capital for a total amount of lire 622 billion;
- the recording of the share in the loss of WIND Telecomunicazioni, in line with its valuation at equity, amounting to lire 439 billion;
- a surplus of depreciation, write-downs and divestments of fixed assets, in relation to investments for the year amounting to about lire 1,000 billion;
- payment of long-term receivables amounting to about lire 300 billion and conferral of assets to Gestore della Rete di Trasmissione Nazionale for the residual part.

Net working capital decreases by lire 444 billion. Changes during the year include the following:

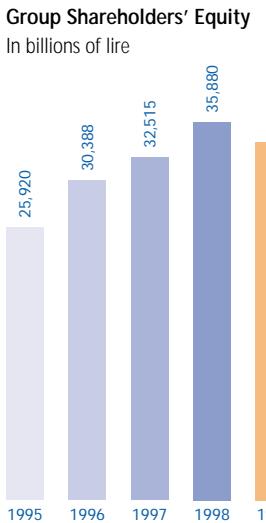
- trade receivables increase by lire 359 billion. The increase was particularly marked in the second half of the year, in line with sales;
- inventories increase by lire 839 billion, after the reclassification of real estate property amounting to lire 622 billion and the increase in fuel stocks' value due to the increase in the purchase price of oil in the last months of the year;
- trade payables increase by lire 1,301 billion due to a number of factors, among which advance billing on the part of Electricité de France of the fixed amount payable for the supply of energy for 2000, the increase in the second part of the year in the price of fuels and higher purchases of energy from domestic producers.

Provisions decrease by lire 1,603 billion due primarily to the withdrawal from the provision for employee termination indemnity of lire 1,443 billion relating to the extraordinary advance made to employees to acquire shares in the Group at the time of their listing in November.

Net capital employed decreases from lire 60,440 billion at December 31, 1998 to lire 57,467 billion at the end of 1999, declining by lire 2,973 billion as a result of the above factors.

The **Group Shareholders' Equity** decreases by lire 1,846 billion as a result of the Group consolidated income for the year (lire 4,541 billion), and the distribution of dividends and reserves for a total of lire 6,387 billion.

Total financial debt increases from lire 24,547 billion at December 31, 1998 to lire 23,418 billion at December 31, 1999, representing 0.7 of Shareholders' Equity, in line with the previous year. Net of the extraordinary distribution of dividends of lire 4,422 billion, the debt to equity ratio would have been equal to 0.5.



Consolidated Financial Statements at December 31, 1999



Consolidated Balance Sheet

In billions of lire	Sub-total	Total	Sub-total	Total
ASSETS	at December 31, 1999		at December 31, 1998	
A) SHARE CAPITAL NOT PAID-IN	-	-	-	-
B) FIXED ASSETS				
I. Intangible assets				
- Incorporation costs	4		1	
- Industrial patents and intellectual property	30		-	
- Work in progress and advances	40		31	
- Other	49		89	
		123		121
II. Tangible assets				
- Land and buildings	13,353		14,451	
- Plant and machinery	52,664		52,733	
- Industrial and commercial equipment	258		289	
- Other assets	380		472	
- Contract work in progress and advances	6,756		7,742	
		73,411		75,687
III. Financial assets				
- Equity investments in:				
. unconsolidated subsidiaries	458		309	
. affiliated companies and other companies	9		10	
	467		319	
- Receivables:				
. third parties	293	878	193	1,194
. Electricity Equalization Fund as reimbursements for nuclear related charges	96	96	969	1,786
		974		2,980
- Other securities		1		1
		1,442		3,300
Total fixed assets		74,976		79,108
C) CURRENT ASSETS				
I. Inventories				
- Raw materials and fuel	1,256		1,071	
- Buildings to be sold	622		-	
- Contract work in progress	66		34	
		1,944		1,105
II. Receivables				
- Customers	183	5,687	462	5,329
- Unconsolidated subsidiaries		194		57
- Affiliated companies		2		2
- Others	3	1,648	10	793
- Electricity Equalization Fund		2,828		3,559
		10,359		9,740
III. Short-term investments				
- Marketable securities		774		166
- Financial receivables		-		691
		774		857
IV. Cash and cash equivalents				
- Bank and Post Office deposits		977		2,162
- Cash		2		1
		979		2,163
Total current assets		14,056		13,865
D) ACCRUED INCOME AND PREPAID EXPENSES				
- Accrued income		21		41
- Prepaid expenses:				
. issue discounts		8		17
. other		225		235
		233		252
Total accrued income and prepaid expenses		254		293
TOTAL ASSETS	89,286		93,266	

In billions of lire	Sub-total	Total	Sub-total	Total
LIABILITIES	at December 31, 1999		at December 31, 1998	
A) LIABILITIES AND SHAREHOLDERS' EQUITY				
I. Capital stock		12,126		12,126
IV. Legal reserve		2,425		251
VII. Other reserves:				
- Capital contributions made by the Italian Treasury	-		1,922	
- Restatement reserve (Law 292/1993)	6,036		10,607	
- Other	39		39	
- Consolidation reserve	17		17	
		6,092		12,585
VIII. Retained earnings		8,850		6,632
IX. Net income		4,541		4,286
<i>Total Shareholders' Equity</i>		34,034		35,880
Minority interests		15		13
Total		34,049		35,893
B) PROVISIONS FOR RISKS AND CHARGES				
- Retirement benefits	2,041		2,015	
- Income taxes	4,974		4,544	
- Other	3,151		3,767	
Total		10,166		10,326
C) EMPLOYEE TERMINATION INDEMNITY		2,996		4,439
	Due beyond 12 months		Due beyond 12 months	
D) ACCOUNTS PAYABLE				
- Bonds	12,340	14,598	12,203	16,951
- Banks:				
. long-term debt	5,410	6,890	7,034	9,943
. short-term debt		3,003		744
		9,893		10,687
- Advances received	268	1,972	84	1,886
- Trade payables	169	6,258	120	4,957
- Payable to subsidiaries and affiliated companies		1,076		4
- Taxes payable		2,272		1,375
- Social security payables	122	771	519	1,101
- Other payables	298	1,712	449	2,242
- Payable to Electricity Equalization Fund		2,564		2,530
Total		41,116		41,733
E) ACCRUED LIABILITIES AND DEFERRED INCOME				
- Accrued liabilities		240		406
- Deferred income:				
. premium on bond issues		18		25
. other		701		444
		719		469
Total		959		875
TOTAL LIABILITIES		89,286		93,266
COMMITMENTS				
- Guarantees given		40		2
- Other		168,861		174,989
Total commitments		168,901		174,991

Consolidated Income Statement

In billions of lire	Sub-total	Total	Sub-total	Total
	1999		1998	
A) REVENUES				
- Sales and services:				
. energy sales	26,419		25,681	
. Electricity Equalization Fund contributions	11,772		12,063	
. connection fees	1,124		1,090	
. other	530		543	
	39,845			39,377
- Change in contract work in progress	53			-3
- Increase in capitalized expenses	1,930			1,924
- Other costs and revenues:				
. contributions received	17		29	
. other	669		385	
	686			414
Total revenues	42,514			41,712
B) OPERATING COSTS				
- Raw materials and fuel	14,877			13,853
- Services	2,006			1,750
- Leases and rentals	512			477
- Personnel:				
. wages and salaries	5,076		5,411	
. social security contributions	1,552		1,732	
. employee termination indemnity	462		484	
. retirement benefits	55		138	
. other costs	257		260	
	7,402			8,025
- Amortization, depreciation and write-downs:				
. amortization of intangible assets	52		45	
. depreciation of tangible assets	6,149		5,991	
. fixed assets write-downs	70		20	
. write-downs of receivables included under current assets	113		241	
	6,384			6,297
- Change in inventories	-212			568
- Provisions for risks and charges	387			401
- Other provisions	182			285
- Other operating costs	550			452
Total operating costs	32,088			32,108
Operating income (A-B)	10,426			9,604
C) FINANCIAL INCOME AND EXPENSE				
- Investment and interest income:				
. from long-term receivables:				
. other	125		199	
. from marketable securities				
not representing equity investments	6		19	
. other income:				
. other	225		306	
	356			524
- Interest and other financial charges:				
. from unconsolidated subsidiaries	5		-	
. other	1,482		2,004	
Total financial income (expense)	1,487		2,004	
	-1,131			-1,480

In billions of lire	Sub-total	Total	Sub-total	Total
	1999	1999	1998	1998
D) ADJUSTMENTS TO THE VALUE OF INVESTMENTS				
- Write-downs:				
. equity investments	439	439	1	1
Total adjustments to the value of investments		-439		-1
E) EXTRAORDINARY ITEMS				
- Income:				
. capital gains on disposal of assets	49	-	-	822
. other	1,017	822		
- Charges:				
. capital losses on disposal of assets	240	-	-	1,143
. previous years' taxes	1	-	-	-321
. other	1,322	1,143		
Total extraordinary items		1,563	1,143	-321
Income before taxes and minority interests (A-B+C+D+E)		8,359		7,802
- Income taxes		3,820		3,519
NET INCOME BEFORE MINORITY INTERESTS		4,539		4,283
- Minority interests	2		3	
NET INCOME	4,541		4,286	

Notes to the accounts

Form and content of the Consolidated Financial Statements

The area of consolidation includes the Group's Parent Company, Enel and the companies on which it holds the majority of the voting rights, pursuant to article 2359 of the Italian Civil Code. Newly incorporated subsidiaries Sfera, Enel.it, Enelpower and Enel.FTL have not been included in the consolidation due to the fact that they were not operative during the year. CISE Tecnologie Innovative and Se.m.e. have not been consolidated due to the limited number and scope of their activities during the year. Though owned by Enel at the end of the year, Sogin and Gestore della Rete di Trasmissione Nazionale have been excluded from the area of consolidation since, pursuant to the "Bersani Decree", shares in such companies will have to be transferred free of charge to the Italian Treasury. WIND Telecomunicazioni, in which Enel holds a 51% share, has been valued in the consolidated financial statements at equity in view of the limitations to the exercise of control contained in the company's By-laws and to the continuing startup phase. In the previous year WIND Telecomunicazioni had been valued at cost due to its limited operations.

A list of companies included in the consolidation area using the line-by-line method and for which the financial year coincides with the calendar year, is enclosed and represents an integral part of the present note.

The financial statements of consolidated companies have been prepared in accordance with criteria established by Italian Law, interpreted and integrated by accounting principles generally accepted in Italy, consistent throughout the Group, and eliminating where necessary entries made solely for tax purposes.

Some of the items included under heading "revenues" in the 1998 income statement have been reclassified to make such statements consistent with the income statement for 1999 which reflects the Group's new operating structure.

Consolidation principles

Main consolidation techniques adopted in line with the previous year are described below.

- The difference between the acquisition cost of equity investments and the related share in the Shareholders' Equity acquired is recorded as an adjustment to specific asset or liability items, based on the valuation made at the time at which the share was purchased or at which control was acquired, in case the latter is due to subsequent equity acquisitions. Residual negative amounts are recorded under "Consolidation Reserve" in the consolidated Shareholders' Equity. Positive differences are recorded under intangible assets and amortized over a period generally equal to five years.
- Minority interests in the income and Shareholders' Equity of consolidated companies are recorded in the Income statement and under Shareholders' Equity in the Balance sheet.
- Relevant unrealized gains and losses from transactions between Group companies as well as debit and credit items, costs and revenues generated between consolidated companies are eliminated.
- Dividends distributed between Group companies are eliminated from the Consolidated income statement.
- Adjustments made to the financial statements of individual companies to eliminate tax related entries with the aim of bringing them into line with accounting principles consistently applied within the Group, and all other consolidation adjustments, keep into account, when applicable, of deferred taxes, recorded in the tax provision.

Accounting principles

The valuation criteria used in the preparation of the Financial Statements at December 31, 1999 are consistent with those used in the previous year. These criteria are in line with those provided for in article 2426 of the Italian Civil Code, integrated by the accounting principles adopted by the Italian accounting profession. The same criteria have been adopted by Enel and by its subsidiaries in the preparation of the respective statutory accounts, with the exception of those relating to the valuation of investments and the determination of depreciation charges for tangible assets. The most significant criteria are illustrated below.

Intangible assets

Intangible assets are recorded at cost, and include the non-amortized balance of investments whose economic life spans over several years. Depreciation is calculated on a straight line over the expected useful life of the assets.

Tangible assets

Tangible assets are recorded at purchase or production cost, inclusive of any additional expense incurred, net of revaluations made pursuant to applicable regulations. The value of primary electric equipment includes interest on investment in new equipment up to December 31, 1988. In case of permanent loss of value, costs recorded are written down accordingly. The value is adjusted upwards (net of accumulated depreciation) in case the loss of value is reversed.

