

**Supplement No. 2 dated 30 September 2011 to the Offering Circular dated 22 February 2011,
as supplemented on 13 April 2011**



ENEL – Società per Azioni
(incorporated with limited liability in Italy)
as an Issuer and Guarantor
and

ENEL FINANCE INTERNATIONAL N.V.
*(a limited liability company incorporated in The Netherlands, having its registered office at Herengracht
471, 1017 BS Amsterdam, The Netherlands)*
as an Issuer

€25,000,000,000
Global Medium Term Note Programme

This second supplement (the “**Second Supplement**”) to the Offering Circular dated 22 February 2011 (the “**Offering Circular**”), as supplemented by the first supplement dated 13 April 2011 (the “**First Supplement**”), constitutes a supplement to a base prospectus for the purposes of Article 16, paragraph 1, of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) and is prepared in connection with the Euro 25,000,000,000 Global Medium Term Note Programme (the “**Programme**”) of ENEL – Società per Azioni (“**ENEL**”) and ENEL Finance International N.V. (“**ENEL N.V.**”) guaranteed, in case of Notes issued by ENEL N.V., by ENEL. This document is supplemental to, and should be read in conjunction with, the Offering Circular and the First Supplement issued by ENEL and ENEL N.V. Unless the context otherwise requires, terms defined in the Offering Circular shall have the same meaning when used in this Second Supplement.

This Second Supplement has been prepared to (i) incorporate by reference (a) ENEL’s audited consolidated financial statements for the financial year ended 31 December 2010 and (b) ENEL’s unaudited condensed interim consolidated financial statements as at and for the six months ended 30 June 2011, (ii) disclose certain recent developments in the ENEL business and (iii) update certain information contained in the Offering Circular.

The press release issued by ENEL on 3 August 2011, entitled “*Enel: Board of Directors approves the results for the first half of 2011*” is attached hereto as Annex I and shall be deemed to form part of this Second Supplement in its entirety. References herein to this document are to this Second Supplement incorporating also Annex I hereto.

This Second Supplement has been approved by the Central Bank of Ireland (the “**Central Bank**”), as competent authority under the Prospectus Directive. The Central Bank only approves this Second Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

Copies of this Second Supplement (which, for the avoidance of doubt, also includes the information attached hereto as Annex I) may be inspected free of charge (i) at the registered office of each of ENEL and ENEL N.V., (ii) at the specified offices of the Paying Agent for the time being in Ireland and (iii) on the website of the Central Bank (www.centralbank.ie).

To the extent that there is any inconsistency between (a) any statement in, or attached to, or incorporated by reference in, this Second Supplement and (b) any other statement in, or attached to, or incorporated by reference in, the Offering Circular or in the First Supplement, the statements in (a) above will prevail.

Each of ENEL and ENEL N.V. accepts responsibility for the information contained in this Second Supplement. To the best of the knowledge and belief of ENEL and ENEL N.V. (having taken all reasonable care to ensure that such is the case), the information contained in this Second Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The language of this Second Supplement is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Save as disclosed in this Second Supplement, there have been no other significant new factors and there are no material mistakes or inaccuracies relating to information included in the Offering Circular or in the First Supplement which are capable of affecting the assessment of Notes issued under the Programme since the publication of the Offering Circular and the First Supplement.

The credit ratings included or referred to in this Second Supplement have been issued by S&P or Moody's or Fitch, each of which is established in the European Union and each of which has applied to be registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, although for each of them notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

In accordance with Article 16, paragraph 2, of the Prospectus Directive, investors who have already agreed to purchase or subscribe for securities before this Second Supplement is published have the right, exercisable within a time limit of two working days after the publication of this Second Supplement, to withdraw their acceptances.

The date of this Second Supplement is 30 September 2011.

DOCUMENTS INCORPORATED BY REFERENCE

The information set out below supplement the section of the Offering Circular headed “*Documents Incorporated by Reference*” on pages 20 and 21 of the Offering Circular.

The following documents which have previously been published and have been filed with the Irish Stock Exchange shall be incorporated in, and form part of, this Second Supplement:

- (a) the audited consolidated annual financial statements of ENEL for the financial year ended 31 December 2010 contained in ENEL’s Annual Report 2010 and the relevant independent auditors’ report; and
- (b) the unaudited condensed interim consolidated financial statements of ENEL as at and for the six months period ended 30 June 2011.

The following information from ENEL’s annual reports are incorporated by reference, and the following cross-reference lists are provided to enable investors to identify specific items of information so incorporated:

Document	Information incorporated	Location
ENEL’s audited consolidated annual financial statements for the financial year ended 31 December 2010	Financial information concerning ENEL Group’s assets and liabilities, financial position and profits and losses:	
	Consolidated Income Statement	p. 144
	Statement of Consolidated Comprehensive Income	p. 145
	Consolidated Balance Sheet	pp. 146-147
	Statement of Changes in Consolidated Shareholders’ Equity	pp. 148 - 149
	Consolidated Statement of Cash Flows	p. 150
	Notes to the Financial Statements	pp. 151 – 241
	Report of the Independent Auditors	Provided separately

Document	Information incorporated	Location
ENEL’s unaudited condensed interim consolidated financial statements as at and for the six months ended 30 June 2011	Financial information concerning ENEL’s assets and liabilities, financial position and profits and losses	
	Consolidated Income Statement	p. 94
	Statement of Consolidated Comprehensive Income	p. 95
	Consolidated Balance Sheet	pp. 96 - 97
	Statement of Changes in Consolidated Shareholders’ Equity	p.98
	Consolidated Statement of Cash Flows	p. 99
	Notes to the Financial Statements	pp. 100 - 140

Copies of the documents referred to in paragraphs (a) and (b) above as containing information incorporated by reference in this Second Supplement can be obtained (i) from the registered office of each of ENEL and ENEL N.V., and (ii) from the specified offices of the Paying Agent for the time being in Ireland.

Any information contained in any of the documents specified above which is not listed above is either not relevant or is covered elsewhere in the Offering Circular or in this Second Supplement.

DESCRIPTION OF ENEL

The information set out below amends, replaces and supersedes the section of the Offering Circular headed “*Description of ENEL – Regulation – Italian Regulation*” on pages 151 to 171 of the Offering Circular.

Italian Regulation

Overview of Regulation of the Energy Sector in Italy

The MED and the Authority for Electricity and Gas share responsibility for overall supervision and regulation of the Italian energy sector, comprising both electricity and gas.

The MED is responsible for establishing the strategic guidelines for the energy sector and for ensuring the safety and economic soundness of the electricity and gas sectors.

The Authority for Electricity and Gas is responsible for:

- setting and adjusting tariffs on the basis of general criteria established by law;
- advising the MED on the structuring and administration of licensing and authorisation regimes for the energy sector;
- ensuring the quality of services provided to clients;
- overseeing the separation of utility companies into distinct units for accounting and management purposes;
- promoting competition; and
- protecting the interests of consumers, including the authority to mediate disputes between utility companies and consumers, and impose sanctions for violations of regulations.

In addition to regulation by the Authority for Electricity and Gas, the Italian antitrust authority (the AGCM) also plays an active role in the energy market in ensuring competition between suppliers and protecting the right of clients to choose their providers.

EU Regulation-The Third Energy Package

The European Union is active in energy regulation by means of its legislative powers, as well as investigations and other actions by the European Commission. A significant portion of Member States’ domestic regulation in the electricity and gas sector is imprinted by the EU Legislation. Notably, in 2009 the European institutions adopted the so-called “Third Energy Package” which includes several directives and regulations aimed at completing the liberalisation of both electricity and gas markets. In particular, the third energy package contemplates the separation of supply and production activities from transmission network operations. To achieve this goal, Member States may opt between the following three unbundling options:

- ***Full ownership unbundling.*** This option entails vertically integrated undertakings selling their gas and electricity grids to an independent operator, which will carry out all network operations.
- ***Independent System Operator (“ISO”).*** Under this option, vertically integrated undertakings maintain the ownership of the gas and electricity grids, but they are obliged to designate an independent operator for the management of all network operations.

- **Independent Transmission Operator (“ITO”).** This option is a variant of the ISO option albeit vertically integrated undertakings do not have to designate an ISO, but need to abide by strict rules ensuring separation between supply and transmission.

The Third Energy Package also contains several measures aimed at enhancing consumers’ rights, such as the right: (i) to change supplier within three weeks and free of charge and to receive the final closure account at the latest six weeks after switching suppliers; (ii) to obtain compensation if quality targets are not met; (iii) to receive information on supply terms through bills and company websites; and (iv) to see complaints dealt with in an efficient and independent manner. The third energy package also strengthens protection for small businesses and residential clients, while rules are introduced to ensure that liberalisation does not cause detriment to vulnerable energy consumers. Finally, the third energy package provides for the creation of a European Union agency for the coordination of national energy regulators, which will issue non-binding framework guidelines for the national agencies. It is expected that this will result in more harmonised rules on energy regulation across the EU.

As envisaged in the Third Energy Package, in March 2011 the Agency for the Cooperation of Energy Regulators (ACER) began operations. ACER replaces and strengthens the European Regulators Group for Electricity and Gas (ERGEG). ACER coordinates the actions of the national regulatory authorities in the energy sector and its main responsibility concern:

- rules governing European electricity and gas networks;
- terms and conditions for access to (and operational security for) cross-border infrastructures where national authorities are in disagreement;
- the Ten-Year Network Development Plan (TYNDP).

In Italy, the principles provided under the Third Energy Package (in particular, EU Directive Nos. 2009/72/EC, 2009/73/EC and 2009/92/EC), have been recently implemented by means of Legislative Decree no. 93/2011, published in the *Gazzetta Ufficiale* on June 28, 2011.

The main provisions of Legislative Decree no. 93/2011 include:

- (i) unbundling of the Transmission System Operator (TSO). In the electricity sector, the unbundling between grid ownership and generation activity has been confirmed and the TSO is expressly prohibited from operating power generation plants. For the gas sector, an Independent Transmission Operator model has been adopted, with a vertically integrated ownership structure, more stringent functional separation rules and wider control and approval powers to the Authority for Electricity and Gas;
- (ii) integration of renewable energy sources generation into the electrical system more efficiently;
- (iii) Exemption from third party access (TPA) obligation in respect of new interconnection infrastructure. With reference to the electricity sector, the duration of the exemption from the third party access obligation (for a maximum of 50% or 80 % of new capacity) will be set on a case-by-case basis and the exemption will elapse if the relevant works are not started or the relevant infrastructure has not entered into operation within the time limits set out in the relevant exemption measure. With reference to the gas sector, in addition to the time limit provided by the relevant exemption measure, the new rules provide for a 25 year cap for the duration of the exemption and for the activation of an open season procedure in order to assess the interest of third parties in the relevant infrastructure notwithstanding the TPA exemption.

Electricity Regulation

The liberalisation of the electricity sector, in Italy, started in 1999, when Legislative Decree no. 79/1999 (the so called "Bersani Decree") was passed, providing, *inter alia*, for the separation of generation, transmission and distribution activities, the introduction of free competition in power generation and the gradual opening of the retail market to competition for consumers meeting certain consumption thresholds (the "free market"), while maintaining a regulated monopoly structure for power transmission and distribution.

The regulatory framework for the Italian electricity sector based on the Bersani Decree has been further amended in the past decade by, *inter alia*, Law no. 239/2004 (the so called "Marzano Law") and several other provisions implementing European directives on energy sector including, in particular, Directive 2003/54/EC and Directive 2001/77/EC, in the view of improving liberalisation and competition.

In the same direction, the regulatory framework on electricity sector is currently under revision and improvement in compliance with the principles of the third energy package and the relevant implementation decree (Legislative Decree no. 93/2011).

In brief, the Italian electricity sector, is based on the following principles:

- liberalisation, as of 1 April 1999, in the generation, import and export of electricity;
- as from 1 January 2003, no electricity company can produce or import more than 50 % of the total of imported and domestically produced electricity in Italy. Such limit resulted in ENEL selling of three generation companies, Elettrogen S.p.A. (now Endesa Italia S.p.A.), Eurogen S.p.A. (now Edipower S.p.A.) and Interpower S.p.A. (now Tirreno Power S.p.A.) (the "Gencos");
- creation and operation of the Power Exchange market, a virtual marketplace, managed by an *ad hoc* entity (the Electricity Market Operator or GME), in which producers, importers, wholesalers and other participants in the free market, buy and sell electricity at prices determined through a competitive bidding process;
- end users may freely choose their supplier (as from 2007 all end-users are "eligible clients" and are admitted to the free market, subject to no minimum consumption thresholds);
- ensuring continuous, secure, efficient and competitively priced electricity supply to end users remaining in the "Universal Service" regime (consisting, since 1 July 2007, of residential clients and small business clients that have not chosen a supplier in the market), through the establishment of the "Single Buyer" (a company indirectly controlled by the State) in charge of purchasing electricity in the market on the most favourable terms and selling it to retail companies supplying Universal Service clients, in order to enable electricity end users the benefit from the electricity liberalisation process;
- a new licensing regime for electricity distribution and incentives for the consolidation of electricity distribution networks within each municipality.

The Bersani Decree originally provided for separation between management of the national electricity transmission grid (which was to be managed by an independent Electricity Services Operator, the *Gestore della Rete di Trasmissione Nazionale*, the "GNTR") from ownership of the grid assets. Law 290/2003 reunited the ownership and management of the national grid, which is currently owned and managed by Terna S.p.A. (controlled by the State). The GNTR has been renamed Gestore dei Servizi Energetici S.p.A. (the "GSE") and is entrusted with the promotion of energy from renewable resources, including CIP-6 electricity, besides being the holding company of the Electricity Market Operator and the Single Buyer.

Wholesale market

The Power Exchange is the marketplace for the spot trading of electricity by producers and consumers managed by the Electricity Market Operator ("GME"). It began operations on 1st April 2004. Producers can

sell their electricity on the Power Exchange at the system marginal price defined by hourly auctions. Otherwise they can sell electricity through bilateral contracts. In such case, the price is agreed between the parties.

The Single Buyer is the largest wholesaler in the market, purchasing about 27% in 2010 of the total national demand. Based on its own periodic estimates of future electricity demand and MED guidelines, the Single Buyer purchases electricity on the market on the most favourable terms and then sells this energy to retail companies supplying Universal Service Clients.

The Single Buyer purchases electricity on the Power Exchange, through bilateral contracts (including contracts for differences) with producers, and imports. Single Buyer's total revenues are set equal to the sum of purchase price and operating costs. As a consequence, the Authority for Electricity and Gas adjusts reference prices from time to time to reflect those actually paid by the Single Buyer, as well as other factors.

The Authority for Electricity and Gas and the AGCM constantly monitor the Power Exchange in order to ensure competition between electricity producers and efficiency enhancement in the Italian electricity system.

At the end of 2008, the market was enhanced upon new forward markets entering into operation: (i) the forward physical market, "MTE" (managed by Electricity Market Operator); and (ii) the derivatives financial market, "IDEX" (managed by Borsa Italiana).

On 29 November 2008, the Italian Parliament approved Legislative Decree no. 185/08 (the "Anti-Crisis Decree"), which was subsequently ratified through Law no. 2/2009. The provisions of the Anti-Crisis Decree concerning energy have been implemented by a ministerial decree issued by MED on 29 April 2009. The new rules set forth measures to be implemented in the 2009-2012 period, including: (i) the adoption of a new mechanism to set prices on the day-ahead market, subject to a positive assessment of market conditions by MED; and (ii) the creation of an intra-day market and the development of the aforementioned forward markets. In addition to that, the MED decree provided guidelines for the reform of the ancillary services market (ASM) to become operative as of 1 January 2010. These guidelines call for: (i) the segmentation of the market according to the services provided; (ii) the utilisation of new calculation procedures to select offers; and (iii) separate accounting for costs according to the specific services purchased. Furthermore, the MED decree required functional integration between intra-day market and the new ASM. All the above provisions have been implemented. Pursuant to the Anti-Crisis Decree and the implementing measures, the Authority for Electricity and Gas is empowered to adopt measures obliging owners of "essential power plants" to make offers in the market under economic terms fixed by the Authority for Electricity and Gas. According to the Anti-Crisis Decree, essential power plants should be identified by the Authority for Electricity and Gas among those plants that are technically necessary for avoiding grid congestion and/or necessary for ensuring safe operation of the transmission grid for a significant period of time. The Authority for Electricity and Gas adopted, on 29 April 2009, Resolution No. 52/09. This resolution, which partially modifies Resolution No. 111/06, establishes: (i) criteria for the identification of the essential power plants; (ii) conditions on the basis of which owners of the essential power plants should offer capacity in the markets; and (iii) mechanisms aimed at ensuring: (a) reduction of the consideration paid by system users in order to cover the costs incurred by Terna in ensuring grid safety; (b) reduction of the costs incurred by the system and, in particular, production costs; and (c) fair remuneration for the owners of the essential power plants that offer electricity in the market. According to Resolution No. 52/09, the above measures are effective from 1 January 2010. Resolution No. 52/09 was challenged by ENEL Produzione before the Lombardy Regional Administrative Court and the ruling is still pending. On 28 April 2010, the above proceeding was suspended by the Lombardy Regional Administrative Court and deferred to the European Court of Justice.

In July 2008 the Authority for Electricity and Gas issued Resolution No. 97/08 and classified generation plants in Sicily and Sardinia as essential for the security of the electrical system (must-run plants). Such

plants are therefore subject to administered operation in certain periods of the year depending on the security requirements of the system. The implementation procedures defined by Terna, as communicated on 31 July 2008, were approved by the Authority for Electricity and Gas through Resolution No. 106/08. Both the Authority for Electricity and Gas resolutions and Terna communications were appealed by ENEL Produzione and the Lombardy Regional Administrative Court which ruled in favour of ENEL Produzione, ordering Terna to pay damages for the loss suffered in the period between 13 August 2008 and 24 October 2008. The Authority for Electricity and Gas and Terna appealed the Lombardy Regional Administrative Court ruling before the *Consiglio di Stato* (second-instance administrative court), which confirmed the Lombardy Regional Administrative Court ruling in favour of ENEL Produzione. The damages, quantified by Terna and including interest and the revaluation as at October 2010, amount to about €3.6 million.

Law No. 99/2009 of 23 July 2009 (referred to as the “Development Law”) authorized the Authority for Electricity and Gas to adopt temporary measures aimed at expanding the offer of electricity in Sardinia. By means of Resolution No. 115/09, the Authority for Electricity and Gas defined the auction mechanism for the acquisition and assignment of virtual power capacity for the 2010-2014 period. The disposal of virtual power capacity relates to ENEL and E.On (225 MW and 150 MW, respectively), as major electricity producers in Sardinia, and is aimed at promoting competition and efficiency in the relevant wholesale electricity market. In particular, each of ENEL and E.On shall enter into contracts for difference (one way or two ways) on the basis of the price of the day-ahead market referred to final clients located in Sardinia; the purchasers of virtual power capacity executing such contracts shall be selected through a tender procedure and at least 10 per cent. of the total virtual power plant capacity shall be assigned by entering into five-year contracts.

Imports

The volume of electricity that can be imported into Italy is limited:

- (i) by the capacity of transmission lines that connect the Italian grid with those of other countries and by concerns relating to the security of the system (currently, a maximum import capacity of approximately 8,040 MW is available to import energy safely);
- (ii) by the threshold established by the Bersani Decree with reference to electricity that can be imported by a single company (no more than 50% of the total electricity imported).

The rules for the allocation of interconnection capacity have remained unchanged since 2007. Pursuant to agreements between Terna and neighbouring transmission system operators (“TSOs”), interconnection capacity rights for each border are jointly allocated by explicit auction (on a yearly, monthly and daily basis). Revenues arising from the auctions (which are shared evenly between the TSOs involved) and belonging to Terna are transferred onto clients on a pro rata basis by reducing the dispatching charges.

The provisions on exemption from the third-party-access obligations for companies investing in new connection infrastructures provided for by Law Decree no. 239/2003 (converted into Law no.290/2003) have been recently amended by article 39 of Legislative Decree no. 93/2011, as briefly described above.

ENEL executed one contract for the import of electricity with Atel (now Alpiq) on the Swiss border, expiring on 31 December 2011. The electricity imported pursuant to such contract is sold to the Single Buyer to be used to supply Universal Service clients. On 18 December 2009, the decree of the Minister for Economic Development governing the import procedure for long term contracts for 2010 was published. The decree set the price for the first Quarter of 2010 at €59.5/MWh and confirmed the price updating mechanism, based on a quarterly indexing of the Italian wholesale price as defined on the Power Exchange. On this basis the price for the second, third and fourth Quarters of 2010 amounted respectively to €66.49/MWh, €63.66/MWh and €73.02/MWh. Through a decree dated 14 December 2010, the Minister for Economic Development confirmed the capacity reserve on the Italian-Swiss border for 2011 (600 MW) and set a price of €66.3/MWh to be paid by the Single Buyer for the first quarter of 2011 (such price has been further updated by the

Authority of Electricity and Gas during 2011 by applying the same updating mechanism). For the second and third quarter the prices were respectively equal to 68.84 €/MWh and 70.73 €/MWh.

Incentives to Provide Generation Capacity and to Build New Generation Plants

In accordance with Legislative Decree No. 379 of 19 December 2003 the availability of capacity must be regulated by a compensation mechanism aimed at assuring adequacy of the system to cover the demand with the necessary reserve margins. This capacity payment mechanism has to be based on the following principles: it must ensure transparency and it must not cause distortion in the market, while reducing the total costs for consumers.

In 2004, the Authority for Electricity and Gas established, by means of resolution no. 48/2004, a provisional system of payments to remunerate producers that make generation capacity available to the electricity system at times of peak demand, known as capacity payments (“Capacity Payments”). Capacity Payments to a given producer include both (i) an amount due for capacity available on critical days identified formerly by the GRTN and now by Terna, and (ii) an amount payable when Power Exchange Market prices fall below specified thresholds, as an extra incentive. With Resolution No 166/2010, the Authority for Electricity and Gas revised the allocation criteria of the extra incentive in order to provide compensation to producers with generation plants mainly located in market zones characterized by low prices. Given this new resolution, Enel did not receive the additional payment.

The Capacity Payments system has been recently reshaped by Authority for Electricity and Gas by means of Resolution no. 98/2011 providing general criteria for the new mechanism, which will apply as from 2017. The Capacity Payment system will basically consist in Terna purchasing from producers (through specific tenders) options on generation capacity expected to be necessary in the following four to seven years. On the basis of the criteria provided by the Authority for Electricity and Gas, the grid operator (Terna) shall draw a proposal on the details of such mechanism, to be approved by the MED.

Stranded Costs

Stranded costs are current costs deriving from contractual commitments or investment decisions that electricity companies undertook for reasons of public policy at a time when electricity markets were not yet open to competition, and which could have been recovered in a monopoly regime but can no longer be recovered under a regime of competitive electricity pricing.

To facilitate the transition to open electricity markets, the European Commission has stated that electricity companies should be refunded their stranded costs provided that:

- they minimise the impact of those costs (and hence the amount of the refund) on their future operations; and
- they submit an industrial plan demonstrating the long-term profitability of the activity related to the stranded costs.

In August 2004, the MEF and the MED issued a joint decree that determined the overall amount of stranded costs ENEL is entitled to recover. ENEL has been totally reimbursed for its stranded costs through compensation in the amount of €1,976 million. This amount might be revised according to the results of the verification process for the natural gas volumes linked to part of the reimbursement. Such process was started by Resolution no. 183/08 and by Resolution no. 132/2009.

Transmission

The term “transmission” refers to the transport of electricity on high and very high voltage interconnected networks from the plants where it is generated or, in the case of imported energy, from the points of

acquisition, to distribution systems. The national electricity transmission grid, which includes very-high voltage (380/220 kV) and high-voltage (G= 150 kV) lines, is 98 per cent. held by Terna and 2 per cent. held by other companies (such as Rete Ferroviaria Italiana S.p.A.).

Distribution of Electricity

The term “distribution” refers to the transportation and conversion of electric energy, from the transmission grid, on distribution networks of medium and low-voltage for delivery to end-users.

Distribution companies in Italy are licensed by the state to provide distribution services to all clients who request them. These clients are subject to the payment of applicable tariffs.