Ordinary maintenance costs are charged to the income statement for the year in which they have been incurred.

Tangible assets are depreciated on a straight line at rates reflecting their expected residual useful life, determined according to specific surveys and keeping into account contributions received from customers. Assets in concession are amortized over the life of the concession, where this is shorter than the expected useful life.

Main depreciation rates applied are shown in the table that follows.

	Depreciation rate
Buildings	2.5%
Hydroelectric power plants ^(*)	2.5%
Thermal power plants	5.0%
Geothermal power plants	8.0%
Power plants using other fuels	4.7%
Power lines	2.85%
Transformer stations	5.0%
Medium- and low-voltage distribution lines	5.0-5.5%

^(*) Excluding assets in concession

The above rates are reduced by half for assets acquired during the year. Depreciation recorded exclusively for tax purposes have been eliminated, net of the related tax effect, pursuant to current tax regulations.

93

Financial assets

Equity investments in non-consolidated subsidiaries and in other companies have been valued at the acquisition or underwriting cost, adjusted where necessary for permanent loss of value. Investments in consolidated companies, excluded from the consolidation area due to the existence of limitations in the control, are valued at equity.

"Other securities" include Enel bonds valued at par and other bonds recorded at cost, adjusted for permanent losses of value.

Inventories

Raw material, auxiliary and consumption goods inventories are valued at the weighted average acquisition cost.

Obsolete and slow moving stocks are written down according to their expected use or realizable value.

Contract work in progress is valued according to amounts set in order contracts accrued with reasonable certainty, according to stages of completion.

Receivables and financial assets

Receivables are recorded at their expected realizable value and classified among "Financial assets" and "Working capital", according to their nature and use. Non-interest bearing long-term receivables are recorded at their current value determined according to the interest rate applicable at the time of their recording.

"Marketable securities" included in working capital are represented by Enel bonds valued at their nominal value and by other bonds and Government securities recorded at the lower between acquisition cost and market value, equal in the case of listed securities to the average Stock Market price for the month of December.

Accruals and deferrals

Accruals and deferrals are recorded as accrued. Issue discounts and other costs relating to financing are recorded in the income statements over the life of the loan or issue to which they refer.

Provisions for risks and charges

Provisions for retirement benefits are accrued mainly according to union agreements relating to supplementary pension benefits for management. Beginning with April 1, 1998, a new pension fund named FONDENEL for currently employed managers has been established, and the provision therefore refers only to already retired managers. The provision moreover includes compensation paid in lieu of notice to existing personnel who has accrued such right pursuant to applicable collective labor contracts and union agreements.

Provisions for income taxes include provisions for deferred taxes on income; accordingly they include:

- deferred tax liabilities (excluding those relating to reserves for which the application of the tax is suspended, which are recorded when due and according to the amount of taxes payable);
- tax prepayments, according to the amount expected to be recovered in the future.

Income taxes payable for the year are recorded among tax liabilities according to expected income taxes payable by the Group pursuant to current tax regulations, keeping into account of any tax exemption or tax credit applicable.

Other provisions for risks and charges are accrued against known or probable losses and charges whose amount and timing is undetermined at the closing date of the financial statements. Accruals are made on the basis of the best estimate made according to the information available.

Provisions for employee termination indemnity

The provisions cover amounts owed to employees pursuant to the Italian Law and labor contracts in force at the date of the financial statements, net of advances made.

Accounts payable

Accounts payable are recorded at face value.

Capital grants

Grants received for the execution of specific work, the value of which is included under tangible assets, are recorded as accrued income at the time at which legal title to the grant is recognized and the amount may be determined with reasonable certainty. They are deferred and recorded in the Income statement over the depreciated life of the assets to which they refer.

Other grants

Other grants are recorded in the Income statement at the time at which legal title to the grant is recognized and the amount may be determined with reasonable certainty.

Revenues

Revenues from the sale of electric energy are calculated on the basis of criteria consistent over time according to consumption measured by meter readings carried out at set intervals, including amounts not yet billed at December 31. Calculations are based on tariffs established by the Italian Authority for Electricity and Gas, applicable at year-end. Revenues from other services and the sale of goods are recorded in the financial statements at the time at which the service is supplied or the transfer of ownership of the goods.

Translation of amounts denominated in foreign currencies

Receivables and payables denominated in foreign currencies are translated into Italian lire at the exchange rate in force at the time of the transaction.

At the end of the year amounts denominated in foreign currencies are adjusted to current exchange rates, and differences are recorded in the Income statement among financial income and expenses.

Gains arising from the translation of foreign currency long-term payables and receivables are prudentially not considered.

Interest rate and currency hedging instruments

In order to hedge against the risk of fluctuations in interest and exchange rates, the Group enters into derivative contracts for the hedging of specific amounts or total exposure positions.

Interest rate differentials accrued at the end of the year on interest rate derivatives are recorded as accrued in the Income statement among financial income and expenses in line with changes in the value of the underlying assets.

Foreign currency hedging instruments are valued at exchange rates in force at the closing date of the financial statements. Related gains and losses are recorded in the Income statement as exchange rate differences. The price paid or received on such instruments are deferred and recorded in the Income statement over the life of the instrument purchased or sold.

Balance Sheet - Assets

Fixed assets

Intangible assets - *Lire 123 billion*

Changes for the year and the breakdown of intangible assets are shown in the table that follows:

In billions of lire	at Dec. 31, 1998	Increase	Depreciation		at Dec. 31, 1999
			Ordinary	Extraordinary items	
Incorporation costs	1	4	(1)	-	4
Industrial patents and intellectual property	-	44	(14)	-	30
Work in progress and advances	31	9	-	-	40
Other:					
- software development	45	26	(32)	-	39
- solidarity contribution	43	-	-	(43)	-
- other	1	14	(5)	-	10
Total other	89	40	(37)	(43)	49
GRAND TOTAL	121	97	(52)	(43)	123

"Industrial patents and intellectual property" are made up primarily by costs incurred in the acquisition of software applications user licenses. These are amortized over three years.

"Work in progress and advances" are represented mainly by software under development, control systems and leasehold improvements.

"Software development" refers to software in use, developed for internal use, amortized over three years.

Amortization of "solidarity contribution" due as supplementary pension pursuant to Law 662, December 23, 1996, deferred over three years, has been completed in the year. The expense for the year has been recorded among extraordinary charges in view of the fact that it referred to income relating to previous fiscal years.

Tangible assets - Lire 73,411 billion

The table that follows shows a breakdown of tangible assets and changes occurred during the year:

In billions of lire	at Dec. 31, 1998	Investments	Coming into service	Divestments	Depreciation	Conferrals to unconsolidated companies	at Dec. 31, 1999
				and other services			
Land and buildings	14,451	221	274	(928)	(660)	(5)	13,353
Plant and machinery	52,733	3,697	2,209	(42)	(5,335)	(598)	52,664
Industrial and commercial equipment	289	48	0	(2)	(60)	(17)	258
Other assets	472	68	5	(69)	(94)	(2)	380
Total fixed assets	67,945	4,034	2,488	(1,041)	(6,149)	(622)	66,655
Work in progress and advances	7,742	1,619	(2,488)	(97)	-	(20)	6,756
TOTAL	75,687	5,653	-	(1,138)	(6,149)	(642)	73,411

"Conferrals" refer to the net value of assets conferred by Enel to unconsolidated companies (WIND Telecomunicazioni, Sogin, Gestore della Rete di Trasmissione Nazionale), in addition to buildings transferred to Dalmazia Trieste and recorded under current assets in view of their sale.

Revaluations made pursuant to the Law and to adjustments introduced by Law 292/1993 to the unamortized value of assets at December 31, 1999 are as follows:

In billions of lire	
Land and buildings	6,220
Plant and machinery	20,467
Plant and equipment under construction	28
TOTAL	26,715

The table that follows shows gross tangible asset values, related accumulated depreciation and resulting net values at December 31, 1999. The table shows also percentage accumulated depreciation on gross asset values at the same date, as compared with the previous year:

In billions of lire	Gross value	Accumulated depreciation	Net value	% of gross value	
				at Dec. 31, 1999	at Dec. 31, 1998
Land and buildings	19,543	6,190	13,353	31.7%	28.7%
Plant and machinery	126,086	73,422	52,664	58.2%	57.2%
Industrial and commercial equipment	1,072	814	258	75.9%	74.1%
Other assets	1,923	1,543	380	80.2%	79.0%
TOTAL FIXED ASSETS	148,624	81,969	66,655	55.2%	53.8%

The breakdown of tangible assets by category of use at December 31, 1999 is shown below:

In billions of lire	Gross value	Accumulated depreciation	Net value
Generating plants ⁽¹⁾			
- thermal plants	42,719	21,882	20,837
- hydroelectric plants	17,378	6,364	11,014
- geothermal and alternative sources plants	2,978	1,360	1,618
Total generating plants	63,075	29,606	33,469
Power lines and transformer stations	11,494	5,089	6,405
Distribution network	62,697	42,430	20,267
Other plant and equipment	4,850	3,472	1,378
Industrial buildings ⁽²⁾	6,237	1,319	4,918
Civil buildings	232	53	179
Land	39	-	39
Total	148,624	81,969	66,655
Contract work in progress and advances	6,756	-	6,756
TOTAL	155,380	81,969	73,411

⁽¹⁾ Amounts include the value of industrial property

⁽²⁾ Office buildings, warehouses, etc.

Generating plants include assets in concession, mainly relating to hydroelectric generation, for a total book value of about lire 6,000 billion. Legislative Decree 79/99 (introducing into Italian legislation provisions contained in EU Directive 96/92 regarding domestic energy markets) set the expiration date for concessions for the exploitation of large water bodies held by Enel in year 2029. At such date all water collection and regulation works, in addition to high pressure and drainage pipes, shall therefore be returned free of charge to the State in good working order.

The same Decree 79/99 allows the Valle d'Aosta Region and the Autonomous Provinces of Trento and Bolzano to set a different date for the expiration of such concessions. Such term has not yet been set by the Valle d'Aosta Region, while the Trento and Bolzano Provinces set the expiration of water concessions at 2010. Depreciation of assets in concession is therefore calculated on the shorter between the remaining term of the concession and the residual useful life of the asset.

Investments for the year are listed below:

In billions of lire	1999	1998
Generating plants:		
- thermal	1,179	1,327
- hydroelectric	254	359
- geothermal	138	175
- alternative energy sources	7	8
Total generating plants	1,578	1,869
Power lines and transformer stations	436	594
Distribution network	3,246	3,007
Land and buildings	184	132
Other assets and equipment	209	269
TOTAL INVESTMENTS	5,653	5,871

Financial assets - Lire 1,442 billion

The breakdown of financial assets and changes occurred in the year are shown in the table that follows:

In billions of lire	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Equity investments	467	319	148
Other receivables:			
- receivables from Social Security Institutions as contributions relief (Law 151/93)	362	520	(158)
- withholding taxes on employee termination indemnity (Law 662/96)	345	496	(151)
- other	171	178	(7)
Total	878	1,194	(316)
Receivables from the Electricity Equalization Fund for nuclear related charges, net of lire 390 billion accrued to provision for doubtful accounts	96	1,786	(1,690)
Other securities	1	1	-
TOTAL	1,442	3,300	(1,858)

Unconsolidated equity investments are shown below:

In billions of lire	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Subsidiaries:			
- WIND Telecomunicazioni SpA	454	306	148
- Se.m.e. SpA	2	-	2
- CISE Tecnologie Innovative Srl	1	1	-
- Sogin SpA	-	-	-
- Gestore della Rete di Trasmissione Nazionale SpA	-	-	-
- Other	1	2	(1)
Total subsidiaries	458	309	149
Affiliated companies and other companies:			
- SOTACARBO SpA	2	2	-
- ELCOGAS SA	3	3	-
- Other	4	5	(1)
Total affiliated companies and other companies	9	10	(1)
TOTAL	467	319	148

Changes relating to WIND Telecomunicazioni are due to the conferral of the telecommunications business, resulting in an increase of lire 587 billion, and to the writedown of Enel's share in the company's losses, amounting to lire 439 billion, recorded in the consolidated financial statements at equity. Investments in company Sogin and Gestore della Rete di Trasmissione Nazionale, received in exchange for the conferral of the respective businesses, have been written off in full, generating an extraordinary charge of lire 80 billion, in view of their transfer to the Italian Treasury free of charge, pursuant to the provisions of the Bersani Decree.