The Bersani Decree sought to promote the consolidation of the Italian electricity distribution industry by providing for a single distribution license within each municipality and establishing procedures to consolidate distribution activities under a single operator in municipalities where both ENEL and a local distribution company were engaged in electricity distribution. The same Decree gave local distribution companies the right to request that ENEL sell its distribution networks located in the municipalities where those companies already distributed electricity to at least 20 per cent. of the consumers.

In almost every municipality where ENEL coexisted with other operators, the local distribution companies requested to purchase ENEL’s networks.

On 1 January 2009, ENEL Distribuzione sold its HV lines to Terna (more than 18,000 km) and currently holds about 86 per cent. of the total Italian distribution network. On 31 December 2010, ENEL Distribuzione sold to SEL SpA approximately 2,200 Km of MV lines and 2,700 LV in the Provincia Autonoma di Bolzano.

Regulated activities are remunerated through the network tariff component, which is set directly by the Authority for Electricity and Gas at the same level for all operators on the national territory.

Network tariffs are set in order to allow distribution companies to cover operating costs, plus an appropriate return on invested capital, and depreciation.

The weighted average cost of capital (WACC) for the remuneration of invested capital in the distribution service was increased from 6.8 per cent. for the second regulatory period to 7 per cent., while that for the metering service was reduced from 8.4 per cent. to 7.2 per cent.

The rules envisage incentives, using differentiated WACCs (+2 per cent.) and for a minimum of eight years, for specific types of investments in the distribution network, such as those relating to the construction of new transformer stations, investments in replacing existing transformers in MV/LV transformer substations with new low-loss transformers, and smart grids.

The tariff component covering operating costs is subject to a price cap mechanism aimed at enhancing operational efficiency. The yearly efficiency target, known as the X-factor, was set at 1.9 per cent for distribution services and at 5 per cent for metering, so as to allow the higher efficiency gains achieved by the companies to be passed on to the end-user within eight and six years, respectively.

New criteria for the determination of tariffs applying to transmission, distribution and metering services in the 2012-2015 period are currently under definition (in this regard the Authority has started the consultation with the operators by means of Consultation papers DCO 29/2011 and 34/11).

Retail market

On 18 June 2007, the Government adopted Legislative Decree no. 73/2007 (subsequently ratified into law through Law no. 125/2007, which came into force on 15 August 2007) in the run up to the opening of the free electricity market to all clients (which took place on 1 July 2007). The measure establishes:

- the obligation for corporate separation between distribution and sales activities for distribution companies having more than 100,000 clients.
- provisions to ensure non-discriminatory access to metering data.
- provisions to ensure the supply of electricity by suitable sales companies, or distribution companies with less than 100,000 customers connected to their network, to Universal Service clients. For these clients (residential clients and small business clients that have not opted for the free market), electricity supply is ensured by the Single Buyer. The standard conditions and reference prices for the service are determined by the Authority for Electricity and Gas.
- a Last-Resort Service supplier, selected by tender, for clients not eligible for Universal Service. Until completion of the tenders (for the second semester of 2008), responsibility for Last-Resort Service clients remained with their former suppliers.

In accordance with the provisions specified above, ENEL Distribuzione and Deval no longer provide service directly to the clients of the former regulated market. Supply to clients that do not opt to acquire services on the free market and that are eligible for Universal Service are handled by a special-purpose company. On 13 September 2007, ENEL Servizio Elettrico was established for this purpose. The company began operations on 1 January 2008 to provide electricity to Universal Service clients connected to ENEL Distribuzione's networks. Universal Service clients connected to Deval's networks are supplied electricity by Vallenergie, which was formed for this purpose on 1 October 2007 and also began operation on 1 January 2008. These companies will continue to buy power from the Single Buyer in order to serve those clients.

The decree of the Minister for Economic Development of 23 November 2007, and the subsequent decree of 8 February 2008, set out provisions governing the procedures for allocating the Last-Resort Service through tenders. From 1 May 2008, the Last-Resort Service suppliers have been chosen through tenders held on a geographical basis (the Authority for Electricity and Gas identified six geographical areas, A through F) at a price established by the tender. Initially, the tenders covered the period from May to December 2008; thereafter, they covered two-year periods.

On 22 February 2008, the Single Buyer published the results of the first tenders to select the Last Resort Service providers for the 1 May – 31 December 2008 period. ENEL Energia won the tender for three of the six geographical areas and was therefore the Last Resort supplier for the following areas: "D" (Tuscany, Umbria, Marche and Sardinia), "E" (Lazio, Abruzzo and Molise) and "F" (Campania, Puglia, Basilicata, Calabria and Sicily).

In relation to the tenders for the 2009-2010 period, the Authority for Electricity and Gas issued Resolution No. 122/08, increasing the number of geographical areas up for bid from six to twelve. Following the tenders, ENEL Energia is the last resort supplier for Sardinia; Campania; Lazio, Abruzzo and Molise; Puglia and Basilicata; Calabria; Piemonte; Valle d'Aosta; Liguria and Lombardy.

Pursuant to Authority for Electricity and Gas Resolution No. 182/2010, the last resort suppliers appointed in 2010 shall continue to be responsible for the Last Resort Service until the end of 2013. At the completion of tenders for the period 2011 - 2013, ENEL Energia was assigned the areas of Sicilia, Sardegna, as well as the areas of Umbria and Marche, Basilicata and Calabria and the area of Campania.

Pricing Regulations

The price paid by all Italian end-users for electricity includes:

- a generation component covering the price of the electricity itself;
- network components (transmission and distribution costs);
- a sale component;
- system charges; and
- taxes.

Since July 2007, the Italian electricity market has been fully liberalised and, therefore, the generation and the sale components of the price are no longer determined by the Authority for Electricity and Gas, except in respect of the Universal Service, for which the Authority for Electricity and Gas sets the structure of the tariffs and publishes the quarterly reference prices (Resolution No. 156/07 of the Authority for Electricity and Gas). In this regard, Authority for Electricity and Gas has updated, by means of Resolutions no. 83/2011 and 87/2011, the tariffs payable by Universal Service clients for the 3rd quarter 2011.

In May 2008, the Authority for Electricity and Gas established mandatory hourly-block prices in the Universal Service market for customers provided with smart meters. For residential clients, the new prices became effective from 1 July 2010.

Apart from Universal Service and Last-Resort Service clients, there is a specific tariff regulation for vulnerable clients. An interministerial decree issued on 28 December 2007 established income thresholds for benefiting from special energy prices and other criteria. Pursuant to Resolution No. 117/08 (as subsequently amended), the Authority for Electricity and Gas has adopted implementing provisions, defining more precisely the categories of clients that are entitled to special prices. According to the estimates of the Authority for Electricity and Gas approximately five million families benefit from these measures. The increased costs resulting from the compensation mechanism are covered by a specific rate component applicable to all users, with the exception of those who benefit from the above measures.

Regulated components, i.e. transmission, distribution and metering tariffs are set directly by the Authority for Electricity and Gas and are set at the same level for all operators on the national territory.

By means of Resolution no. 228/2010, the Authority for Electricity and Gas has updated, with reference to 2011, the network components (transport, distribution, metering) of the electricity tariff.

On April 6, 2011, the European Commission sent reasoned opinions to Italy, Poland and Romania urging them to bring their national legislation on end-user prices (in particular, in regard to Italy, on the price for electricity) in line with EU rules. According to the Commission, regulated prices hinder market access for new entrants and deprive consumers and companies of the right to choose the best service on the market.

System Charges and Other Charges

The tariff structure also addresses the need to cover various costs resulting from public policy-related requirements imposed on the Italian electricity industry by providing for the following charges, payable by all electricity consumers:

- Charges concerning the electricity system, established by the MED, that consist of: (i) a nuclear surcharge, covering part of the costs incurred by So.g.i.n., the company to which ENEL transferred its discontinued nuclear operations, in connection with the dismantling of nuclear plants and decommissioning of nuclear fuels (this surcharge is designed to cover substantially all of such costs when added to the funds that ENEL transferred to So.g.i.n.); (ii) a surcharge that benefits renewable resources producers; (iii) special surcharges covering the cost of supplying electricity at mandated discounts to certain clients (primarily the Italian state-owned railway company and Acciai Speciali

Terni., both of which transferred electricity assets to ENEL as part of the nationalisation of the Italian electricity industry in 1962); and (iv) research and development surcharges, covering related costs.

- Other general interest charges established by the Authority for Electricity and Gas to adjust or refine the operation of the tariff mechanism, which include adjustments to cover potential differences between distributors' costs as recognised under the current tariff structure and actual tariff revenues.
- Incentives for the enhancement of the quality of service.

Tariffs for Connection to the Grid

While awaiting a complete overhaul of the regulations on the delivery of connection service, the Authority for Electricity and Gas has also reorganised the rules concerning the economic conditions for connection to electricity networks, applying a price cap to connection contributions and fixed fees.

Pursuant to resolution ARG/elt 203/09, the Authority for Electricity and Gas set an equalizing mechanism intended to compensate distributors, for the years 2010 and 2011, in case the revenues from connection fees fall under the reference level of year 2006 (pre-crisis level). The mechanism is intended to stabilize distributors revenues in the current period of economic crisis.

Moreover, the Authority for Electricity and Gas has set new rules for all connections of generation plants to the grid into a single document, rationalizing the previous rules (Resolution No. 99/08). These provisions, applied from 1 January 2009, establish connection procedures with more stringent deadlines and indemnities and, differently from previous rules, fixed fees for medium-voltage connections in addition to those already established for low-voltage connections.

The provisions of Resolution No. 99/08 have recently been amended by Resolution No. 125/2010, which has introduced, inter alia, specific procedures to enhance the coordination between grid operators, as well as a system of guarantees to be presented by the applicant in specific critical areas (i.e. parts of the electric grid which are close to their capacity limit), in order to avoid requests of connection capacity, which are not followed by the realization of the plant. These new provisions are effective for the applications sent beginning January 2011. Resolution No. 125/2010 also provided, in Annex B thereto, for a provisional regime applying also to requests for connections sent or accepted by applicants during 2010. ENEL Distribuzione published, on October 2010, the list of the critical areas within its distribution grid. However, the Lombardy Regional Administrative Court has suspended the effectiveness of certain provisions of Resolution No. 125/2010 concerning the guarantee system, after an appeal presented by APER (i.e. Association of power generators with renewable sources) and several other producers. The proceeding is still pending.

Continuity and Quality of Service Regulation

Since 1 July 2000, the Authority for Electricity and Gas has issued guidelines setting targets for electricity service continuity and quality.

The Authority for Electricity and Gas has established an incentive system whereby it grants bonuses to companies that exceed their targets for continuity of service and imposes penalties on companies that fail to meet them. Bonuses (net of penalties) are paid through a specific component of the tariff structure. ENEL has consistently exceeded its continuity of service targets since 2000. In particular, in respect of the results achieved in 2009, ENEL Distribuzione received a net bonus of €54.7 million, while Deval received a net amount of €583,000.

Pursuant to Resolution No. 333/2007, the Authority for Electricity and Gas established new rules concerning the quality of electricity services for the 2008-2011 regulatory period. Specifically, with regard to service continuity, it introduced rules governing the average annual number of long and short interruptions and confirmed those relating to the cumulative duration of interruptions.

With respect to quality of service for clients connected at MV level, if a distribution company fails to meet specific service standards set by the Authority for Electricity and Gas in respect of number of prolonged interruptions, the company is required to reimburse the client a fixed amount.

In July 2007, the Authority for Electricity and Gas defined an automatic compensation system to support clients in the event of a prolonged service interruption (Resolution 172/07). For both exceptional and ordinary interruptions, distributors are obliged to restore the electricity service within the same lapse of time. The Authority for Electricity and Gas created an Exceptional Events Fund to compensate clients for interruptions that take place in “exceptional” circumstances. This fund is financed by clients, through an increase in distribution tariffs, and by distributors and Terna, in proportion to interruptions caused by them.

Moreover, from 1 January 2008, the Authority for Electricity and Gas established strict obligations for companies that sell electricity and natural gas as regards the quality of call center services, mandating quality standards defined on the basis of specific indicators (such as access to the service, average waiting time and level of service). From 1 July 2009, new common quality standards entered into force (Resolution 164/08) for companies selling electricity and gas on the basis of specific commercial quality indicators (such as time to answer written complaints and time taken to rectify – following a complaint - an amount already charged in the bill based on a new meter reading).

By means of Resolution No. 149/2010 and the consultation documents 40/2010, 42/2010, 15/2011 and 20/2011 the Authority for Electricity and Gas started the procedures for the enactment of new rules for the 2012-2015 regulatory period.

Promotion of Renewable Resources

In Italy, the first incentive mechanism promoting electricity production through non conventional sources was introduced, in 1992, by means of the so called “CIP-6 Regulation”, issued by the Interministerial Price Committee, an Italian governmental committee. CIP-6 Regulation established an incentive remuneration price for electricity produced by new generation plants using renewable resources or assimilated to renewable sources. In November 2000, the MED issued a decree that transferred all the competences regarding the CIP-6 regime from the Interministerial Price Committee to the Electricity Services Operator as of 1 January 2001. Under current regulations, the Electricity Services Operator is required to purchase all CIP-6 electricity and resell it to the market. Article 30 of Law 99/2009 provided for the possibility for producers to early terminate the relevant agreements with GSE and step out from the CIP-6 regime at the terms and conditions established by MED through subsequent decrees.

The Bersani Decree introduced the incentive regime based on the so-called- green certificate mechanism, applying to all renewable plants, except solar plants (for which specific incentive regime is provided, see below). The Bersani Decree provided that, starting from 2001, all companies introducing into the national transmission grid more than 100 GWh of electricity generated from conventional sources in a given year must, in the following year, inject into the national transmission grid an amount of electricity produced from qualified renewable resource power plants (“Renewable Obligation”) initially equal to at least 2 % (and currently 6.8 %) of the amount of electricity produced exceeding 100 GWh, net of co-generation, self-consumption and exports. The Renewable Obligation may be fulfilled by either (i) directly producing the required amount of energy from renewable sources or (ii) purchasing the equivalent amount of Green Certificates from other producers who have obtained tradable Green Certificates representing a fixed amount of electricity certified as generated from renewable resources.

The provisions regulating the Green Certificates mechanism introduced by the Bersani Decree were subsequently amended by Legislative Decree no. 387/2003 (implementing EU Directive 2001/77/EC), Law no. 244/2007 (the so-called “2008 Budget Law”), Ministerial Decree dated 18 December 2008 (“D.M 18 December 2008”) and Law 99/2009.

As mentioned above, the Green Certificates incentive mechanism is based on the right of producers of energy from renewable sources to obtain from the GSE a certain amount of Green Certificates and the possibility to sell them to those parties that are subject to the Renewable Obligation.

The Green Certificates may be traded through bilateral contracts or in the Green Certificates market organized and managed by the GSE. In both cases the price of Green Certificates is defined through the match of the offer price and the demand price. The offer price is based on a percentage decrease of the reference price (i.e. the offer price of the Green Certificates issued by GSE) ("Reference Price") and which represents the maximum price of Green Certificates on the GME market.

Such Reference Price is equal to the difference between a fixed value of 180 Euro/MWh and the average electricity sale price during the previous year (as defined by Authority for Electricity and Gas on a yearly basis).

In case a producer is not able or not willing to sell its Green Certificates on the GME Market or through bilateral agreements the GSE, upon the producer's request, is obliged to purchase the unsold Green Certificates (the 3-year validity of which has elapsed) for a purchase price equal to the average price of Green Certificates recorded in the previous year by GME (the "GSE Withdrawal Price").

According to Section no. 15, paragraph 1 of Ministerial Decree 18 December 2008, with reference to the 2009-2011 period only (so-called *interim* period), the GSE Withdrawal Price applicable to unsold GCs shall be (on a temporary basis) the average price recorded on the GME Market over the previous three years.

The current incentive regime based on Green Certificates will no longer be applicable with reference to Renewable Plants entering into operation after 31 December 2012 pursuant to the provisions of Legislative Decree no. 28/2011 (the "Renewable Decree"), implementing EU Directive 2009/28/EC aimed at achieving a 20 per cent. share of energy from renewable resources in the EU's final consumption of energy in 2020. In light of this objective, for the first time, Member States are assigned mandatory individual targets for the share of renewable energy sources in final energy consumption (for Italy such target is 17 per cent.).

The Renewable Decree provides for new incentive mechanisms applying as from 2013 and transitional provisions applying to renewable plants entering into operation between the date of entry into force of the Renewable Decree and 31 December 2012.

The new incentive mechanism provided for by the Renewable Decree is based on the following principles:

- incentives shall be paid for a period equal to the average conventional life-cycle period of the specific typology of Renewable Plant, starting from the initial date of operation thereof;
- once granted, incentives shall remain constant for the entire incentive period and may also take into account the economic value of the energy produced;
- incentives shall be granted pursuant to private law agreements to be entered into between GSE and the titleholder of the relevant Renewable Plant, based on a standard form to be produced by the AEEG within three months as of entry into force of the first of the implementation decrees envisaged by the Renewable Decree.

The re-shaped incentive scheme outlined by Renewable Decree will be based on the following mechanisms:

- A. Plants up to 5 MW (or such higher threshold as may be established under forthcoming ministerial decrees in respect of each type of renewable source) will benefit from a feed-in tariff. The amounts of the applicable feed-in tariff (which will be fixed by a ministerial decree implementing the Renewable Decree) shall vary depending on the type of renewable source employed and the power capacity bracket

to which the relevant plant belongs. The tariff applying on the date of entry into operation of the plant shall be maintained throughout the entire incentive period.

- B. Plants over 5 MW (or such higher threshold as may be established under forthcoming ministerial decrees with reference to certain types renewable sources) will also benefit from a feed-in tariff, the amount of which will be determined on the basis of auctions by reduction (*aste al ribasso*) held by GSE.

The definition of both the amount of the feed-in tariffs applicable to plants up to 5 MW and the procedural aspects of the auction-by-reduction system shall be set out by forthcoming ministerial decrees, to be issued in the forthcoming months.

The Renewable Decree also provides for transitional provisions with reference to electric power produced in the 2011-2015 period by plants entered into operation before 31 December 2012 which will continue to benefit from the Green Certificates incentive scheme pursuant to the existing regulation as amended by the Renewable Decree itself.

The main amendments introduced by the Renewable Decree to the current Green Certificates mechanism concern:

- the gradual phase-out (starting from 2013 through 2015) of the Renewable Obligation. The relevant share will be progressively reduced to zero by the end of 2015;
- the regime applying to re-purchase of unsold Green Certificates by the GSE and, in particular, the GSE Withdrawal Price. The GSE Withdrawal Price of Green Certificates referring to the 2011-2015 electricity production shall be equal to 78% of the Reference Price.

The Green Certificates market is therefore expected to experience a structural situation of Green Certificates oversupply (also as a consequence of the progressive decrease in the amount of the Renewable Obligation) and a drop in the Green Certificates average price. In such a scenario, the new criteria for determining the GSE Withdrawal Price are likely to enhance, to a certain extent, the stability of the Green Certificates Withdrawal Price. As from 2016, the Green Certificates mechanism shall not be longer applicable.

Therefore, starting from 2016, Renewable Plants for which the Green Certificates incentive period is still ongoing will be entitled to switch to the new feed-in tariff regime for the remainder of the relevant incentive period, and will not be subject to the auction mechanism. The modalities of transition from the Green Certificates mechanism to the new regime and the applicable tariffs will be defined by ministerial decrees to be issued in the forthcoming months.

The Green Certificate mechanism has never applied to solar plants. Photovoltaic solar plants benefit from a feed-in premium tariff on top of the price of the electricity generated (the so called “Conto Energia”). Incentive rates are differentiated based on the size of the solar panels and the extent of their integration in buildings. Rates applying to plants entered into operation before 31 December 2010 are set by Ministerial Decree dated 19 February 2007. Such rates also apply to plants which have been completed within such date and entered into operation by 30 June 2011, pursuant to the provision of Law Decree no. 3/2010 (as subsequently amended). Rates applying to photovoltaic plants entered into operation between 1 January 2011 and 31 May 2011 are provided for by the Ministerial Decree dated 6 August 2010 (the time frame of such decree, initially applied to the period 2011-2013 has been shortened by the Renewable Decree). In relation to plants entered into operation after 31 May 2011, the provisions and rates provided for by Ministerial Decree dated 5 May 2011 apply. Such latter ministerial decree implemented the Renewable Decree provisions regarding solar plants. In particular, the ministerial decree dated 5 May 2011 introduced several novelties in the *Conto Energia* mechanism provided under the previous decrees and in particular: (i) incentives will be granted in the period 2011-2012 up to a maxim aggregate cap pursuant to specific eligibility rules; and (ii) as

from 2013 the tariffs will have a comprehensive nature, including both the incentive component and the remuneration of the electricity produced.

Hydroelectric Power

Under the Bersani Decree, the terms of all ENEL's licenses for the generation of electricity from large water basins (which were perpetual originally) were set to expire in April 2029. In addition, the Bersani Decree automatically extended the terms of all hydroelectric licenses for generation of electricity from large bodies of water that were granted to other electricity producers to 31 December 2010, even if they were scheduled to expire before such date. All hydroelectric licenses expiring after 31 December 2010 remained subject to their original expiration dates. The Bersani Decree also provided that in any bidding contest, an existing license holder would enjoy preferential treatment over competitors in the case of equal bids.

In January 2004, the European Commission determined that some of the Italian regulations regarding hydroelectric concessions were in breach of EU law. In particular, the European Commission objected to the preference granted to existing holders of licenses when renewing concessions (and limited to the region of Trentino-Alto Adige, to preference given to the operator controlled by local authorities) as well as to the fact that the regulations provided for the expiration of all concessions in 2029 (2010 in the region of Trentino-Alto Adige), even if these concessions previously had a perpetual duration.

Five regional governments in Italy and the local authorities of the region of Trentino-Alto Adige have brought proceedings against these amended regulations before the Italian Constitutional Court, seeking the reinstatement of the original expiry dates for the operations that they control. As a consequence, on 28 June 2006, the European Commission decided to close the proceedings in relation to the provisions of the Bersani Decree and to suspend the proceedings, for the time being, against Italy on the same issue, relating to the regulations in force in Trentino-Alto Adige, pending the decision of the Italian Constitutional Court.

In 2007, the European Commission closed all the proceedings against the Italian government regarding the terms of expiration of the hydroelectric concessions and the system of preferences.

Law 17/2007 (known as "mille proroghe"), reversed the extension of ten years, as set out in Law 266/2005, accorded to the current hydroelectric concessions of the autonomous provinces of Trento and Bolzano. ENEL's hydroelectric concessions in the region of Trentino-Alto Adige expired on 31 December 2010, save for the concessions for the use of large bodies of water in the autonomous province of Trento. The latter are due to expire on 31 December 2020.

With regards to major water concessions, Law Decree No. 78/2010, converted into Law No. 122/2010, provides for a five-year term extension linked to certain plant modernisation criteria. The decree further provides for an additional seven-year term extension applying as from 31 December 2010 to public companies in which the provinces, either directly or through controlled subsidiaries, have a 30-40 per cent. shareholding (with regard to, among others, concessions that are located in the provinces bordering Trento, Bolzano and Switzerland). Such provisions are subject to variation as and when they are implemented by the relevant regions. Under Law Decree 78/2010, should the procedure for selecting a new operator not be completed at the expiration date of a license, the incumbent operator will continue to manage the concession in accordance with applicable laws and regulations that govern the concession (including legislation related to the costs incurred by the outgoing operator exceeding ordinary maintenance costs) until the incoming operator takes over the concession. The Law Decree 78/2010 also introduces a 30 per cent. increase in concession fees related to mountain drainage basins and riparian municipalities as of 1 January 2010.

The Enel Group's hydroelectric power stations in Italy are managed under administrative concessions that are set to expire in 2029, with the exception of those relating to the power stations located in the autonomous provinces of Trento and Bolzano; the concessions in the province of Trento will expire in 2020, while the concessions in the province of Bolzano expired at the end of 2010. In respect of the expired hydroelectric

concessions, ENEL and Sel S.p.A (a company controlled by the province of Bolzano) have entered into an agreement in order to manage jointly, via a newco (SE Hydropower, owned by Sel S.p.A. with a 60 per cent. shareholding and by Enel with a 40 per cent. shareholding), the new or renewed concessions which have been granted to ENEL or Sel S.p.A. Currently, SE Hydropower holds 10 concessions in the autonomous provinces of Bolzano for the use of large basins of water, which are set to expire in 2040. Several proceedings before the *Tribunale Superiore delle Acque Pubbliche* (TSAP, i.e. specialized administrative court ruling on matters relating to public waters), proposed by other competitors, are currently pending, against the concessions granted to SE Hydropower.