"Receivables from Social Security institutions" (INPS, Istituto Nazionale per la Previdenza Sociale) amounting to lire 362 billion reflect the value, calculated at an interest rate of 9.60% applicable at the time of their recording, of the tax credits relating to personnel operating in Southern Italy (*Mezzogiorno*), following Ruling no. 261 of the Constitutional Court dated June 12, 1991, refundable to the Group's Parent Company in annual installments until 2001 with no accruing interest or revaluations.

"Withholding taxes on employee termination indemnity" refer to amounts paid according to current regulations. Interest accrues on the balance at the same rate applied for amounts accrued to the provision. The decrease registered is due to the retrieval of the residual employee termination indemnity liability in excess of 12% due to the advances made to employees for the acquisition of Enel shares.

"Other" refers primarily to loans made to employees at current rates of interest for the acquisition of their first home and to face exceptional hardships.

"Receivables from the Electricity Equalization Fund for nuclear related charges" refer to the balance of amounts due to Enel following the introduction of legislation on nuclear power. Receivables decrease by lire 1,690 billion, as the net result of payments received (lire 851 billion), interest accrued for the year (lire 57 billion), calculated at a rate equal to 72.56% of the ABI (Italian Banking Association) prime rate, and the amount conferred to Sogin, equal to lire 896 billion.

Such charges are paid out of a specific portion of the electricity tariff. The residual amount of the reimbursement due is expected to be paid out in 2000. A provision for the write down of nuclear related receivables has been created in 1997 following Resolution 58/1998 dated June 12, 1998 in which the Authority for Electricity and Gas questions the calculation of reimbursements on a number of issues. Such Resolution has been appealed by Enel to the Lombardy Regional Court, whose Ruling dated February 18, 1999 accepted a considerable part of the Company's claims.

The issue is discussed more in detail in the "Off Balance Sheet Items" section, following notes on balance sheet liabilities.

Current assets

Inventories - Lire 1,944 billion

Inventories are detailed below:

In billions of lire

	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Materials and fuels:			
- fuel for thermal generation	876	657	219
- material, equipment and other stocks	380	414	(34)
Total	1,256	1,071	185
Civil buildings to be sold	622	-	622
Contract work in progress	66	34	32
TOTAL	1,944	1,105	839

The increase in the value of inventories of fuel used in electricity generation is due to higher international oil prices.

Inventories of raw material (mainly fuel) are carried at the average weighted cost, resulting in a slightly lower value than their market value at December 1999.

Buildings to be sold refer to Dalmazia Trieste and have been the object of a specific valuation.

Receivables - Lire 10,359 billion

Receivables are made up as follows:

In billions of lire

	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Customers	5,687	5,329	358
Subsidiaries and affiliated companies	196	59	137
Electricity Equalization Fund	2,828	3,559	(731)
Other receivables	1,648	793	855
TOTAL	10,359	9,740	619

Receivables from customers relate mainly to the supply of electric energy, services and interest on overdues. The increase registered is due to higher sales.

The table that follows shows a breakdown of receivables and changes occurred during the year.

In billions of lire	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Receivable from customers gross of provision for doubtful accounts	6,097	5,781	316
Provision for doubtful accounts:			
- ordinary accruals	(302)	(326)	24
- accruals against interest on overdues	(108)	(126)	18
Total	(410)	(452)	42
TOTAL NET OF PROVISION FOR DOUBTFUL ACCOUNTS	5,687	5,329	358

Receivables from non-consolidated subsidiaries refer mainly to receivables from WIND Telecomunicazioni amounting to lire 167 billion, and those relating to Gestore della Rete di Trasmissione Nazionale amounting to lire 26 billion. The increase results mainly from higher receivables from WIND Telecomunicazioni against the lease of fiber optic lines.

Receivables from the Electricity Equalization Fund include contributions made to the Group against the acquisition of electric energy amounting to lire 2,828 billion, against payables to the Fund amounting to lire 2,564 billion. Net receivables amount therefore to lire 264 billion, as compared with net receivables of lire 1,029 billion at December 31, 1998. The decrease is due to the reversal of previous years' unbalances.

The Group has moreover applied for additional grants relating to plant renovation or upgrade, in the context of incentives provided pursuant to CIP Resolution no. 6/1992.

"Other receivables" include:

- amounts billed in advance at the end of the year referring to the fixed portion of electricity supplied by EdF for the year 2000, amounting to lire 516 billion. At the end of 1998 advanced billing referred only to one month. The same amount is recorded also under payables to suppliers;
- advances paid to employee associations (lire 147 billion) as provisional contributions for the year 1999. The full amount of contributions for the year will be determined upon renewal of labor contract for electricity sector employees;
- tax receivables amounting to lire 527 billion, for indirect tax reimbursements relating to previous years and due to VAT receivable by the Group's Parent Company at the end of the year.

Short-term investments - *Lire 774 billion*

Short-term investments are made up as follows:

In billions of lire	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Other securities:			
- Enel bonds held	726	157	569
- Other bonds	48	9	39
Total	774	166	608
Financial receivables	-	691	(691)
TOTAL	774	857	(83)

Enel bonds held are represented by a "Special series reserved to Enel employees". The increase is due to higher purchases of bonds from employees. Financial receivables at December 31, 1999 amount to zero. The balance reported for the previous year amounting to lire 691 billion refers to repurchase and resell agreements.

Cash and cash equivalents - Lire 979 billion

Cash and cash equivalents at year-end were made up as follows:

In billions of lire	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Bank deposits	908	2,085	(1,177)
Post Office deposits	69	77	(8)
Cash	2	1	1
TOTAL	979	2,163	(1,184)

Bank deposits include cash balances held for operating purposes.

The decrease in cash and cash equivalents is due to payments made at the beginning of 1999 to redeem high yielding bonds outstanding.

Accrued income and prepaid expenses

Accrued income and prepaid expenses - Lire 254 billion

The item breaks down as follows:

In billions of lire	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Accrued income:			
- financial receivables	3	41	(38)
- operating receivables	18	-	18
Total	21	41	(20)
Prepaid expenses:			
- financial expenses	120	88	32
- operating expenses	113	164	(51)
Total	233	252	(19)
TOTAL	254	293	(39)

Accrued income and prepaid expenses are unchanged from the previous year.

The table that follows shows the breakdown of receivables by maturity:

In billions of lire	Maturing within 1 year	Falling due within 2 to 5 years	Over 5 years	Total
LONG-TERM RECEIVABLES	389	343	242	974
CURRENT RECEIVABLES				
Customers	5,504	179	4	5,687
Unconsolidated subsidiaries	194	-	-	194
Affiliated companies	2	-	-	2
Others	1,645	3	-	1,648
Electricity Equalization Fund	2,828	-	-	2,828
Total current receivables	10,173	182	4	10,359
Accrued income	21	-	-	21
TOTAL	10,583	525	246	11,354

Balance Sheet - Liabilities

Shareholders' Equity

Changes for the past three financial years are shown below:

In billions of lire	Capital stock	Legal reserve	Other reserves	Retained earnings	Net income	Total
Balance at December 31, 1996	12,126	138	12,585	3,313	2,226	30,388
Appropriation of 1996 earnings:						
- dividends	-	-	-	-	(1,200)	(1,200)
- accrued to reserves	-	64	-	962	(1,026)	-
1997 net income	-	-	-	-	3,327	3,327
Balance at December 31, 1997	12,126	202	12,585	4,275	3,327	32,515
Appropriation of 1997 earnings:						
- dividends	-	-	-	-	(922)	(922)
- accrued to reserves	-	48	-	2,357	(2,405)	-
Other changes	-	1	-	-	-	1
1998 net income	-	-	-	-	4,286	4,286
Balance at December 31, 1998	12,126	251	12,585	6,632	4,286	35,880
Appropriation of 1998 earnings:						
- dividends	-	-	-	-	(1,965)	(1,965)
- accrued to reserves	-	103	-	2,218	(2,321)	-
Shareholders' Meeting resolution dated Sept. 3, 1999:						
- reserve distribution	-	-	(4,422)	-	-	(4,422)
- transfer to reserves	-	2,071	(2,071)	-	-	-
1999 net income	-	-	-	-	4,541	4,541
BALANCE AT DECEMBER 31, 1999	12,126	2,425	6,092	8,850	4,541	34,034

Capital stock - Lire 12,126 billion

The Group's holding company's **capital stock** is unchanged from the previous year and is represented by 12,126,150,379 ordinary shares of par value lire 1,000 each.

On November 2, 1999 Enel began placing its shares through an Initial Public Offer in Italy and in the United States of America. The offer closed with the placement of 3,848,802,000 shares. As a result, 8,277,348,379, representing 68.3% of the capital stock, are owned by the Italian Treasury, while the remaining 31.7% has been placed on the market.

At December 31, 1999 there do not appear to be shareholders with a share higher than 2% of the capital stock of the Company other than the Italian Treasury.

105

Legal reserve - Lire 2,425 billion

The **legal reserve** increases by lire 2,174 billion, of which lire 103 billion following the accrual equal to 5% of Enel's 1998 net income resolved by the Shareholders' Meeting called to approve the 1998 financial statements, and lire 2,071 billion accrued to bring the reserve in line with 20% of the Group's holding company's capital stock by transferring such amount from the "Restatement reserve (Law 292/1993)", as resolved by the Shareholders' Meeting held on September 3, 1999.

Other reserves - Lire 6,092 billion

Capital contributions made by the Italian Treasury - Lire - billion

The [Reserve for capital contributions made by the Italian Treasury](#) pursuant to Budget Laws, amounting at December 31, 1998 to lire 1,922 billion, has been distributed in full in October 1999 following the resolutions of the sole shareholder of Enel at the Shareholders' Meeting held on September 3, 1999.

Restatement reserve (Law 292/1993) - Lire 6,036 billion

The reserve decreases by lire 4,571 billion following the distribution of lire 2,500 billion and the transfer to the legal reserve of lire 2,071 billion, as resolved by the sole shareholder of Enel at the Shareholders' Meeting held on September 3, 1999.

In case of distribution of dividends from such reserve, tax exemptions on amounts distributed are reversed.

Other - Lire 56 billion

These refer to consolidation reserves arising from the first time preparation of the consolidated financial statements.

The reconciliation between the Group's Parent Company's Shareholders' Equity and net income and those recorded in the consolidated statements is presented in the table below:

In billions of lire	Net	Shareholders'	Net	Shareholders'
	income	Equity	income	Equity
	1999 at Dec. 31, 1999		1998 at Dec. 31, 1998	
Balance from the Parent Company's financial statements	3,052	24,352	2,072	27,686
Tax entries relating to the Parent Company (mainly extraordinary depreciation, net of the tax effect)	900	41	1,393	7,349
Prepaid taxes recorded in the 1998 consolidated financial statements and in the 1999 statements of the Parent Company	(829)	-	829	829
Effects of consolidation of the financial statements of subsidiaries	1,418	9,641	(8)	16
BALANCE FROM THE CONSOLIDATED FINANCIAL STATEMENTS	4,541	34,034	4,286	35,880

Changes in tax-related items of the Group's Parent Company are due to the conferral of businesses at book value (represented in the case of assets by their gross value, net of ordinary and additional depreciation charges), in a neutral tax regime. The mentioned tax items have therefore been transferred to the companies receiving the conferral, and have been included among the "Effects of the consolidation of the financial statements of subsidiaries" at December 31, 1999.

Provisions for risks and charges

Changes in the provisions during the year are reported in the table that follows:

In billions of lire	at Dec. 31, 1998	Accruals	Uses of provisions	Other changes	at Dec. 31, 1999
Retirement benefits provisions	2,015	158	(189)	57	2,041
Tax provision:					
- deferred taxes on current value of contributions relief (151/1993)	187	3	(57)	-	133
- deferred taxes on consolidation adjustments	5,186	1,027	(140)	-	6,073
- prepaid taxes	(829)	(1,164)	761	-	(1,232)
Total	4,544	(134)	564	-	4,974
Other					
- legal disputes and other contingencies	2,187	572	(289)	(62)	2,408
- treatment and disposal of nuclear fuel	927	40	(25)	(942)	-
- decommissioning of inactive nuclear plants	621	37	(62)	(596)	-
- restructuring of financial instruments	-	180	-	-	180
- early retirement incentives	32	648	(109)	(8)	563
Total	3,767	1,477	(485)	(1,608)	3,151
TOTAL PROVISIONS FOR RISKS AND CHARGES	10,326	1,501	(110)	(1,551)	10,166

Provision for retirement benefits - *Lire 2,041 billion*

The provision includes mainly the current value of expected future employee benefits for retired managers amounting to lire 1,961 billion. Accruals to the employee retirement provision are made up by the adjustment to the current value of future pension benefits of retired managers, and by the indemnity due in lieu of notice accrued during the year by personnel currently employed.