Natural Gas Regulation

Italian regulations enacted in May 2000 (Legislative Decree no. 164/2000, “Letta Decree”) implementing EU directives on gas sector liberalisation (1998/30/EC) introduced competition into the Italian natural gas market through the liberalisation of the import, export, transport, dispatching, and sale of gas. The liberalisation process was successively strengthened by EU Directive 2003/55/EC, which introduced, on the one hand, stricter unbundling obligations on companies operating in the gas transport and distribution sectors and, on the other hand, incentives for new import infrastructure. EU Directive 2009/73/EC on natural gas internal market has been recently implemented in Italy by Legislative Decree no. 93/2011.

Wholesale and Imports of Gas

Importation is unregulated with respect to gas import via contracts with a duration up to 1 year but subject to MED authorisation as concerns gas imports from EU and non EU countries via contracts of duration longer than 1 year.

ENEL Trade is authorised to import gas to be sold to power plants and wholesalers.

Pursuant to the Letta Decree, no single operator were allowed to import gas (for the purpose of selling such gas, directly or through subsidiaries, holding companies or companies controlled by the same holding company) in a quantity exceeding a specified percentage of the total domestic gas consumption, set at 75 per cent. in 2002 and decreasing by two percentage points each year thereafter, to 61 per cent. in 2010. At the same time, until that date, no single operator is allowed to hold a market share higher than 50 per cent. of domestic sales to final clients, directly or through subsidiaries, holding companies or companies controlled by the same holding company. On 23 April 2010, Legislative Decree No. 130 set new antitrust caps that prevent any single operator from introducing into Italy gas in a quantity exceeding 40 per cent. of domestic gas consumption. This cap may be lifted to 60 per cent. if the relevant operator invests in new storage capacity equal to at least 4 billion cubic meters. In 2010 ENEL had a market share in sales of natural gas of approximately 12 per cent.

Law No. 99/2009 foresees the constitution of a market exchange for the supply and sale of natural gas, managed by GME.

GME organises and manages the natural gas market (MGAS). In the MGAS, parties authorised to carry out transactions at the “*Punto Virtuale di Scambio*” (PSV - Virtual Trading Point) may make spot purchases and sales of natural gas quantities. In the MGAS, GME plays the role of central counterparty of the transactions concluded by market participants. The MGAS consists of a Day-Ahead Gas Market (MGP-GAS) and an Intra-Day Gas Market (MI-GAS).

Transport and storage

Companies engaged in the transport and dispatching of gas must allow access to their gas transport networks to third parties, provided that they have enough capacity and that giving such access is economically and

technically feasible. In implementing Letta Decree, the Authority for Electricity and Gas by its Resolution no. 137/2002 laid down the rules for free access to the transportation network and for the network code to be drawn up by the transport operators. Snam Rete Gas (the main Italian transport operator), in compliance with resolution, drafted its own Network Code, containing the set of rules governing access to the transportation services on its pipeline network. Shippers must execute, in relation to their assigned transport capacity, a transport agreement with the relevant transport operator (which, in the majority of cases, would be Snam Rete Gas) in compliance with the relevant Grid Code.

Pursuant to Letta Decree, transport fees are regulated by the Authority for Electricity and Gas which establishes criteria for setting the tariffs in relation to given regulatory periods. Notably, the Authority for Electricity and Gas Resolution no. 184/2009 defined criteria for determining tariffs for the transportation service for the third regulatory period (1 January 2010 - 31 December 2013). The tariff includes the following components:

- the recognised cost of the capital invested (or Regulatory Asset Base - RAB)
- the RAB rate of return
- technical-economic amortisation
- higher return for new investments (in order to incentivize new investments on the transport infrastructure)
- recognised operating costs
- annual updating of revenues related to capacity (or the return on RAB, new investments and amortisation) using the "Cost Plus" method
- annual updating of commodity revenues (recognised operating costs) using the "Price Cap" method.

Storage activities are conducted under concessions, granted by the MED, which have terms of 20 years and may be extended for a total of two further 10-year periods. Operators are required to provide storage services to third parties upon request, with priority for residential clients, provided that they have enough capacity and that providing such storage services are economically and technically feasible. Importers are required to maintain storage reserves equal to 10 per cent. of the gas they import from countries outside the EU.

ENEL Stoccaggi, a joint venture owned 51 per cent. by ENEL Trade and 49 per cent. by Fondi Italiani per Le Infrastrutture, has won the auction to convert the Romanengo field into a storage facility. The storage capacity of such site is estimated to be approximately 300 million cubic meters.

The Legislative Decree n. 93/11 provides incentives for investment in new natural gas infrastructure (interconnector pipelines, LGN terminals, storage) by exempting the investing entity from the obligation to provide third-party access. for a period up to 25 years (exemptions may be granted on a case by case basis by the Ministry of Economic Development in consultation with the Authority for Electricity and Gas and subject to approval of the European Commission).

Distribution and Metering

The Letta Decree established that distribution activities be exercised only by operators having won bids for gas distribution concessions for periods not exceeding 12 years. Licensees of distribution networks are obliged to grant access to any third party that so requests on the basis of tariffs set by the AEEG and in compliance with its network code adopted by the AEEG. The Authority for Electricity and Gas, in July 2004, adopted Resolution no. 138/2004, which set the criteria for access to distribution services and for the

drafting of the network codes by distribution operators, introducing special measures for the operations of interconnection points between transportation and distribution networks.

The Letta Decree also provided that distribution concessions which were active as of 21 June 2000 will expired by law on the earlier of their original expiration date and 31 December 2005, with certain exceptions.

Pursuant to the Letta Decree and Legislative Decree 159/2007, the Minister for Economic Development and the Minister for Relations with the Regions and Local Governments, should establish (i) criteria for the tender and evaluation of bids for gas distribution concessions and (ii) the minimum geographical areas for the tenders. At the time of this Offering Circular, such rules have not been adopted; as a consequence, every tender procedure for the awarding of new gas distribution concession should be frozen. Even so, several Municipalities called for tenders in order to replace the expired concession. Given the lack of regulation, it is likely that such tenders (and the relevant concessions) may be subject to claims.

A first decree (Ministerial Decree dated 19 January 2011) setting out the criteria for establishing the territorial jurisdictions was published on 31 March 2011. Such Ministerial Decree, however, has not provided with the expected provisions governing guidelines for the bidding processes, such as the wording of the request for tenders and of the associated service contracts; a further Ministerial Decree is therefore expected soon.

Costs for providing distribution and metering services are covered by tariffs fixed by the Authority for Electricity and Gas at the beginning of each reference period, equal to four years, and updated on a yearly basis by applying defined mechanisms.

The current reference period is that for 2009-2012. The return on invested capital recognised in the current period is equal to 7.6 per cent. for distribution activities (compared to 7.5 per cent. in the previous period) and 8 per cent. for metering activities. Operating costs included in the tariff are subject to a price-cap of between 5.4 per cent. and 3.2 per cent., depending on dispatch locations, for distribution activities, and 3.6 per cent. for metering activities.

Retail Market

The sale of gas to end-users requires an authorization from the MED.

Until 31 December 2002, only certain large consumers – gas eligible clients - were able to freely choose their suppliers of natural gas. During the same period, clients, mainly residential, who did not qualify as gas eligible clients, were obliged to purchase gas from distributors operating in their local area at a tariff set by the Authority for Electricity and Gas.

Since 2003, all clients have been able to freely choose their suppliers of natural gas.

Law No. 99/2009 and the Ministry for Economic Development decree of September 3, 2009 transfer responsibility for selecting suppliers of last resort to the Single Buyer. Every year, the Authority for Electricity and Gas established the procedure for selecting suppliers of last resort for natural gas.

By means of Resolution no. 71/11, The Authority for Electricity and Gas introduced a set of new rules to limit the application of the economic conditions to residential customers, non residential customers with consumption level below 50,000 cubic meter/year and users involved in providing public assistance services.

Pricing regulations

The Authority for Electricity and Gas has imposed an obligation upon suppliers of gas to the regulated market to offer, aside from their commercial (and freely determined) tariffs, a regulated tariff updated quarterly (the “Reference Economic Conditions”).

The Reference Economic Conditions for gas are composed of:

- raw material component;
- transportation, re-gasification, storage and distribution components;
- a sale component (covering commercialisation costs sustained by sales companies); and
- taxes.

The Reference Economic Conditions are defined in the “Integrated Code for the sale of gas” (Resolution ARG/gas no. 64/09) and refer to the average costs of production and supply that add up to the final charge for the gas supply.

In application of the Anti-Crisis Decree, the Authority for Electricity and Gas, through Resolution No. 192/08, eliminated the variance thresholds to which updates in supply prices were linked. Previously, the prices to final clients did not change if the fluctuation of the raw materials prices were within the variance thresholds (set at 2.5 per cent.). The new measures modified the final price with a decrease of 1 per cent. for the first quarter of 2009, as compared with the previous quarter.

With Resolution ARG/gas no. 106/09, the Authority adopted a system of compensation for these costs not otherwise recoverable. However, vertically-integrated sellers or wholesalers that make intra-group procurements are excluded from the system. Enel appealed against Resolution ARG/gas no. 106/09.

With its ruling 34/2011, the Lombardy Regional Administrative court granted Enel Energia’s appeal against Authority for Electricity and Gas Resolution no. 106/2009 concerning the compensation mechanism for charges incurred by sales companies that could not otherwise be recovered as a result of the removal of the invariance threshold established by the Authority as from January 2009. The Authority has appealed against the Court’s ruling before the Council of State.

With regard to the raw material component, in December 2009, the Authority for Electricity and Gas started an investigation into the costs of long term contracts in Italy. Resolution No. 89/10 reduced the raw material component of the Reference Economic Conditions. This reduction (2 €cent/mc) will last for one year starting from October 2010. Resolution n. 77/11 slightly increased (in comparison with the year October 2010 – September 2011) the raw material component of contracts for one year from October 2011.

By means of Resolution No. 77/2011, the Authority for Electricity and Gas revised the formula for updating the tariff component covering raw materials provisioning costs (QE component) for the October 2011-September 2012 gas year. Such revision will raise the QE component by about 1% compared with the previous gas year. By the same Resolution, the Authority for Electricity and Gas also started a proceeding for the adjustment of natural gas supply prices for the safeguard service.

The distribution tariff is set by the Authority for Electricity and Gas and is updated on a four-year basis.

Pursuant to Resolution No. 159/08, the Authority for Electricity and Gas defined the methodology for determining the distribution tariffs for the new 2009-2012 regulatory period. The allowed operating cost (which is subject to an X-factor of 3.2 per cent.) is determined with reference to the size of the company and the density of its client base. The remuneration for the invested capital in the current regulatory period is 7.6 per cent. for distribution activities and 8.0 per cent. for the metering activities. Distribution rates for the new period were set on 1 July 2009.

Tariffs components referred to distribution, metering and commercialization costs have been updated by the Authority for Electricity and Gas by means of Resolution no. 235/2010.

By means of Resolution no. 105/11, the Authority for Electricity and Gas started a proceeding to review the sale component.

Environmental Matters

ENEL's businesses are subject to extensive environmental regulation, including laws adopted by the Italian parliament or government to implement regulations and directives adopted by the European Union and international agreements on the environment.

The Group's environmental policy is based on three fundamental principles: (i) safeguarding the environment; (ii) improving and promoting the environmental features of products and services and (iii) creating corporate value. Since 1996, ENEL has taken the initiative of publishing an annual environmental report. In 2002, ENEL also started publishing a sustainability report, which contains an environmental section. ENEL believes that environmental performance will represent an increasingly important competitive factor in a liberalised market.