Withdrawals refer to the payments made during the year, calculated as mentioned above. Other changes include the reclassification of the provision for legal disputes and other contingencies, which refers to additional contributions recognized to Group managers who had already applied for retirement at the time of the introduction, in 1986, of a Pension Fund for all managers in service, quantified only in 1999.

Tax provision - *Lire 4,974 billion*

In addition to deferred tax liabilities on consolidation adjustments, the tax provision includes tax prepayments on deferred income. Accruals against deferred taxes refer basically to the elimination of extraordinary depreciation.

The increase in tax prepayments is due to deferred income relating mainly to changes in the provision for legal disputes and the provision for employment retirement incentives. Tax prepayments amounting to lire 562 billion, whose retrieval has become reasonably certain during the year, have been recorded among extraordinary income. At the end of 1999 such tax prepayments had already been retrieved.

107

Other - *Lire 3,151 billion*

Provision for legal disputes and other contingencies - Lire 2,408 billion

The provision covers potential liabilities arising from current legal proceedings and other legal disputes during the year, in addition to the update of estimates on proceedings from previous years, based on the advice provided by internal and external legal advisors, without taking into consideration the effect of proceedings for which a favorable outcome is expected or those for which an adverse outcome may not be quantified. For these we refer to the note on "Off Balance Sheet Items".

The provision for legal disputes and other contingencies does not include any amount relating to the Vajont event due to the fact that claims against Enel and those made by it are examined in the same legal proceedings and originate from the same event.

The provision includes moreover, extraordinary accruals for a total of lire 159 billion, of which lire 100 billion against potential charges relating to suspended investment projects and lire 59 billion as a provision for the expected restructuring cost of the engineering and contracting sector and of the research one, in view of the new organization of the Group and the conferral of these businesses into new companies in January 2000. Ordinary provisions refer mainly to the update of legal proceedings estimates and other potential liabilities linked mainly to the operation of the equipment.

Uses refer mainly to capital losses on civil buildings resulting upon conferral to Dalmazia Trieste and to the higher cost of fuel due to the time lag existing between changes in price and the adjustment of contributions from the Electricity Equalization Fund.

Provision for the treatment and disposal of nuclear fuel - Lire - billion

Provision for decommissioning of inactive nuclear plants - Lire - billion

Uses and accruals to the above provisions refer to the period prior to the conferral to Sogin of activities connected with the decommissioning of inactive nuclear plants and to the closing of the nuclear fuel cycle. The book value of provisions has been transferred to Sogin which has not been consolidated in view of its transfer to the Italian Treasury as provided by Law. The effect of the transfer of such fund is reported under "Other changes".

Provision for the restructuring of financial instruments - Lire 180 billion

The provision includes charges deriving from the restructuring of derivative contracts (swaps and swap options) concluded to hedge against the risk of fluctuations in interest rates with reference to medium- and long-term debt repaid before expiration during the year.

Costs accrued in the fund cover costs which may potentially be retrieved, calculated at December 31, 1999 on interest rate hedging instruments which have been reassigned to other debt not hedged for such risk.

Such costs will be deferred and spread over the life of the restructured hedging contracts to compensate for costs relating to higher interest payments as a result of the restructuring.

Provision for early retirement incentives - Lire 563 billion

The provision for early retirement incentives consists of accruals relating to the cost of the temporary offer made to employees as an incentive to early retirement as part of the Company's reorganization, following the resolution taken on April 30, 1999 by the Group's Parent Company.

Employee termination indemnity

Changes during the year are shown in the table below:

In billions of lire

Balance at December 31, 1998	4,439
Accruals	462
Distribution for the purchase of Enel shares	(1,445)
Ordinary distribution and other changes	(460)
BALANCE AT DECEMBER 31, 1999	2,996

The provision includes all amounts accrued by personnel upon retirement in accordance with applicable legislation, net of advances paid to employees for medical expenses and the first-time purchase of a home. The decrease over the previous year is primarily due to advances made to Group employees for the acquisition of Enel shares, following the initial public offer made on November 2, 1999.

Accounts payable

Bonds - Lire 14,598 billion

Long-term debt - Lire 6,890 billion

The amount includes debt relating to bond issues and other financing denominated in Italian lire and other currencies. The decline of lire 5,406 billion from the previous year results from the balance of repayments amounting to lire 9,957 billion, new issues totaling lire 4,534 billion and foreign exchange differences of lire 17 billion.

Bonds include issues guaranteed by the State amounting to lire 5,402 billion (lire 11,008 billion in 1998). Pursuant to article 2362 of the Italian Civil Code, the balance of lire 9,196 billion is in any case guaranteed by the Italian State as the sole shareholder of Enel at the time of the issue.

The table below shows the breakdown of medium- and long-term debt at December 31, 1999 by type of instrument (bonds issued and loans) and interest rate (fixed and floating rate):

In billions of lire	Maturity	Balance		Expiration	Expiring at a later time				
		at Dec. 31, 1998	at Dec. 31, 1999		2000	2001	2002	2003	2004
Bonds:									
- listed-fixed rate	2003-2008	3,942	4,872	-	-	500	500	1,936	1,936
- listed-floating rate	2000-2001	7,861	4,785	2,081	2,704	-	-	-	-
- not listed-fixed rate	2005	148	148	-	-	-	-	-	148
- not listed-floating rate	2001-2020	3,979	3,956	-	32	43	35	40	3,806
- fixed rate-EU agencies	2000-2010	956	781	168	104	102	103	73	231
- floating rate-EU agencies	2003-2009	65	56	9	8	8	9	5	17
Total		16,951	14,598	2,258	2,848	653	647	2,054	6,138
Bank loans:									
- fixed rate	2000-2006	155	150	7	109	8	9	8	9
- floating rate	2000-2006	6,684	4,164	808	252	702	1,202	666	534
- fixed rate-EU agencies	2000-2009	2,511	1,933	570	535	354	152	88	234
- floating rate-EU agencies	2004-2014	593	643	95	95	95	95	108	155
Total		9,943	6,890	1,480	991	1,159	1,458	870	932
TOTAL		26,894	21,488	3,738	3,839	1,812	2,105	2,924	7,070

Unlisted floating-rate bonds include lire 726 billion relating to "1994-2019 Special series reserved to personnel" repurchased by Enel and recorded under "Other securities" in the balance sheet.

Changes occurred during the year in long-term borrowing are shown in the table below:

In billions of lire	Balance at Dec. 31, 1998	Repayments	New loans	Exchange rate differences	Balance
					at Dec. 31, 1999
Fixed rate bonds	5,046	(1,184)	1,937	(2)	5,801
Floating rate bonds	11,904	(5,558)	2,451		8,797
Fixed rate bank loans	2,666	(600)	1	(15)	2,082
Floating rate bank loans	7,278	(2,615)	145		4,808
TOTAL	26,894	(9,957)	4,534	(17)	21,488

Repayments refer to debt expiring in the year and early repayment of financing made with the aim of improving the cost of debt.

New loans consist almost exclusively of two bond issues amounting to euro 2,200 million (lire 4,260 billion) issued on October 5, 1999, whose terms are listed below:

Terms	Fixed rate loans	Floating rate loans
Amount (million euro)	1000	1200
Repayment	Oct. 5, 2004 at par in one installment	Oct. 5, 2001 at par in one installment
Rate of interest	4.75% fixed	3-month Euribor + 0.06% annual
Coupon payment	Annual in arrears	Quarterly in arrears
Issue price	99.652%	100%
Early repayment	Not allowed	Not allowed
Listed at	Luxembourg and Milan	Luxembourg and Milan
First coupon rate	-	3.186% annual

At December 31, 1999, floating-rate debt accounted for 63% of total long-term debt outstanding. At December 31, 1999 derivative instruments aimed at reducing the exposure to fluctuations in interest rates held by the Group amounted to a total nominal value of lire 11,391 billion, of which lire 7,461 billion in the form of interest rate swaps, and lire 3,930 billion of interest rate collars. Keeping into account such hedging positions, the total exposure to interest rate fluctuations, weighting interest rate collars nominal values, can be estimated at about 33% of outstanding debt.

The fair value at December 31, 1999 of interest rate hedging financial instruments is negative and amounts to lire 17 billion. Such value does not include lire 35 billion of accrued income and lire 180 billion accrued to the provision for the restructuring of financial instruments.

At December 31, 1999 total financial debt amounted to lire 21,521 billion.

The table that follows shows a breakdown of debt by borrowing:

In billions of lire	Expiration date	Balance	Balance total
		at Dec. 31, 1998	at Dec. 31, 1999
Italian lire	2000-2020	22,421	13,124
Euro	2000-2014	2,889	7,147
Deutsche marks	2000-2010	246	163
French francs	2000-2005	165	154
Belgian francs	2000-2008	194	148
Dutch florins	2000-2010	253	187
Austrian schellings		1	-
Total euro currencies		26,169	20,923
US dollars	2000-2008	126	79
British pounds	2000-2007	80	60
Swiss francs	2000-2009	222	179
Danish kroner	2002	12	9
Yen	2000-2010	285	238
Total non-euro currencies		725	565
TOTAL		26,894	21,488

Short-term debt - Lire 3,003 billion

Short-term debt increases by lire 2,259 billion due to the use of short-term credit lines for the early redemption of high-yield bonds issued in the past, which have been repaid using also liquidity generated at the end of 1998.

Advances received - Lire 1,972 billion

Advances refer mainly to amounts paid by customers upon underwriting electric energy supply contracts, in addition to advances paid for the construction of links to the distribution lines and other contributions.

Advances increase during the year by lire 86 billion.

Trade payables - Lire 6,258 billion

Trade payables to suppliers include amounts payable for the supply of electric energy, fuel, materials and equipment, in addition to work carried out and services supplied during the year.

The increase of lire 1,301 billion on the previous year is due to a number of reasons which include advance billing on the part of EdF at the end of the year for the fixed portion of the supply of energy, as already described in the note referring to "other receivables", the increase, in the second half of the year, of fuel prices, and higher energy purchases from third parties in Italy.

Payable to subsidiaries and affiliated companies - Lire 1,076 billion

These include mainly payables to unconsolidated companies Sogin (lire 711 billion), WIND Telecomunicazioni (lire 287 billion), Gestore della Rete Nazionale (lire 58 billion). Payables to Sogin are of a financial nature and arise from the transfer of liquidity necessary to face liabilities conferred.

Taxes payable - *Lire 2,272 billion*

Taxes payable are made up as follows:

In billions of lire

	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
VAT payables	880	234	646
Withholding taxes	191	200	(9)
Revenue tax and electricity surtax	191	158	33
Income taxes	1,001	774	227
Other	9	9	
TOTAL	2,272	1,375	897

The increase in VAT and in income taxes payable is due mainly to the lack of advances paid by newly incorporated companies that started operations only in the fourth quarter of 1999.

With regards to the tax position of the Parent Company, income tax liabilities have been defined up until fiscal year 1993, while VAT liabilities have been defined up to fiscal year 1994.

Social Security payables - *Lire 771 billion*

The item refers to payables to social security institutions for contributions due by Group companies measured on salaries paid and compensation accrued by personnel, including suppressed holidays, compensation for accrued leave, overtime and other indemnities for the month of December paid in January, in addition to taxes withheld from employees' salaries.

They include also the residual amount due to FONDENEL of lire 419 billion, to be repaid in equal semi-annual installments for a period expiring on July 1, 2001.

The lire 330 billion decline from the previous year is due to a reduction in personnel, to the payment of the last installment of the so called "solidarity contribution" to social security entities and to the payment of the two installments due to FONDENEL in 1999.

Other payables - *Lire 1,712 billion*

Other payables are made up as follows:

In billions of lire

	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Due to bondholders as interest, other payments and redemption of securities	108	463	(355)
Due as water rates, contribution for urban infrastructure work, etc.	402	495	(93)
Due to customers as reimbursement and other items	429	410	19
Due to employees' associations	563	700	(137)
Other items	210	174	36
TOTAL	1,712	2,242	(530)

Payables to bondholders decline due to the repayment of debt carried out during the year.

Payable to Electricity Equalization Fund - *Lire 2,564 billion*

Such liability refers to the thermal surcharge billed to customers and to charges borne by the Group pursuant to CIP Resolution 24/1983, to be offset in subsequent two-month periods with receivables from the Equalization Fund recorded in the corresponding Asset item in the Balance sheet.