Environmental regulations affecting ENEL's business primarily relate to air emissions, water pollution, waste management, noise and remediation of contaminated sites. The principal air emissions of fossil-fuelled electricity generation that pollute the atmosphere are SO₂, NO_X, and particulate matter. A primary focus of the environmental regulations applicable to ENEL's business is an effort to reduce these emissions. ENEL has also given particular attention to seeking to minimise the impact of electromagnetic fields and CO₂ and other greenhouse gas emissions (hereinafter also referred to as "GHG").

Electromagnetic Fields

Through Law dated 22 February 2001, No. 36, the Italian parliament passed a framework law in order to reshape the normative structure concerning electromagnetic field exposure. The 2001 Law is intended to protect the general public and workers against alleged potential long-term health effects of exposure to electromagnetic fields generated by both low-frequency and high-frequency infrastructure.

On 18 July 2003, a Prime Minister Decree, was enacted providing for measures to partially implement the 2001 Law, setting maximum exposure levels, precautionary levels and quality targets.

In 2008, the Ministry for Environmental Protection enacted two decrees (both dated 29 May 2008) regarding the methodology related to the measurement/evaluation of precautionary levels and quality targets as well as the zones to be respected near the transmission and distribution infrastructures.

According to Legislative Decree dated 9 April 2008, No. 81, and following amendments and integrations (Consolidated Act on workplaces health and safety), in light of the risks related to worker's exposure to electromagnetic fields, the employer is bound to assess such exposure level and, in case, to take all the necessary measures to protect his employees against such risk.

ENEL believes that the costs of complying with these measures, including costs for the related restructuring described above, will not have a material impact on its results of operations. Moreover, because of the 2005 and 2006 disposal of all but 5.12 per cent. of ENEL's stake in Terna, which owns over 97 per cent. of Italy's power transmission lines, ENEL is no longer materially affected by regulations relating to electricity transmission. Currently, ENEL only owns power lines for the distribution of electricity.

In addition, the Bersani Decree required the Electricity Services Operator to pay ENEL Distribuzione and other owners of distribution/transmission lines consideration for the use of the lines, which adequately reflects the costs the owners incurred to comply with regulatory requirements

Energy Efficiency

Two ministerial decrees of July 2004 established a regulatory framework that came into force on 1 January 2005. Under the scheme, electricity and gas distributors are required to achieve end-use energy efficiency targets, with reductions in primary energy consumption.

The decree of 21 December 2007, revised and updated the July 2004 decrees on energy efficiency. In particular, it raised the targets to be achieved in 2008 and 2009 and set new energy saving targets for 2010-2012 for both electricity and gas distributors. For 2008, national efficiency targets were 2.2 Mtoe; ENEL's share amounted to 1.04 Mtoe for the distribution of electricity (Enel Distribuzione and Deval) for a total of 48 per cent. of the national target. The overall target for 2009 was 3.2 Mtoe, of which 1.57 Mtoe was allocated to ENEL Distribuzione and Deval (equal to 49 per cent. of the total requirement) which achieved the 60 per cent. The system allows to fulfil the overall target one year later. The overall target for 2010 was 4.3 Mtoe, of which 2.1 Mtoe was allocated to ENEL Distribuzione and Deval.

The Authority for Electricity and Gas, through Resolution No. EEN 21/2009, updated the rate contribution for Energy Efficiency Certificates for 2010 to €92.22/toe on the basis of a mechanism linked to developments in the average annual level of residential rates for electricity and gas and the price of diesel fuel. The update will reduce the contribution in a given year if there is an average increase in these measures in the previous year. Conversely, if there is an average decrease during the previous year, the update will increase the contribution.

For the year 2011, Resolution No. EEN 17/10 has set the rate of contribution for Energy Efficiency Certificates at €93.68/toe.

On 3 July 2008, Legislative Decree 115/08 implementing Directive 2006/32/EC on energy end-use efficiency and energy services was published in the Italian Official Journal. The decree provides for, among other things, the extension of the obligations incumbent on electricity and gas distributors to retail energy sales companies, in compliance with the principle of conformity with the general objectives and existing requirements.

Recently, on 5 September 2011, the MED issued a decree providing for a new incentive regime for cogeneration power plants. Such incentives (granted for a ten-year period or for a 15-year period with reference to cogeneration plants with a district heating) can not be aggregated with Energy Efficiency Certificates.

A new energy efficiency directive - which will replace the current directives on cogeneration (2004/8/EC) and energy services (2006/32/EC) it is currently under discussion. Among other principles, the current proposal for the new energy efficiency directive provides for an annual energy saving requirement of 1.5% for each Member State: such goal could be achieved by introducing an equivalent obligation for energy distribution or sales companies, or through alternative measures (such as, for example, financing programs or voluntary agreements).

With regard to power generation, the Commission proposal for the new directive provides for the Member States to draft a national plan for the promotion of high-efficiency cogeneration, district heating and air conditioning. In addition, while allowing a number of exemptions, the Commission proposed that the Member States should require adoption of cogeneration equipment for generation plants having a capacity exceeding 20 MW.

CO₂ Emissions

Both the European Union and Italy are signatories to the Kyoto Protocol which sets legally binding emission reduction targets in the context of the United Nations Framework Convention on Climate Change (UNFCCC).

The Protocol established an international carbon market to trade emission permits that allows parties to comply with reduction targets in a cost efficient way. In accordance with a burden-sharing agreement among EU Member States, Italy has set a target to reduce emissions of CO₂ and the other greenhouse gases listed in the Kyoto Protocol over the 2008-2012 period by 6.5 per cent. from their 1990 levels. As of 2006, ENEL produced approximately 9 per cent. of total greenhouse gas emissions in Italy.

In the framework of the Kyoto Protocol, in 2003, the EU adopted Directive No. 2003/87/EC (the “Emissions Trading Directive”) establishing a “cap and trade scheme” for greenhouse gas emissions which established a regional carbon market on tradable emission rights. In October 2004, the EU also passed another Directive (Directive No. 2004/101/EC, so called “Linking Directive”), which amended the Emissions Trading Directive to allow European operators to use credits from flexible mechanisms, provided by the Kyoto Protocol (Clean Development Machine and Joint Implementation), to compliance with the EU Emission Trading Scheme (“EU ETS”). Both the Emissions Trading Directive and the Linking Directive have been implemented into national legislation by Legislative Decree No. 216/2006.

On 23 January 2008, the European Commission proposed measures to achieve the EU’s ambitious targets for reducing greenhouse gas emissions and increasing the production from renewable energies. The proposed measures contemplate a 21 per cent. reduction from 2005 levels in 2020.

On 20 February 2008, the Italian National Committee for the management and implementation of the Emissions Trading Directive, announced the final decision on the total assignment of Emissions Allowances, pursuant to Article 8(2) of Legislative Decree No. 216/2006, known as National Allocation Plan for phase 2 (“NAP2”). Such Decision – which was adopted, on 28 February 2008, by the Ministry of Environment and the Ministry of Economic Development – defined the total allocations for the second trading period of EU ETS (2008-2012) referred to each sector and each plant covered by EU ETS. National Plan provided also the amount of allowances to set aside for “New Entrants” and methods to allocate allowances.

According to NAP2, the thermal sector was allocated annual CO₂ Emissions Allowances of 85.29 million tns, excluding the reserve for new entrants. The final decision provides percentages setting out limits for offsets use by sectors’ operators to meet compliance targets. The final decision allocates ENEL annual CO₂ Emissions Allowances of approximately 33.6 million metric tons per annum for the 2008-2012 period for existing plants, to which should be added further Emissions Allowances from New Entrants reserves, estimated at approximately 3 million metric tons a year. ENEL intends to reach the target imposed with a comprehensive strategy based on the promotion of renewable sources, low carbon technologies, energy efficiency measures and the development of international offsets. A potential deficit will be faced exploiting carbon market’s mechanisms.

With the Directive 2009/29/CE (published in the EU Official Journal on June 5, 2009), the EU – amending Directive No. 2003/87/EC – set a GHG emissions cut, by 2020, of 20 per cent. compared to the 1990 level. The new Directive foresees new allocation criteria: from the start of the third trading period, auctioning will progressively replace free allocation as the main method for allocating allowances to EU ETS sectors. The EU Community-wide quantity of allowances issued each year starting in 2013 shall decrease by a linear factor of 1,74 per cent. compared to the average annual total quantity of allowances issued by Member States in accordance with the Commission Decisions on their national allocation plans for the period from 2008 to 2012. On the total annual amount of EU Allowances available to operators, 88 per cent. will be auctioned pro quota between Member States, 10 per cent. will be distributed following solidarity criteria, and the remaining 2 per cent. will be assigned amongst Member States the greenhouse gas emissions of which were, in 2005, at least 20 per cent. below their emissions in the base year applicable to them under the Kyoto Protocol. The power sector will face full auctioning from the start of Phase III.

The Commission proposes to auction 120 million allowances in 2012, ahead of the start of the 2013-2020 trading period. On 13 July 2011, Member states agreed to such proposal.

Regarding revenues from auctioning, the Directive obliges Member States to use at least half of the income to fight and adapt to climate change such as the development of renewable energies, measures to avoid deforestation and to favour forestry sequestration, and measures to support financing of energy efficiency and clean technologies. Member States should adopt all the necessary implementation measures into national law by 31 December 2012.

In order to meet the GHG reduction commitments up to 2020 and to establish a comprehensive emission reduction policy, with the Decision No. 406/2009/CE (jointly adopted by the EU Parliament and the Council) EU provided national targets for sectors not covered from EU ETS (such as buildings, transport, agriculture and waste). Emission target for Italian sectors extra ETS is equal to -13 per cent. compared to 2005 levels.

On 21 January 2011, the Climate Change Committee approved the European Commission's proposal on restricting the use of Clean Development Mechanism (CDM) credits for industrial gas emission reduction projects. According to EU Regulation 550/2011, from 1 January 2013 the use of industrial gas credits (HFC-23 and N₂O) will be prohibited. The use of these credits for compliance obligations of Phase II of ETS is not affected by these restrictions: the deadline to surrender credits from certified emission reductions (before 2013) from existing industrial gas projects is 30 April, 2013.

On June 17 2011, the Climate Change Committee approved the European Commission's proposal to enhance the security of national registries following cases of fraud and theft of allowances.

SO₂, NO_x and Other Emissions

The principal EU directive on atmospheric pollution affecting the electricity industry is the 2001/80/CE Large Combustion Plants Directive ("LCPD"). The LCPD requires each EU Member State to establish and implement a program of progressive reduction of total SO₂ emissions and total NO_x emissions from generation plants licensed before 1 July 1987, and to establish emissions limits for SO₂, NO_x and particulate matter from individual generation plants licensed after 1 July 1987.

In addition, Italy is bound by an EU directive issued in 2001 (Directive No. 2001/81/CE) mandating that Member States achieve specified reduction targets on SO₂, NO_x, volatile organic compounds (VOC) and NH₃ emissions by 2010. To this end, Member States were required to establish and implement programs of emissions reduction in order to achieve the targets set in the directive.

Italy is also a member of the Helsinki Protocol and the Oslo Protocol, which require signatory countries to reduce SO₂ emissions, and the Sofia Protocol, which requires signatories to reduce NO_x emissions. The requirements under these protocols have been reflected in Italian law.

In Italy Legislative Decree No. 152/2006, repealing many previous regulation on air emission and recently modified by the Legislative Decree No. 128/2010, sets the emission limits and reduction programs for the industrial plants, depending on the licensing year.

In response to this regulation, ENEL implemented a significant program of environmental measures that affect its entire thermal generation operation. ENEL submitted this program to the relevant ministries of the Italian government, including those for industry, environment and health. The program was approved and provided for modifications to both physical plants and operating practices. ENEL has achieved the targets the Italian regulation mandated for the implementation of these environmental compliance measures for generating facilities.

In December 2007 the EU Commission published a directive proposal on "industrial emission" (Integrated Pollution Prevention and Control) with the aim of unifying provisions contained in seven different directives, including the Large Combustion Plants directive.

The text of Directive No. 75/2010/EU was finally published in the EU Official Journal on 17 December 2010.