Accrued liabilities and deferred income

Accrued liabilities and deferred income - *Lire 959 billion*

The table that follows shows a breakdown and changes occurred during the year:

In billions of lire

	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
Accrued liabilities:			
- accrued interest	237	398	(161)
- operating payables	3	8	(5)
Total	240	406	(166)
Deferred income:			
- deferred interest	19	62	(43)
- deferred operating income	700	407	293
Total	719	469	250
TOTAL	959	875	84

Financial charges decline due to lower interest expenses as a result of lower average debt. The increase in operating charges is due to grants received from third parties for activities carried out during the year mainly by Enel, Enel Distribuzione and So.I.e., in addition to prepayments made by WIND Telecomunicazioni for the use of the fiber optics network.

The table that follows shows the breakdown of accrued liabilities and deferred income by maturity.

In billions of lire	Maturing within 1 year	Falling due within 2 to 5 years	Over 5 years	Total
LOANS				
Bonds	2,258	6,202	6,138	14,598
Long-term bank loans	1,480	4,478	932	6,890
Short-term bank loans	3,003	-	-	3,003
Total loans	6,741	10,680	7,070	24,491
OTHER ACCOUNTS PAYABLE				
Advances received	1,704	268	-	1,972
Trade payables	6,089	96	73	6,258
Payable to subsidiaries and affiliated companies	1,076	-	-	1,076
Taxes payable	2,272	-	-	2,272
Social security payables	649	119	3	771
Payable to Electricity Equalization Fund	2,564	-	-	2,564
Other payables	1,414	274	24	1,712
Total other accounts payable	15,768	757	100	16,625
Accrued payables	240	-	-	240
TOTAL	22,749	11,437	7,170	41,356

Commitments

Commitments - Lire 168,901 billion

Commitments include amounts relating to deposits, guarantees, risks and commitments assumed by the Group, as shown below:

In billions of lire	at Dec. 31, 1999	at Dec. 31, 1998	1999-1998
GUARANTEES GIVEN			
Guarantees against loans granted to:			
- ELCOGAS SA	40	-	40
Guarantees on behalf of third parties	-	2	(2)
Total	40	2	38
OTHER			
Commitments to suppliers of:			
- electricity	112,115	125,751	(13,636)
- fuel	47,996	41,067	6,929
- sundry supplies	5,318	4,302	1,016
- contract work	2,634	3,056	(422)
Commitments on forward currency purchases	240	251	(11)
Commitments on forward currency sales	265	182	83
Sundry guarantees to lending institutions	100	335	(235)
Third party securities received as surety	155	1	154
Third party securities held in safe custody	38	44	(6)
Total	168,861	174,989	(6,128)
TOTAL	168,901	174,991	(6,090)

Commitments to purchase electric energy break down as follows:

In billions of lire	Domestic suppliers	Foreign suppliers	Total
Period:			
2000-2004	38,584	7,091	45,675
2005-2009	34,314	4,662	38,976
2010-2014	15,795	1,582	17,377
2015 and beyond	10,087	-	10,087
TOTAL	98,780	13,335	112,115

Commitments to domestic suppliers refer to the acquisition of electricity pursuant to CIP Resolution 6/1992.

Commitments for the purchase of fuel break down as follows:

In billions of lire	Natural gas	Fuel oil	Coal and other	Logistics	Total
Period:					
2000-2004	14,185	2,549	255	226	17,215
2005-2009	10,377	75	-	-	10,452
2010-2014	10,377	-	-	-	10,377
2015 and beyond	9,952	-	-	-	9,952
TOTAL	44,891	2,624	255	226	47,996

Amounts have been calculated according to parameters and exchange rates in force at the closing of the financial year. The price of such supplies is in fact variable and for the most part denominated in foreign currency.

Off Balance Sheet Items

Litigation

In the section that follows we describe the main legal disputes in which the Group is involved, concerning mainly nuclear energy abandonment costs, tariffs and environmental issues.

Discontinued nuclear operations

The legal dispute with the Authority for Electricity and Gas relating to the annulment of Resolution no. 58, dated June 12, 1998 is still under way. With such resolution the Authority for Electricity and Gas questions the criteria adopted by CIP to calculate reimbursements in favor of Enel of charges relating to the abandonment of nuclear power generation. The Authority has subsequently verified the existence of ground for the reimbursement of all costs claimed by Enel, with the exception of some items, for a total amount of lire 390 billion. In view of such position, in the financial statements closed at December 31, 1999, Enel had accrued the same amount to the provision for doubtful accounts.

The Lombardy Regional Court, with its Ruling no. 612 dated February 18, 1999, gave a favorable opinion to most of Enel's requests, recognizing the latter's right to receive a sizable part of the reimbursements withheld, amounting to lire 278 billion, leaving the difference of lire 112 billion to be borne by the company.

The ruling of the Lombardy Regional Court has been upheld by Enel, that has requested a rapid discussion of the issue.

In view of the uncertainty regarding the legal proceedings, the ruling being appealed, Enel has deemed it prudent not to alter accruals previously recorded in the financial statements against risks regarding the outcome of the litigation until its final settlement.

Legal proceedings regarding tariffs

A number of industrial customers who consume large amounts of electric energy have questioned the legitimacy of the method with which CIP and subsequently the Authority for Electricity and Gas determined electricity tariffs in the past.

At the present time, all decisions taken, including recent ones, have confirmed the legitimacy of measures appealed. In case of a repeal of measures taken on tariff setting, which could give rise to claims for the reimbursement of amounts paid to Enel for the supply of electricity, the latter's economic position would be unchanged, since any repeal of tariffs would have to be followed by the issue on the part of the Authority of new regulations that compensate Enel for the amounts lost.

ATEL arbitration

Since 1986 Enel has contractual agreements with Swiss company ATEL for the supply of electric energy. Following the devaluation of the Italian lira that took place after the signing of the contract, the setting by the Authority of limits to refunds that may be obtained against long-term energy import contracts providing for a minimum amount of energy supplied and the liberalization of the Italian electricity market, Enel deemed that the terms of the contracts were no longer balanced. Enel has therefore requested ATEL to review the terms of the contracts towards a more equitable position, as provided by the contracts themselves.

Having ATEL formulated proposals that Enel deems unsatisfactory and not appropriate to balance the positions of the parties, as provided by such contracts, Enel promoted arbitration proceedings, to be based in Geneva and according to the rules set by the Paris International Chamber of Commerce, requesting the termination of all contracts in force with ATEL and the reimbursement of all amounts paid by Enel over a fair tariff since 1997 according to the new tariffs determined by the arbitration panel, or, subordinately, requesting changes to be made to the said contracts to bring them into line with equitable terms, and requiring ATEL to repay all amounts paid by Enel since

March 1997 over the new tariffs determined by the arbitration panel.

The arbitration is still in progress, but Enel believes its outcome may not have a negative material effect beyond the lack of a reduction in current contract tariffs.

WIND - Deutsche Telekom

The initial phase of the legal dispute promoted by Enel, France Télécom SA and WIND against Deutsche Telekom at the Rome Court was concluded with the recognition of Deutsche Telekom's responsibilities for violating no-competition and exclusive agreements contained in WIND's shareholder agreements. Judgment was in fact promoted to protect Enel's interest and legal position in the context of agreements signed with France Télécom and Deutsche Telekom, following a violation of exclusivity, no competition and confidentiality rights on the part of the latter which negotiated and underwrote a Business Combination Agreement with WIND's main competitor, Telecom Italia.

The arbitration proceedings promoted by Enel against Deutsche Telekom (and other interested parties) on July 27, 1999, according to regulations set by the Paris International Chamber of Commerce, are still pending. Enel's requests relate to the recognition of Deutsche Telekom's breach of WIND's shareholder agreements and the resulting right on the part of Enel to acquire Deutsche Telekom's share in the company (presently held by Deutsche Telekom - France Télécom SA Italian Holding GmbH), according to the terms and conditions described in WIND's shareholder agreements. Deutsche Telekom will in any case be requested to pay to Enel damages calculated at lire 1,700 billion.

Environmental issues

Environmental issues refer to the installation and operation of electrical equipment and are therefore common to Enel Distribuzione and Terna that replaced Enel in the relevant relationships.

The matter may therefore be discussed jointly for the two Companies for which the most important environmental issues are those relating to the effect of exposure to electric and magnetic fields generated by equipment installed.

The two Companies have replaced Enel in a number of civil and administrative legal proceedings in which the relocation or change in operating procedures for electrical lines is requested on the basis of their alleged harmfulness, despite the fact that the equipment has been installed in application of current norms.

Only in a limited number of cases have claims for health related damages due to electromagnetic fields been filed.

Only sporadically have there been pronouncements unfavorable to the Group. All of these have been appealed so that at the present date there have not been final sentences against the Group, while no health damage claim has ever been accepted.

Given the increased sensitivity of public opinion on the subject, however, recourse to legal action requesting the suspension or modification of plant operation by residents in the areas in which these are located who lament health problems allegedly caused by power lines, is increasing.

With reference to Enel Distribuzione, there have also been complaints on the part of private individuals concerning magnetic fields generated by medium- and low-voltage power cabins located inside buildings, which are however always built in line with induction limits set by current legislation.

Legal proceedings concerning urban planning, landscape and environmental issues relating to the construction and operation of power plants and transmission and distribution lines are also pending.

An evaluation of such proceedings based on indications given by legal advisors, makes the Group deem as remote the possibility of negative outcomes, though for a limited number of cases this cannot be ruled out completely. In case of negative pronouncements consequences could consist in the possible payment of damages, costs related to work

required on electrical equipment and the temporary unavailability of the same. At present such charges may not be quantified and are therefore not included in the "Provision for legal disputes and other contingencies".

Foreign currency options

During the year the Group has purchased and sold currency options with the aim of managing the currency risk resulting from positions denominated in US dollars and Swiss francs, the two main currencies outside the Euro area in which fuel and electric energy purchases are denominated.

At December 31, 1999, the Group held currency option contracts with an underlying value of lire 1,039 billion and a current negative value of about lire 7 billion.

Electricity sector employees pension fund

The Budget Law for the year 2000 suppressed as of January 1, 2000, the Electricity Sector Employees Pension Fund, replacing it with the mandatory underwriting of the Mandatory General Insurance (Assicurazione Generale Obbligatoria) for employees of electrical companies. The higher financial requirements of the Fund will result in a total expense for the companies affected amounting to lire 4,050 billion for the period 2000-2002. Criteria used in the allocation among affected companies of such expense and the related terms for the payment are regulated by an inter-ministerial decree in the process of being issued. It is estimated that the total outlay for the Group will amount to slightly less than lire 4,000 billion.

Charges due to facilitations and price reductions

In case the conditions provided for in collective labor contracts apply, facilitations for the supply of electric energy within a set annual power consumption limit will apply to all Enel Group employees, both currently employed and retired. Discounts applied on current tariffs for fiscal year 1999 to Enel Group employees and other recipients amounted to a total of lire 136 billion.

Income Statement

Revenues

Total revenues increased by lire 803 billion over the previous year.

Revenues are made up as follows:

In billions of lire	1999	1998	1999-1998
Revenues from sales and services:			
- energy sales	26,419	25,681	738
- Electricity Equalization Fund contributions	11,772	12,063	(291)
- connection fees	1,124	1,090	34
- other	530	543	(13)
Total	39,845	39,377	468
Changes in contract work in progress	53	(3)	56
Increase in capitalized expenses	1,930	1,924	6
Other costs and revenues	686	414	272
TOTAL REVENUES	42,514	41,712	802

Revenues from sales and services - *Lire 39,845 billion*

Revenues from energy sales increase by lire 738 billion (up 2.9%). The breakdown by value and quantity is shown in the table that follows:

	In billions of lire	Millions of kWh	Lire/kWh (average)		In billions of lire	Millions of kWh	Lire/kWh (average)
	1999	1998	1999		1998	1998	1999
High-voltage	1,611	39,104	41.20		1,593	40,160	39.67
Medium-voltage	7,201	77,900	92.44		7,033	75,293	93.41
Low-voltage	17,022	100,633	169.15		16,405	96,668	169.70
Railways	126	4,400	28.64		141	4,703	29.98
Resellers and foreign sales	459	8,470	54.19		509	9,344	54.47
TOTAL	26,419	230,507	114.61		25,681	226,168	113.55

The shift in sales towards voltages with higher margins (medium- and low-voltage) resulted in increased average revenues per unit sold, despite unchanged tariffs.

Contributions from the Electricity Equalization Fund amount to lire 11,772 billion and break down as follows:

In billions of lire	1999	1998	1999-1998
Contributions for thermal generation	6,324	6,951	(627)
Contributions for net foreign purchases	1,897	1,978	(81)
Contributions for energy purchases from domestic producers and incentives to generation from renewable sources	3,551	3,134	417
TOTAL	11,772	12,063	(291)

Contributions for thermal generation and those for electricity imports decline as a result of lower average prices of fuels to which these are indexed as compared with 1998, as a result of the lag between changes in fuel prices and contribution adjustments.

Contributions for the acquisition of energy from domestic producers and incentives to generation from renewable sources increased by 13.3% due to higher energy purchased and generated.

Item "other" amounting to lire 530 billion, includes all revenues different from energy sales and refers mainly to maintenance and repair work carried out at third party's plants, tolls and dispatching, in addition to energy exchanged.

Changes in contract work in progress - *Lire 53 billion*

The item refers to the stage of completion of work commissioned from third parties. It increases from the previous year by lire 56 billion.

Other costs and revenues - *Lire 686 billion*

Other revenues increase by lire 272 billion due mainly to the use made by WIND starting from July 1, 1999 of the Group's fiber optics network, generating about lire 120 billion in revenues, in addition to the extraordinary gain resulting from the reversal amounting to lire 70 billion of provisions for risks no longer existing at the end of 1999.

Operating costs

The main cost components are described below:

In billions of lire	1999	1998	1999-1998
Raw materials and fuels:			
- purchases of fuels for thermal generation	6,533	6,283	250
- electric energy purchased from third parties	6,831	6,306	525
- purchases of materials	1,513	1,264	249
Total	14,877	13,853	1,024
Services	2,006	1,750	256
Leases and rentals	512	477	35
Personnel	7,402	8,025	(623)
Depreciation and write-downs	6,384	6,297	87
Changes in raw material inventories	(212)	568	(780)
Accrual to provision for risks and charges	387	401	(14)
Other accruals	182	285	(103)
Other operating costs	550	452	98
TOTAL OPERATING COSTS	32,088	32,108	(20)

The increase in [purchases of fuels for thermal generation](#) reflects higher average acquisition prices as compared to the previous year.

119

[Electric energy purchased](#) increases mainly due to higher quantities acquired from domestic producers due to the coming into operation of new power plants relating to incentives provided by CIP Resolution no. 6/92.

The increase in [material and equipment purchase costs](#) is due to the high drawdown of inventories in 1998.

The increase in the cost of services is due to services rendered by WIND Telecomunicazioni amounting to lire 200 billion and services received by Gestore della Rete di Trasmissione Nazionale amounting to about lire 60 billion. Such costs are offset by the reduction of other income statement items due to the fact that such services were previously produced by internal resources.

Expenses for [leases and rentals](#) increase by lire 35 billion due to higher leasing payments for motor vehicles, which are now leased from other companies, in addition to fees paid to municipalities for the use of public ground (COSAP).

The [cost of personnel](#) decreases by lire 623 billion (down 7.8%), following a reduction in the number of employees (down 7.1%).

The table that follows shows the average number of employees of the Group by category, as compared with the previous year, and the total number of employees at December 31, 1999.

	Average number of employees			Employees at Dec. 31, 1999
	1999	1998	1999-1998	
Managers	821	917	(96)	743
Officers	5,140	5,403	(263)	4,917
Employees	43,841	46,631	(2,790)	43,082
Workers	30,451	33,447	(2,996)	29,769
TOTAL	80,253	86,398	(6,145)	78,511

[Depreciation charges and write-downs](#) decrease by lire 87 billion due to higher depreciation charges (increasing by lire 165 billion) and lower write-downs (decreasing by lire 78 billion).

[Changes in raw material inventories](#) is due to increase in inventories described in the assets section.

Accruals refer to amounts accrued to the "provision for legal disputes and other contingencies" already commented upon in the liabilities section.

[Other accruals](#) decline by lire 103 billion mainly as a result of lower accruals to the "provision for management pension contributions" which in 1998 was affected by lower interest rate.

The increase in [other operating costs](#) of lire 98 billion is due almost entirely to the increase in taxes on polluting emissions.

Other operating costs include lire 24 billion of contributions to the Authority for Electricity and Gas.

Compensation payable to the Directors and Statutory Auditors of Enel for the positions covered in the Parent Company and in its subsidiaries during the year amount respectively to lire 5,427 million and lire 366 million (as compared to a total of lire 1,925 million in 1998). The Parent Company amount is inclusive of a bonus of lire 3,075 million for the activity carried out in the context of the listing of the Parent Company's shares, as resolved by the Board of Directors in its meeting held on March 3, 2000.

A detailed description of such compensation is included in the "Other information" section of the Report on operations.

Financial income (expense)

Financial income (expense) breaks down as follows:

In billions of lire

	1999	1998	1999-1998
Financial income:			
- From long-term receivables			
. interest on reimbursements for nuclear related charges	58	105	(47)
. interest relating to the discounting of INPS			
receivables as contribution relief for <i>Mezzogiorno</i> region	49	63	(14)
. other	7	31	(24)
Total	114	199	(85)
- Other revenues	242	325	(83)
Interest charges:			
- On bond issues	725	984	(259)
- On bank loans	456	906	(450)
- Other	306	114	192
Total	1,487	2,004	(517)
TOTAL	(1,131)	(1,480)	349

The reduction of lire 349 billion in net charges is due mainly to lower average financial debt decreasing from lire 28,121 billion to lire 21,370 billion.

Adjustments to the value of investments

Adjustments to the value of investments - *Lire 439 billion*

Adjustments refer to the Group's share in the loss recorded for the year by WIND Telecomunicazioni, valued for the year on equity.

Extraordinary items

Extraordinary items - *Lire (497) billion*

Extraordinary gains amounting to lire 1,066 billion include previous years' prepaid taxes which in 1999 appeared to be retrievable with certainty (lire 562 billion), following the definition of the terms for the conferral of the respective businesses to Sogin and Dalmazia Trieste, taxes retrieved from previous years (lire 234 billion) damage payments resulting from favorable legal dispute outcomes (lire 57 billion) in addition to the elimination of liabilities (lire 49 billion), capital gains from the sale of assets (lire 49 billion) and other extraordinary gains (lire 115 billion).

Extraordinary losses amount to lire 1,563 billion and refer mainly to charges relating to incentives for early retirement of personnel amounting to lire 792 billion, the extraordinary accrual to the provision for the restructuring of financial assets amounting to lire 180 billion, extraordinary accruals to the provision for risks and charges amounting to lire 159 billion, the write-off of investments in Sogin e Gestore della Rete di Trasmissione Nazionale for a total amount of lire 80 billion, the last depreciation charge referring to the solidarity contribution amounting to lire 43 billion, in addition to capital losses amounting to lire 240 billion resulting mainly from the lower assessed value of the real estate property at the time of its conferral to subsidiary Dalmazia Trieste, and to lire 70 billion of other extraordinary losses.

Income taxes - *Lire 3,820 billion*

In billions of lire

	1999	1998	1999-1998
Current taxes	2,834	2,785	49
Deferred taxes	828	975	(147)
Prepaid taxes	158	(241)	399
TOTAL	3,820	3,519	301

The average tax rate before extraordinary items remains constant at 49%.

Relationships with related parties

As provided by the Italian Stock Market Supervising Board, main relationships with related parties are described in the Report on operations.

Attachments



Consolidated Balance Sheet in Euro

In millions of euro	Sub-total	Total	Sub-total	Total
ASSETS	at Dec. 31, 1999		at Dec. 31, 1998	
A) SHARE CAPITAL NOT PAID-IN	-		-	
B) FIXED ASSETS				
I. Intangible assets				
- Incorporation costs	2		1	
- Industrial patents and intellectual property	15		-	
- Work in progress and advances	21		16	
- Other	25		46	
		63		63
II. Tangible assets				
- Land and buildings	6,896		7,463	
- Plant and machinery	27,199		27,234	
- Industrial and commercial equipment	133		149	
- Other assets	196		244	
- Contract work in progress and advances	3,489		3,998	
		37,913		39,088
III. Financial assets				
- Equity investments in:				
. unconsolidated subsidiaries	236		160	
. affiliated companies and other companies	5		5	
	241		165	
- Receivables:				
. third parties	151		100	
. Electricity Equalization Fund as reimbursements for nuclear related charges	50		500	
	503		922	
- Other securities	1		1,539	
		745		1,705
Total fixed assets		38,721		40,856
C) CURRENT ASSETS				
I. Inventories				
- Raw materials and fuel	649		553	
- Buildings to be sold	321		-	
- Contract work in progress	34		18	
		1,004		571
II. Receivables				
- Customers	2,937		2,752	
- Unconsolidated subsidiaries	100		29	
- Affiliated companies	1		1	
- Others	851		410	
- Electricity Equalization Fund	1,461		1,838	
		5,350		5,030
III. Short-term investments				
- Marketable securities	400		86	
- Financial receivables	-		357	
		400		443
IV. Cash and cash equivalents				
- Bank and Post Office deposits	505		1,116	
- Cash	1		1	
		506		1,117
Total current assets		7,260		7,161
D) ACCRUED INCOME AND PREPAID EXPENSES				
- Accrued income		11		21
- Prepaid expenses:				
. issue discounts	4		9	
. other	116		121	
		120		130
Total accrued income and prepaid expenses		131		151
TOTAL ASSETS	46,112		48,168	

In millions of euro	Sub-total	Total	Sub-total	Total
LIABILITIES	at Dec. 31, 1999		at Dec. 31, 1998	
A) LIABILITIES AND SHAREHOLDERS' EQUITY				
I. Capital stock		6,263		6,263
IV. Legal reserve		1,253		130
VII. Other reserves:				
- Capital contributions made by the Italian Treasury	-	993		
- Restatement reserve (Law 292/1993)	3,117		5,478	
- Other	20		20	
- Consolidation reserve	9		9	
		3,146		6,500
VIII. Retained earnings		4,570		3,425
IX. Net income		2,345		2,214
<i>Total Shareholders' Equity</i>		17,577		18,532
Minority interests		9		7
Total		17,586		18,537
B) PROVISIONS FOR RISKS AND CHARGES				
- Retirement benefits	1,054		1,041	
- Income taxes	2,569		2,347	
- Other	1,627		1,945	
Total		5,250		5,333
C) EMPLOYEE TERMINATION INDEMNITY		1,547		2,293
	Due beyond 12 months		Due beyond 12 months	
D) ACCOUNTS PAYABLE				
- Bonds	6,373	7,539	6,302	8,754
- Banks:				
. long-term debt	2,794	3,558	3,633	5,135
. short-term debt		1,551		384
		5,109		5,519
- Advances received	138	1,018	43	974
- Trade payables	87	3,233	62	2,560
- Payable to subsidiaries and affiliated companies		556		2
- Taxes payable		1,173		710
- Social security payables	63	398	268	569
- Other payables	154	884	232	1,158
- Payable to Electricity Equalization Fund		1,324		1,307
Total		21,234		21,553
E) ACCRUED LIABILITIES AND DEFERRED INCOME				
- Accrued liabilities		124		210
- Deferred income:				
. premium on bond issues		9		13
. other		362		229
		371		242
Total		495		452
TOTAL LIABILITIES		46,112		48,168
COMMITMENTS				
- Guarantees given		21		1
- Other		87,209		90,374
Total commitments		87,230		90,375

Consolidated Income Statement in Euro

In millions of euro	Sub-total	Total	Sub-total	Total
	1999		1998	
A) REVENUES				
- Sales and services:				
. energy sales	13,644		13,263	
. Electricity Equalization Fund contributions	6,080		6,230	
. connection fees	580		563	
. other	274		280	
	20,578		20,336	
- Change in contract work in progress	27		-2	
- Increase in capitalized expenses	997		994	
- Other costs and revenues:				
. contributions received	9		15	
. other	346		199	
	355		214	
Total revenues	21,957		21,542	
B) OPERATING COSTS				
- Raw materials and fuel		7,683		7,155
- Services		1,036		904
- Leases and rentals		264		246
- Personnel:				
. wages and salaries	2,622		2,795	
. social security contributions	802		895	
. employee termination indemnity	239		250	
. retirement benefits	28		71	
. other costs	133		134	
	3,824		4,145	
- Amortization, depreciation and write-downs:				
. amortization of intangible assets	27		23	
. depreciation of tangible assets	3,176		3,094	
. fixed assets write-downs	36		10	
. write-downs of receivables included under current assets	58		125	
	3,297		3,252	
- Change in inventories		-110		293
- Provisions for risks and charges		200		207
- Other provisions		94		147
- Other operating costs		284		233
Total operating costs	16,572		16,582	
Operating income (A-B)	5,385		4,960	
C) FINANCIAL INCOME AND EXPENSE				
- Investment and interest income:				
. from long-term receivables:				
. other	65		103	
. from marketable securities				
not representing equity investments	3		10	
. other income:				
. other	116		158	
	184		271	
- Interest and other financial charges:				
. from unconsolidated subsidiaries	3		-	
. other	765		1,035	
Total financial income (expense)	768		-584	