The Directive includes:

- Emission limits: Attachment V provides the emission limits for combustion plants referred to in article 30, paragraphs 2 and 3 (so, among others, for those «combustion plants which have been granted a permit before 7 January 2013, or the operators of which have submitted a complete application for a permit before that date, provided that such plants are put into operation no later than 7 January 2014» and combustion plants not covered by such definition);
- Updating of the authorization: within four years from the publication of decisions on Best Available Techniques (BAT) conclusions, the Competent Authority must evaluate the plants authorization conditions and, if necessary, update it consistently with the BAT emission limits; and
- possibility of derogation under certain circumstances (e.g. limited life time).

Directive No. 75/2010/EU shall be implemented by Member States by the beginning of 2013.

PCBs and Asbestos

In May 1999, the Italian government adopted Legislative Decree No. 209/1999 concerning the recovery and disposal of transformers and other equipment containing polychlorinated biphenyls (“PCBs”). ENEL’s Infrastructure and Networks division adopted a disposal plan anticipating this legislation. In the course of 2010, the Infrastructure and Networks division continued its special project, which began on 1 January 2005, of decontamination/disposal of equipment containing oil with PCBs. Decontamination/disposal of equipment containing oil with a PCB content exceeding 500 ppm had already been completed in 2007 (ahead of the regulatory time-limit: 2009). Both power and measuring transformers with a PCB content of 50 to 500 ppm will be totally disposed as planned, despite the fact that the applicable legislation provides for removal at the end of their life. The project covers over 33,000 units (about 8 % of those owned at the start of the project), mostly power transformers, but also measuring transformers, capacitors and other equipment. From the start of the project to the end of 2010, 25,000 units of contaminated equipment were disposed of.

ENEL also delivers waste products containing asbestos to specialised companies authorised to treat and dispose of asbestos. Such waste products derive from the cleaning of ENEL’s plants, which is conducted in accordance with its general maintenance and environmental programs.

Integrated Prevention and Reduction of Air Pollution

The regulation concerning the integrated prevention and reduction of air pollution (“IPPC”) was originally provided for by Directive No. 96/61/EC and implemented in Italy by means of Legislative Decree No. 59/2005. This directive provides that all the operators require a single authorisation, replacing separate authorisations provided under previous regulations. The operators are also requested to adopt BAT in order to reduce air pollution and other emissions. The scope of Legislative Decree No. 59/2005 includes energy activities and, in particular, combustion installations with a rated thermal input exceeding 50 MW, including many ENEL plants. In 2008, the Directive No. 96/61/EC was formally repealed and replaced by Directive No. 2008/1/EU, which, integrates, with minor amendments the same regulation. The provisions of Directive No. 2008/1/EU merged, with some amendments, into Directive No. 2010/75/EU (see paragraph “SO₂, NO_x and Other Emissions” above).

Legislative Decree No. 59/2005 has been repealed by Legislative Decree No. 128/2010 and the relevant provisions have been integrated into other decrees and in particular in Legislative Decree No. 152/2006. (“Environmental Code”).

Water Pollution Prevention

ENEL is subject to environmental laws and regulations limiting heat and other characteristics of water discharges and wastewater from its plants. The most recent regulations concerning water pollution prevention are represented by Legislative Decree No. 152/2006. The aim was to unify, in a single text, the most relevant provisions of the previous regulations on this topic. In particular:

- Law No. 36/1994 on management of water resources and
- Legislative Decree No. 152/1999 which regulated the preservation of water from pollution.

Legislative Decree No. 152/2006 provides for civil, penal and administrative sanctions in case of violations of its provisions.

Waste Management

The Environmental Code sets out the legal framework on waste management. Under the Environmental Code, companies producing waste are responsible and chargeable for waste storing, transportation, recycling and disposal. Legislative Decree No. 205/2010, amending the Environmental Code rules concerning the paper-based waste management system, introduced the new electronic waste monitoring system (so called "SISTRI"), which will become operative in 2012.

From August 2011, according to the rules set forth by Legislative Decree No. 121/2011, some crimes concerning waste disposal have been introduced within Legislative Decree No. 231/2001 on entities administrative responsibility.

Site Remediation

The Environmental Code sets out the legal framework on contaminated sites. This regime substitutes the previous framework on contaminated sites, set out by Legislative Decree No. 22/1997 and by Ministerial Decree No. 471/1999.

The Environmental Code introduces real threshold concentration values for contamination (CSC). If these values are exceeded, it is mandatory to proceed with further investigations, performing a site characterization and a site-specific risk assessment. If the risk assessment reveals the absence of unacceptable risk, the site is declared "not contaminated"; however, in such cases, a monitoring program may be required. Environmental Code requires a risk assessment if analytical results, collected during the preliminary investigation, exceed the contamination threshold values (CSC). Apart from a few exceptions, the CSCs set forth in Annex 5 of Part IV of the Environmental Code are the same values as those set forth in the prior Ministerial Decree No. 471/1999.

ENEL continues its environmental rehabilitation and restoration of contaminated sites in industrial areas considered to be at high risk.

From August 2011, through the aforementioned Legislative Decree No. 121/2011, crimes connected to the execution of remediation activities have been inserted within Legislative Decree No. 231/2001 on entities administrative responsibility.

Landscape Protection

ENEL has taken the following actions to reduce the environmental and aesthetic impact of its distribution lines:

- re-using routes of previous power lines wherever possible;
- using towers for ENEL's high-voltage lines aimed at reducing the environmental and aesthetic impact of towers in non-urban areas of particular landscape value;

- acting to reduce the impact of lines in environmentally sensitive or protected areas;
- increasing use of underground cables in urban areas where possible;
- for medium voltage lines, placing underground cables in urban areas and aerial cables with low environmental impact in other areas with specific environmental value; and
- using aerial insulated cables or underground cables in low voltage networks (at present, ENEL has built approximately two-thirds of its network in this way).

ENEL limits use of underground high-voltage cables to urban areas because they are significantly more expensive than aerial cables and the process of installing them may involve significant logistical and environmental problems.

Environmental Registrations, Certifications and Authorisations

ENEL has joined the Eco-Management and Audit Scheme (“EMAS”), a European Union initiative to implement a voluntary environmental management and registration system, which seeks to improve the level of environmental efficiency and disclosure of European industrial companies. Rules concerning EMAS are contained in a European Union regulation issued in 1993. Originally applicable only to individual sites, in 2001 the EU passed a new regulation (No. 761/2001) that extended the scope of the EMAS system to groups of sites and sites with no generation assets, such as distribution networks. That regulation has been finally repealed and replaced by Regulation No. 1221/2009.

In August 1999, the Italian government enacted Legislative Decree No. 372/1999 implementing the EU directive No. 1996/61 on the prevention and reduction of pollution. Such Legislative Decree has been repealed and replaced by Legislative Decree No. 128/2010 and inserted within the Environmental Code. This law allows licenses for EMAS-registered and ISO 14001-certified plants to be reviewed every eight and six years respectively (instead of five) in light of the stringent requirements that must be met to obtain both EMAS registrations and ISO 14001 certifications. ENEL has filed all necessary applications for licenses within the 31 March 2007 deadline.

As of 31 December 2010, approximately 83 per cent. of the Group’s capacity, about 94 per cent. of the electric distribution grid, 100 per cent. of Italian services and market activities were subject to a ISO 14001 certificate and around 38 % of the capacity installed in the European Union was EMAS (Eco-Management and Audit Scheme (Regulation 1221/09/EC)) registered. ENEL is seeking to implement environmental management systems throughout the Group in order to obtain the ISO 14001 certification for 100 per cent. of the activities carried out by the Group and thus obtain a Group certificate for the coordination and harmonisation of environmental management.

Discontinued Nuclear Operations

Since November 2000, ENEL has not owned any nuclear power plants in Italy. ENEL has not produced electricity from nuclear power plants in Italy since 1988. Following a national referendum in 1987 in which the Italian electorate expressed its opposition to the use of nuclear power, the Italian government ordered the interruption of power production from nuclear fuels and ENEL ceased operations at its four nuclear plants in Italy, which had an aggregate net efficient capacity of 1,500 MW.

In addition to its nuclear power plants, ENEL owned a 33 per cent. stake in NERSA, an electricity generation company that operated a nuclear power plant located in France. French and German utilities owned the balance of NERSA. In July 1998, ENEL sold its stake in NERSA. ENEL, however, retained ownership and responsibility for the decommissioning of ENEL’s share of the nuclear fuel in the plant.

Pursuant to the Bersani Decree, ENEL transferred its discontinued nuclear operations to So.g.i.n., then one of its wholly owned subsidiaries. The principal activity of So.g.i.n. is the decommissioning of the nuclear plants and of ENEL's share of the nuclear fuel in the NERSA plant in France, including disposal of nuclear fuel and nuclear waste.

Under the Bersani Decree, ENEL was required to transfer to the MEF all the shares of So.g.i.n. without compensation. The transfer was completed on 3 November 2000.

Law No. 99/2009 appointed the Italian government to re-introduce the necessary regulatory framework for the production of nuclear energy within the Italian territory, as well as to adopt several measures for the promotion of the construction of nuclear power plants in Italy.

Moreover, Law No. 99/2009 sets up an agency for nuclear safety, which will be responsible for ensuring the safe operation of the nuclear power plants in Italy.

In February, 2010 the Italian government partially implemented the principles on the reintroduction of nuclear power provided by Law No. 99/2009 by means of Law Decree No. 31/2010 (converted into Law No 75/2010), which as been subsequently integrated and amended by Law Decree No. 34/2011 (converted into Law No. 74/2011).

However, on June 13 2011, a referendum took place on some of the provisions of the aforementioned decrees. On the basis of the outcome of such referendum, Italian electorate expressed again its opposition to the construction of new nuclear power plant into the Italian territory.

Nuclear Liability

Italy is a party to the 1960 Paris Convention on Third Party Liability in the Field of Nuclear Energy and the 1963 Brussels Supplementary Convention. Italian law implementing the conventions imposes strict liability for claims relating to nuclear plants and the transportation and storage of nuclear matter. Strict liability under Italian law means that someone does not need to be negligent in order to be found liable. The law imposes strict liability for nuclear accidents only on the entity that is the operator of the plant at the time of the accident. Consequently, ENEL is not liable for any accident that may occur following the transfer to the MEF of So.g.i.n.'s shares on 3 November 2000, even if the cause of the accident predates the transfer. Although ENEL is not aware of any accident that predates the transfer, ENEL will remain liable for any accident that occurred before the transfer, even if the damage, or the accident itself, is discovered in the future. The operator of the plant may claim reimbursement from a third party which has contributed to the cause of the accident for any sums it may have to pay but only if that party has accepted liability contractually or is a physical person who has intentionally caused the damage. Italian law implementing the conventions imposes a maximum period of ten years from the date of the accident in which someone claiming damages must bring claims. At the time of ENEL's transfer of So.g.i.n.'s shares, ENEL represented to the MEF that it had performed, on a regular basis, every required test on its nuclear plants and that it was not aware, with respect to all nuclear assets owned by So.g.i.n., of any event which might be the source of civil liability for nuclear operations.

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The information set out below amends, replaces and supersedes the section of the Offering Circular headed "*Description of ENEL – Regulation – Spanish Regulation*" on pages 172 to 177 of the Offering Circular.

Spanish Regulation

Spain's regulatory framework for the electric power industry is based on the country's Electricity Sector Act,

which reorganised the operations of Spain's electric power system by requiring more competition and liberalisation of the electricity system while still guaranteeing supply. The Electricity Sector Act distinguishes between regulated activities, which include the economic and technical management of the electricity system and the transmission and distribution of electricity, and liberalised activities, which include generation and retail sales of electricity.

Under the Electricity Sector Act, the corporate purpose of companies that carry out regulated activities must be confined exclusively to regulated activities. Accordingly, these companies may not carry out non-regulated activities, such as electricity generation and retail sales of electricity to clients. Until 30 June

2009, distribution companies remained charged with the regulated activity of retail sales to end-users in the regulated market, at tariffs set by the government. As of 1 July 2009, this activity was discontinued, the last remaining full-service tariffs disappeared (high-voltage tariffs disappeared in July 2008) and supply to end-users is now carried out by supply companies.

Regulated and non-regulated activities may be carried out within the same group of companies, provided they are unbundled, or separately performed by different companies.