In millions of euro	Sub-total	Total	Sub-total	Total
	1999	1999	1998	1998
D) ADJUSTMENTS TO THE VALUE OF INVESTMENTS				
- Write-downs:				
. equity investments	227	-227	1	-1
Total adjustments to the value of investments		-227		-1
E) EXTRAORDINARY ITEMS				
- Income:				
. capital gains on disposal of assets	25	-	-	
. other	525	425		425
- Charges:				
. capital losses on disposal of assets	124	-	-	
. previous years' taxes	1	-	-	
. other	683	590		
Total extraordinary items		808	-258	590
Income before taxes and minority interests (A-B+C+D+E)		4,316		4,029
- Income taxes		1,973		1,817
NET INCOME BEFORE MINORITY INTERESTS		2,343		2,212
- Minority interests	2			2
NET INCOME	2,345			2,214

List of equity investments in subsidiaries and affiliated companies

I) Companies consolidated line-by-line at December 31, 1999

Company name	Registered office	Activity	Capital stock (Lire) at Dec. 31, 1999	% ownership	Held by	%
Parent Company:						
Enel SpA	ROME	Holding Company	12,126,150,379,000	-		
Subsidiaries:						
CESI SpA - Centro Elettrotecnico Sperimentale Italiano Giacinto Motta SpA	MILAN	Research and testing	16,000,000,000	65.03	Enel SpA Gestore della Rete di Trasmissione Nazionale SpA	55.03 10.00
Conphoebus SpA	CATANIA	Research and engineering services	1,506,000,000	100.00	Enel SpA	100.00
Dalmazia Trieste SpA	ROME	Real estate management	7,809,520,000	100.00	Enel SpA Sei SpA	98.76 1.24
Elettroambiente SpA	ROME	Electricity generation from waste	500,000,000	100.00	Enel SpA	100.00
Elettrogen SpA	ROME	Electricity generation	278,900,000,000	100.00	Enel SpA	100.00
Enel Distribuzione SpA	ROME	Electricity distribution	12,299,500,000,000	100.00	Enel SpA	100.00
Enel.Hydro SpA (formerly ISMES)	SERIATE (BG)	Engineering, water systems	15,000,000,000	100.00	Enel SpA	100.00
Enel Produzione SpA	ROME	Electricity generation	13,430,600,000,000	100.00	Enel SpA	100.00
Enel Trade SpA	MILAN	Sale of electricity	200,000,000	100.00	Enel SpA	100.00
Erga SpA	PISA	Electricity generation from renewable sources	1,220,200,000,000	100.00	Enel SpA	100.00
Eurogen SpA	ROME	Electricity generation	205,480,978,000	100.00	Enel SpA	100.00
Interpower SpA	ROME	Electricity generation	189,177,516,000	100.00	Enel SpA	100.00
Sei SpA	ROME	Real estate management and general services	2,446,754,721,000	100.00	Enel SpA Enel.Hydro SpA	99.99 0.01
So.I.e. SpA	ROME	Public lighting systems	9,200,000,000	100.00	Enel SpA CISE Tecnologie Innovative Srl	99.98 0.02
Terna SpA	ROME	Ownership and maintenance of transmission network	4,072,100,000,000	100.00	Enel SpA	100.00

II) Companies consolidated at equity at December 31, 1999

Company name	Registered office	Activity	Capital stock (Lire) at Dec. 31, 1999	% ownership	Held by	%
WIND Telecomunicazioni SpA	ROME	Telecommunications	1,751,584,313,000	51.00	Enel SpA	51.00

III) Unconsolidated subsidiaries at December 31, 1999

Company name	Registered office	Activity	Capital stock	Currency	% ownership	Held by	%
at Dec. 31, 1999							
CISE Tecnologie Innovative Srl ⁽¹⁾	SEGRATE (MI)	Research	1,200,000,000	Lit.	100.00	Enel SpA	100.00
Enel.FTL SpA	ROME	Fuel purchase and logistics	200,000,000	Lit.	100.00	Enel SpA	99.00
						CISE Tecnologie Innovative Srl	1.00
Enel.it SpA	ROME	Information technology	200,000,000	Lit.	100.00	Enel SpA	99.00
						CISE Tecnologie Innovative Srl	1.00
Enelpower SpA ⁽¹⁾	MILAN	Engineering and contracting	200,000,000	Lit.	100.00	Enel SpA	99.00
						CISE Tecnologie Innovative Srl	1.00
Gestore della Rete di Trasmissione Nazionale SpA	ROME	Transmission and dispatching of electricity	50,200,000,000	Lit.	100.00	Enel SpA	100.00
Se.m.e. - Servizi manutenzione elettrica SpA ⁽¹⁾	ROME	Energy services	200,000,000	Lit.	100.00	Enel SpA	99.00
						CISE Tecnologie Innovative Srl	1.00
Sfera - Società consortile per la formazione e le risorse aziendali per azioni	ROME	Personnel training and relocation	200,000,000	Lit.	100.00	Enel SpA	45.00
						Enel Produzione SpA	10.00
						Terna SpA	10.00
						Enel Distribuzione SpA	10.00
						Enelpower SpA	10.00
						Erga SpA	5.00
						Sei SpA	5.00
						Enel.Hydro SpA	5.00
Sogin - Società Gestione Impianti Nucleari per azioni	ROME	Decomissioning of nuclear plants, closing of nuclear fuel cycle	30,200,000,000	Lit.	100.00	Enel SpA	100.00
Consorzio Siciltech	PALERMO	Small and medium size business development in Sicily	10,000,000	Lit.	99.00	Enel.Hydro SpA	99.00
Enelpower UK Ltd	UNITED KINGDOM	Electrical engineering	1,000	GBP	100.00	Enelpower SpA	100.00
ITnet SpA	ROME	Network information systems	1,000,000,000	Lit.	50.49	WIND Telecomunicazioni SpA	99.00
Mondo WIND Srl	ROME	Sale of telecommunication products and services	190,000,000	Lit.	51.00	WIND Telecomunicazioni SpA	99.00
						ITnet SpA	1.00
Acquirente Unico SpA	ROME	Conclusion and management of electricity supply contracts	200,000,000	Lit.	100.00	Gestore della Rete di Trasmissione Nazionale SpA	100.00

⁽¹⁾ The total book value exceeds the corresponding share in the companies' Shareholders' Equity by lire 0.3 billion

IV) Affiliated companies at December 31, 1999

Company name	Registered office	Activity	Capital stock	Currency	% ownership	Held by	%
at Dec. 31, 1999							
SOTACARBO - Società Tecnologie Avanzate Carbone SpA	PORTOSCUSO (CA)	Coal utilization technology development	9,000,000,000	Lit.	25.00	Enel SpA	25.00
Istedit SpA ⁽¹⁾	GUIDONIA (RM)	Building safety technologies	2,000,000,000	Lit.	50.00	Enel.Hydro SpA	50.00
Consorzio Isas	MATERA	Training and other services	10,000,000	Lit.	37.00	Enel.Hydro SpA	37.00
Consorzio Corarc	SERIATE (BG)	Scientific research coordination	52,000,000	Lit.	50.00	Enel.Hydro SpA	50.00
Consorzio Progetto Torre di Pisa	PISA	Coordination of studies for the restoration of the Tower of Pisa	60,000,000	Lit.	24.98	Enel.Hydro SpA	24.98
Consorzio Qseal	MILAN	Software quality certification	4,000,000	Lit.	25.00	Enel.Hydro SpA	25.00
Consorzio Tema (under liquidation)	BRINDISI		45,500,000	Lit.	43.96	Enel.Hydro SpA	43.96
Consorzio Mitelwa (under liquidation)	VERTEMATE CON MINOPRIO (CO)		50,000,000	Lit.	30.00	Enel.Hydro SpA	30.00
SIET SpA	PIACENZA	Studies, projects and research in the thermal field	2,184,480,000	Lit.	41.55	Enel.Hydro SpA	41.55
Idroenergia Consorzio	ROME	Desalination plants	100,000,000	Lit.	50.00	Enel.Hydro SpA	50.00
Consorzio Gestione Centro Iside	PRIGNANO CIL. (SA)		200,000,000	Lit.	49.00	Enel.Hydro SpA	49.00
Enelpower Contractor and Development Saudi Arabia	SAUDI ARABIA	Power plant construction, management and maintenance	5,000,000	SR	40.00	Enelpower SpA	40.00
Enelco SA	GREECE	Power plant construction, management and maintenance	200,000,000	GRD	50.00	Enelpower SpA	50.00
Consorzio Elettra 2000	BOLOGNA		1,800,000,000	Lit.	10.20	WIND Telecomunicazioni SpA	20.00
TIM - Tecno Idro Meteo Scpa (under liquidation)	ROME		2,354,000,000	Lit.	34.00	Enel.Hydro SpA CISE Tecnologie Innovative Srl	17.00 17.00

⁽¹⁾ The total book value exceeds the corresponding share in the companies' Shareholders' Equity by lire 0.6 billion, following the valuation of real estate properties at the time of acquisition



Report of the Board of Statutory Auditors on the 1999 Consolidated Financial Statements of the Enel Group

To our Shareholders:

The Consolidated financial statements of the Enel Group at December 31, 1999 has been prepared by the Group's Parent Company, Enel, pursuant to the provisions contained in Legislative Decree 127 dated April 9, 1991, and are made up by the Consolidated Balance Sheet, Consolidated Income Statement and the related Notes to the accounts, in addition to the Report of the Board of Directors of the Group's Parent Company. The report provides adequate information on operations and in particular considerations on financial and economic aspects. With reference to article 40 of the mentioned Legislative Decree, moreover, the Report of the Board contains a description of research and development activities, of events occurred after the closing of the 1999 financial year and management's expectations of operations for the year 2000. The Board of Statutory Auditors examined the company's documents and found them to be correct and in line with current statutory regulations.

The Balance sheet and Income statement report data for the previous financial year for comparative purposes. Financial data is expressed also in euro, converted from Italian lire at the exchange rate of lire 1936.27 per euro.

The Board of Statutory Auditors acknowledges that consolidated companies – whose list and description is supplied pursuant to article 39 of Legislative Decree 127/91 – have been recorded correctly in compliance with article 26 of the mentioned Legislative Decree. Subsidiaries CISE Tecnologie Innovative and Se.m.e. have not been included due to their minor significance, while recently incorporated subsidiaries Sfera, Enel.it, Enelpower and Enel.FTL are not included in the consolidation as not operating in 1999.

WIND Telecomunicazioni has not been included in the consolidation due to restrictions to the exercise of control included in the provisions of the company's By-laws. Equity investments have been valued at equity in the consolidated accounts. Subsidiaries Sogin and Gestore della Rete di Trasmissione Nazionale have been excluded from the consolidation in view of their transfer to the Italian Treasury pursuant to Legislative Decree no. 79, March 16, 1999.

The Consolidated Financial Statements of the Group reflect amounts reported in the statutory accounts of subsidiaries at December 31, 1999, as approved.

The Notes to the accounts contain the information prescribed by article 38, Legislative Decree 127/91. In particular they include a description of the most significant valuation criteria applied, in line with those adopted by the Group Parent Company and those applied in the preparation of the accounts for 1998.

Significant changes in consolidated balance sheet items from the previous years are also explained in the notes.

The Notes to the accounts illustrate moreover the consolidation techniques applied, pursuant to the provisions of articles 31 and 32 of Legislative Decree 127/91. Principles adopted for the consolidation in 1999 are those adopted in the previous year, and in particular:

- a) the value of investments included in the consolidation has been netted against the share in the shareholders' equity of the same, according to the line-by-line method, article 31, comma 2, paragraph a);
- b) minority interests in the income and the shareholders' equity of subsidiaries and affiliated companies are reported in specific entries in the Consolidated income statement and shareholders' equity, pursuant to article 31, commas 3 and 4;
- c) costs and revenues, receivables and payables among companies included in the consolidation, together with significant unrealized gains and losses resulting from transactions among such companies have been eliminated, pursuant to article 31, comma 2, paragraphs b), c) and d);
- d) adjustments made exclusively for tax purposes and other consolidation adjustments keep into account the deferred tax effect.

The Board of Statutory Auditors, based also on contacts held with Independent Auditors Arthur Andersen SpA appointed by the Shareholders' Meeting of Enel to audit the Consolidated Financial Statements of the Enel Group for the years 1999-2001, has no exception to make on the Consolidated Financial Statements of the Enel Group for 1999.

Rome, May 10, 2000

The Board of Statutory Auditors

**Report of the Independent Auditors pursuant to art. 156
of Legislative Decree no. 58 of February 24, 1998**
(Translation from the original issued in Italian)

Arthur Andersen SpA
Via Campania 47
00187 Roma

To the Shareholders of ENEL S.p.A.:

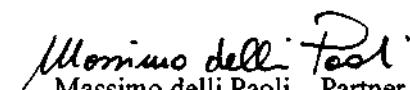
1. We have audited the consolidated financial statements of ENEL S.p.A. and subsidiaries as of and for the year ended December 31, 1999. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Italy as recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob"). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the adequacy and the fairness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For our opinion on the prior year's consolidated financial statements, which are presented for comparative purposes as required by law, reference should be made to our auditors' report dated April 26, 1999.

3. In our opinion, the consolidated financial statements of ENEL S.p.A. and subsidiaries as of and for the year ended December 31, 1999 comply with the Italian statutory provisions related to financial statements; therefore they give a true and fair view of the financial position and results of operations of the Company and its subsidiaries.
4. For a better understanding of the consolidated financial statements attention is drawn to the fact that as of December 31, 1999, the Company and its subsidiaries were involved in outstanding litigation and other uncertain situations regarding, mainly, the reimbursement of nuclear-related charges, electric energy contracts, tariffs and environmental matters the outcomes of which could result, in some cases, in charges or income for the Company and its subsidiaries, not objectively quantifiable. The mentioned situations are described by the Board of Directors' in the notes to the consolidated financial statements.

Roma, Italy
May 2, 2000

Arthur Andersen SpA


Massimo delli Paoli - Partner

U.S. Generally Accepted Accounting Principles (U.S. GAAP)

Summary of significant differences between Italian GAAP and U.S. GAAP

The consolidated financial statements are prepared in accordance with Italian GAAP, which differs in certain respects from U.S. GAAP. The significant differences are as follows:

Restated Fixed Assets and Related Depreciation

In accordance with various Italian laws, certain utility plant balances have been restated. Under U.S. GAAP, such restatements are not permitted. The adjustments shown in the reconciliations below include the elimination of these restatements and the related accumulated depreciation and the effect of the recomputation of the depreciation expense on a historical cost basis.

Capitalized Interest and Related Depreciation

Under U.S. GAAP, interest is required to be capitalized as part of the cost of constructing an asset in accordance with Statement of Financial Accounting Standards ("SFAS") No. 34, "Capitalization of Interest Cost". Under Italian GAAP, interest capitalization is permitted, but not required. For Italian purposes, the Company has not capitalized any interest since December 31, 1988. The reconciliations below include adjustments to reflect capitalization of interest on assets, to the extent those assets qualify for interest capitalization in accordance with SFAS No. 34, and the related effect on depreciation.

Write-down of Fixed Assets

In 1994, the Company wrote-up the value of certain machinery which had been previously written down. In 1997, the Company reversed the above mentioned write-up in its Italian financial statements. Under U.S. GAAP, if a write-down occurs, a new cost basis is established and subsequent write-ups in value are not permitted. The reconciliations below include the adjustment needed to reverse this write-down in 1997, since it had been previously reflected for U.S. GAAP purposes.

Unbilled Revenues

The Company records revenues for electric services rendered when the electrical meter is read or when a customer is billed based on estimated consumption. Revenues for the supply of electricity provided after the last meter reading prior to year-end, as well as differences between estimated and actual consumption, are recognized in the subsequent period when billed. Under U.S. GAAP, revenues are recorded for all services provided through the end of the accounting period. The reconciliations presented below include adjustments to recognize the net impact on revenues for all services provided during each fiscal period, even if amounts are not billed at the period end.

Pension and Employee Termination Accounting

The Company grants certain pension and other benefits to its employees, as required by Italian law and under labor contracts. In particular, the Company's employees are covered by a plan required under Italian law and labor contracts which grants a termination indemnity based on compensation and years of service. The Company has accrued the amount due to each employee as of the respective year-end, based on such factors and dates. In addition, the Company is required, by agreements with Trade Unions, to provide certain additional employee termination benefits. The reserve for these termination benefits is accrued on a current liability basis at the end of each year and accordingly is not actuarially computed.

SFAS No. 87, "Employers' Accounting for Pensions", requires the provision for pension and other benefits to be recognized over the employees' employment period based on actuarially determined calculations. Additionally, in determining the employee termination liability for U.S. GAAP purposes, the Company has applied Approach 2 of Emerging Issues Task Force ("EITF") No. 88-1. This approach determines the actuarial present value of the vested benefit obligation the employee is entitled to at separation based on the

employee's expected date of separation or retirement. The reconciliations below include adjustments to recognize the pension and other benefits in accordance with SFAS No. 87 and EITF No. 88-1.

Other Postretirement Benefits Accounting

The Company grants certain postretirement benefits to its employees, mainly related to a reduction on electricity tariffs and contributions to certain employee programs that provide medical benefits. The related costs are expensed as incurred under Italian GAAP. SFAS No. 106, "Accounting for Postretirement Benefits Other than Pensions", requires the provision for various employee benefit arrangements to be recognized over the employees' employment period based on actuarially determined calculations. The reconciliations presented below include adjustments to recognize the other postretirement benefits in accordance with SFAS No. 106.

Social Security Withholdings and Contribution ("Solidarity Contribution")

The Company was required to pay approximately lire 126 billion for social security withholdings and contributions (relating to the period from September 1, 1985 to June 30, 1991), during 1997 through 1999. In the accompanying consolidated financial statements, the amounts are expensed as paid over the deferred payment period. U.S. GAAP requires the recognition of a liability on an accrual basis, when it is probable and reasonably estimated. The reconciliations below include adjustments to reflect the liabilities on an accrual basis.

Derivatives

The Company enters into derivatives for general and specific hedging purposes. The general hedges are not designed against specific transactions. Under U.S. GAAP, derivatives that are not designated to hedge specific transactions are accounted for at estimated market value with gains and losses being recognized in the statements of income currently. The reconciliations below include adjustments to reflect these types of derivatives at their estimated market value in the statements of income.

Effect of U.S. GAAP Adjustments on WIND Equity

Certain differences between Italian GAAP and U.S. GAAP exist in the accounts of WIND, primarily related to start-up costs, which are required to be expensed for U.S. GAAP purposes. The reconciliations below include adjustments to recognize the Company's investment in WIND on a U.S. GAAP basis.

Restructuring Reserve

The Italian GAAP financial statements reflect accruals for anticipated restructuring charges to occur in the future. U.S. GAAP requires that certain conditions must be met before a restructuring accrual can be established. These conditions have not been met, therefore, the reconciliations below reflect adjustments for the difference in the timing of the accruals.

Deferred Taxes

During 1997, a change in the Italian tax laws was enacted which changed the tax rates effective January 1, 1998. As the enactment date of this change was during 1997, the deferred tax assets and liabilities previously reflected under U.S. GAAP were adjusted to reflect the new rates. The amount of this reversal under U.S. GAAP was approximately lire 286 billion. The reconciliations below include an adjustment for the difference between the Italian and the U.S. GAAP impacts.

Prior to 1998, for Italian GAAP purposes, the Company recognized deferred income taxes only for certain book and tax differences, while SFAS No. 109, "Accounting for

Income Taxes", requires the recognition of deferred income taxes on all temporary book and tax differences. The reconciliations below include these adjustments.

Beginning in 1998, with the application of Italian Accounting Standard No. 25, the Company began recognizing deferred tax assets on all temporary differences between book and tax bases. This is substantially consistent with U.S. GAAP, and the reconciliations below include an adjustment since deferred tax assets were recorded in prior years for U.S. GAAP purposes.

Extraordinary Income and Expenses

Items are recorded as extraordinary under Italian GAAP if they meet a certain criteria. U.S. GAAP requires more stringent conditions for extraordinary item classification by also requiring the underlying event or transaction to clearly possess a high degree of abnormality and be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the event operates. Items recorded by the Company as extraordinary in the years, presented herein for Italian GAAP would not qualify as extraordinary under U.S. GAAP.

Reconciliation between net income and shareholders' equity determined under Italian GAAP and U.S. GAAP

The following table summarizes the significant adjustments to consolidated net income for the years ended December 31, 1997, 1998 and 1999 that would be required if U.S. GAAP had been applied instead of Italian GAAP:

In billions of lire ^(a)	1997	1998	1999
Net Income as reported in the consolidated statements of income	3,327	4,286	4,541
Items increasing (decreasing) reported net income:			
Depreciation on restated fixed assets	619	433	403
Capitalized interest and related depreciation ^(b)	218	(4)	(74)
Write-down of fixed assets	428	-	-
Unbilled revenues	(14)	(18)	181
Pension and employee termination accounting	71	(55)	(104)
Other postretirement benefits accounting	(16)	(17)	(46)
Social security withholdings and contributions	42	42	42
Derivatives	12	(71)	52
Effect of U.S. GAAP adjustments on WIND equity	-	-	(55)
Restructuring reserve	-	-	59
Deferred taxes	(439)	(933)	(362)
Tax effect of reconciling items	(1,071)	(132)	(191)
Approximate net income in accordance with U.S. GAAP	3,177	3,531	4,446
Basic and diluted earnings per share in accordance with U.S. GAAP ^(c)	262	291	367

^(a) Except per-share data which is in lire

^(b) Includes related depreciation of lire 90 billion, lire 121 billion, lire 135 billion respectively

^(c) The approximate per-share amounts have been calculated in accordance with SFAS No. 128, "Earnings Per-Share". For purposes of these calculations the weighted average number of shares was 12,126,150,379 shares as of December 31, 1997, 1998 and 1999, respectively.

The following table summarizes the significant adjustments to consolidated shareholders' equity as of December 31, 1998 and 1999 that would be required if U.S. GAAP had been applied instead of Italian GAAP:

In billions of lire	1998	1999
Shareholders' equity as reported in the Consolidated Balance Sheet	35,880	34,034
Items increasing (decreasing) reported shareholders' equity:		
Restated fixed assets and related depreciation ^(a)	(3,718)	(3,315)
Capitalized interest and related depreciation ^(b)	2,992	2,918
Unbilled revenues	906	1,087
Pension and employee termination accounting	(94)	(118)
Other postretirement benefits accounting	(1,959)	(2,005)
Social security withholdings and contributions	(42)	-
Derivatives	(59)	(7)
Effect of U.S. GAAP adjustments on WIND equity	-	(55)
Restructuring reserve	-	59
Deferred taxes	157	(205)
Tax effect of reconciling items	722	502
Approximate shareholders' equity in accordance with U.S. GAAP	34,785	32,895

^(a) Includes related accumulated depreciation of lire 24,133 billion, lire 24,342 billion, respectively

^(b) Includes related accumulated depreciation of lire 528 billion, lire 663 billion, respectively

There are other differences between Italian GAAP and U.S. GAAP which have not been included in the U.S. GAAP reconciliation because their effects on net income and shareholders' equity are not considered material. Following is a brief description of such differences:

1. **Cost of Removal and Land Depreciation** – The Company does not specifically provide a reserve for the cost of removal of utility plant upon completion of its service period since the environmental laws in Italy do not require removal of generating assets. The Company does, however, provide depreciation on land on which generating stations and other property are located. Under U.S. GAAP, land is not depreciated, but specific provisions are generally made for the cost of removals as a reduction in net utility plant or reflected as a liability in the balance sheet. The effect of not providing for the cost of removal of plant or the depreciation of land is not material, individually or in the aggregate, on the Company's financial position and results of operations.
2. **Equity Method of Accounting for WIND** – In the Italian financial statements presented for 1997 and 1998, the Company's investment in WIND is accounted for under the cost method of accounting. Under U.S. GAAP, WIND is to be accounted for under the equity method since the Company has significant influence (but not control) over the investment. This effect is not material to the Company's financial position and results of operations for 1997 and 1998.
3. **Newly Organized Companies** – The results of operations for certain subsidiaries have been excluded from the consolidated statement of income because the companies were not operating in certain years. These effects are not material, individually or in the aggregate, to the Company's financial position or results of operations.

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