Regulated System

Royal Decree 1955/2000 was approved in December 2000 and regulates the conditions for engaging in electricity transmission, distribution and supply activities and electricity facility authorisation procedures. The Electricity Sector Act also provides for the right of clients and retailing companies to use transmission and distribution systems and establishes that access fees for transmission and distribution systems be regulated under a single tariff applicable to the whole of Spain for this purpose, which takes into account the different levels of voltage and other characteristics of the electricity consumed. Published on 26 October 2001, Royal Decree 1164/2001 sets forth the structure and components of tariffs for access to the electricity transmission and distribution systems.

Red Eléctrica de España, S.A. carries out the transmission management and system operation activities, which, pursuant to the Electricity Sector Act, have been unbundled from generation, retail and distribution activities. The Electricity Sector Act defines and assigns the responsibility for the operation of the wholesale market, which is the daily market for energy for the following day, and intraday market sessions management to Operador del Mercado Ibérico de Energía—Polo Español, S.A, which is in charge of the mechanisms for receiving bids, matching demand to supply and making the notifications required to establish the generation dispatch to Red Eléctrica de España S.A. (acting as system operator) and to the market participants.

Remuneration of Distribution and Transmission Activities

Under the Electricity Sector Act, the remuneration of electricity distribution activity must be based on the costs required to carry out this activity, using a model characterising the various distribution areas, and other parameters. The current remuneration regime for electricity distribution was established by Royal Decree 222/2008, which set the basis for a remuneration methodology based on costs, including investment and operating costs, and on incentives, such as service quality and loss-reduction incentives. The remuneration model introduced by Royal Decree 222/2008 sets forth a methodology customised by company, which is applicable for four-year regulatory periods and is based on two regulatory tools: (i) the reference system model; and (ii) regulatory accounting. The reference system model seeks to evaluate technical efficiencies in investment plans, quality and losses, whereas regulatory accounting is set up as a reference for recognising investment, operating and other costs. At the beginning of each four-year period, all available information is analysed and reference remuneration is established that changes over the period with a correction index to which a term for an increase in business is added. Service quality incentives and loss reduction incentives are established each year. The reference remuneration set for 2008 is established as a base for the 2009-2012

period. At the date of this Offering Circular, the model has already been put into effect and the order that establishes access tariffs for 2011 has set the definitive remuneration for 2009 and 2010, and the provisional remuneration for 2011.

Electricity transmission facilities in Spain are regulated under one of three remuneration regimes: (i) a regime that applies to facilities placed into operation before 1998; (ii) a regime that applies to facilities placed into operation between 1998 and 2007; and (iii) a regime that applies to facilities placed into operation from 2008 onwards. Installations placed into operation before 1998 are remunerated globally by means of a fund that is updated yearly according to a revenue cap formula. Installations placed into operation from 1998 through 2007 are remunerated individually based on investment, financial costs and operating and maintenance costs. Royal Decree 325/2008 established a new remuneration regime for transmission facilities placed into operation from 1 January 2008 onwards. The new remuneration system is based on a new parametric formula that incorporates certain financial elements, such as the amortisation rate and operation and maintenance costs, with a rate of return of Spanish government bonds with a maturity of 10 years (Obligaciones del Estado) in the first year of each four-year period plus 375 basis points. In addition, electricity transmission companies receive a bonus (or penalty) depending on the aggregate availability of facilities, and under the new remuneration scheme transmission companies may receive additional remuneration to minimise the environmental impact of the construction of new transmission facilities. The remuneration framework is reviewed every four years and the actual amount of remuneration for each transmission operator is determined on a yearly basis.

Regulated Full-Service Tariffs

Until the end of June 2009, there were two types of tariffs in Spain: (i) full-service tariffs (the price at which electricity was supplied to end-users); and (ii) access tariffs (the price at which clients had access to the transmission and distribution grids. Royal Decree 1432/2002 established, among other things, the method by which full-service tariffs for sales of electricity from distributors to consumers were calculated for each year. They included energy costs, distribution and transmission costs, the remuneration of the CNE (Comisión Nacional de Energía), premium and feed-in tariffs for renewable generation, etc. Royal Decree 1634/2006 (further adjusted by Royal Decree 871/2007) established the electricity tariff from January 2007 and provided that the Spanish government would update the full-service tariffs on a quarterly basis.

The Electricity Sector Act was amended by Law 17/2007 for the purposes of bringing the act in compliance with the provisions of the EU's Electricity Directive (Directive 2003/54/CE). The reform primarily affects the elimination of full-service tariffs and the introduction of the "supply of last resort" concept to ensure supply to end-users. Law 17/2007 and subsequent modifications require that the current full-service tariff system be eliminated in July 2009.

In July 2008, most high-voltage full-service tariffs were eliminated and all related clients were obliged to switch to suppliers in the deregulated market. Royal Decree 485/2009, published in April 2009, establishes the framework for the "tariff of last resort" and specifies that those clients that are supplied at a low voltage level with contracted power below or equal to 10 kW are entitled to it. The tariffs of last resort represent the prices that may be charged by a supplier of last resort to a consumer. The list of suppliers of last resort was introduced in Royal Decree 485/2009. This new framework entered into force in July 2009.

Generation in the Non-Mainland Systems

Article 12 of the Electricity Sector Act established that electricity supply in the non-mainland territories of the Canary Islands, the Balearic Islands, Ceuta and Melilla are subject to specific regulation. Royal Decree 1747/2003, developed by Orders ITC 913 and 914/2006 regulates these activities. The main element of these regulations is that generation in the non-mainland systems is defined as a regulated activity, unlike on the mainland, while distribution, transmission and supply in the non-mainland systems are regulated, like on

the mainland.

Liberalised System

Generation and supply to end-users are liberalised activities under the Electricity Sector Act. The installation of new generating facilities has been deregulated since 1997, although necessary authorisations must still be required.

Retail Sales

In the liberalised system established under the Electricity Sector Act, clients that purchase electricity on the deregulated market and electricity suppliers establish transaction terms bilaterally. Since 1 January 2003, all consumers have been able to choose their electricity supplier under this system.

As of July 2009, after the disappearance of the full-service tariffs, low-voltage clients with up to 10 kW of contracted power will be entitled to the tariff of last resort when they purchase energy from the suppliers of last resort.

Ordinary Regime and the Special Regime

The Electricity Sector Act regulates generators of electricity under one of two regimes: (i) the ordinary regime regulated by the Electricity Sector Act, Royal Decree 2019/1997 and Royal Decree 1955/2000 (the “Ordinary Regime”); and (ii) the special regime established by Royal Decree 436/2004, which was replaced by Royal Decree 661/2007 (the “Special Regime”) and Royal Decree 1578/2008 regulating remuneration for solar photovoltaic plants.

Special Regime

Facilities eligible to be regulated under the Special Regime are facilities that have installed capacity of 50 MW or less and either: (i) use co-generation or other methods of electricity production associated with non-electrical activities and which involve high efficiency production; (ii) use any of the qualifying renewable energy sources as raw materials, within certain limits of power output, as long as their owners do not perform production activities under the Ordinary Regime; or (iii) use non-renewable waste as a primary energy source. Qualifying renewable energy sources include co-generation, solar energy, wind power, hydroelectric power, biomasses, geothermal power, wave power and tidal power, “hot dry rock” geothermal energy, ocean thermal power, ocean currents, power from the utilisation of thermal heat from waste and biofuels. Other facilities that are eligible for regulation under the Special Regime include those that have an installed capacity of less than 25 MW, involve highly efficient energy production, produce electrical energy from treatment facilities and use waste from the agriculture, livestock and service sectors. The Special Regime is discretionary; companies that own eligible facilities may apply for regulation under the Special Regime.

Under the Special Regime, generators may sell their net electricity production at either: (i) the tariff fixed by the Spanish government; or (ii) a market price set by the pricing schemes applicable under the Ordinary Regime, plus certain premiums or incentives (which, for certain installations, can vary with the market price), set under a cap and floor scheme, in such a way that a minimum of revenues is guaranteed for these generators regardless of the level of market price. Other benefits granted to generators under the Special Regime include priority access to transmission and distribution networks.

Pursuant to Royal Decree No. 1578 of 26 September 2008, the Ministry of Industry, facing an increase in requests for the development of photovoltaic installations to a level above the government’s expectations, set forth new rules regulating photovoltaic technology and the remuneration of electricity derived therefrom, supplanting the rules set forth in Royal Decree No. 661/07. In particular, the new decree establishes a register in which plants have to be recorded for the operator to receive remuneration. Requests to be

registered may only take place during four windows (*convocatorias*) each year and will be processed by the ministry in the order of receipt. For the first year, up to 400 MW of capacity could be registered. From the second year the yearly capacity cap was adjusted based on the previous year's cumulative tariff change (the Decree provided for additional caps for ground plants for 2009 and 2010, respectively 100 MW and 60 MW). The feed-in tariff level varies every *convocatoria* according to the number of MW registered in the previous one.

The regulatory framework for the special regime was reviewed in late 2010. The main changes were relevant to the PV sector: on one hand, there will be a tariff reduction distinguished by the type of installation applicable to the plants that will be registered in the second *convocatoria* of 2011, and on the other hand, a temporary limit of subsidised hours has been set for those plants under RD 661 (around 3.400 MW), which has been a highly controversial issue because of a possible retroactivity of this measure. In addition to this, a permanent limit of subsidized hours has been set for solar CSP plants, wind farms and PV plants. For wind power plants under the 661/07 regime there will be a temporary reduction of 35 per cent. of the reference premium (*prima de referencia*) until 2012 and a limitation of number of hours that could benefit from the premium.

Ordinary Regime

All generation facilities not governed by the Special Regime are governed by the Ordinary Regime. Under the Ordinary Regime, there are three methods of contracting for the sale of electricity and determining a price for the electricity, all of which Endesa is eligible to utilise: (i) through the organised wholesale Energy market or Power Pool operated by the Operador del Mercado Ibérico de Energía — Polo Español, S.A. (“OMEL”); (ii) through bilateral contracts; and (iii) through the so-called CESUR auctions.

The Spanish Power Pool Operated by OMEL

The Spanish Pool was created on 1 January 1998 and governs sales to and from market agents through day-ahead and intraday auctions with marginal pricing. Market participants are the companies qualified to operate as electricity vendors or purchasers, specifically electricity generation and supply companies, as well as large clients, and include participants from other countries interconnected with the Spanish network. The Spanish Pool is managed by OMEL.

Bilateral Contracts

Bilateral forward contracts (with either financial or physical settlement) are possible between electricity generators, suppliers (with no restriction for vertically-integrated companies) and large clients, as an alternative to the Spanish Pool. These contracts are traded either bilaterally (over the counter) or through the futures market operated by Operador del Mercado Iberico de Energía — Polo Português, S.A.

CESUR Auctions

Order ITC/400/2007 of 26 February 2007 established electricity contract auctions (quarterly and semi-annually) for the supply of electricity to distribution companies serving full-service tariff clients in mainland Spain. Vendors could freely participate in such auctions, which comprised base load and peak load contracts. After the disappearance of the full-service tariff regime in July 2009, the CESUR auctions (now regulated by Order ITC/1601/2010 which abrogated and replaced Order ITC/400/2007) are used by the suppliers of last resort to procure energy and to contribute to setting the energy price component in the tariff of last resort.

Settlement of Regulated Activities and the Tariff Deficit

Regulated electricity revenues based on full-service tariffs and access tariffs should cover all costs of the regulated system, in accordance with an allocation and settlements system managed by the CNE, as established by Royal Decree 2017/1997. A tariff deficit results when revenues from the provision of regulated

services fall below the costs of providing such services (which may occur, for example, as a result of mistakes in forecasts or spikes in energy costs for full-service tariff clients). Currently, Royal Decree-Law 6/2009 sets forth the regime under which certain electricity generators, including Endesa, are required to finance such deficits. Endesa is responsible for financing 44.16 per cent. of tariff deficits. The Spanish government recognises the right of the generating companies to recover this financing by including the necessary increases in the tariffs for the future years. In addition, electricity generators are permitted to securitize and sell tariff-deficit receivables to companies in the financial sector. Royal Decree-Law 6/2009, as amended by Royal Decree-Law 6/2010, establishes a structured fund to which recovery rights for deficits generated and not passed on to third parties will be transferred, and which will issue debt that will be backed by a state guarantee, to facilitate securitisation.

Until 2006 the tariff deficit was the result of a low energy price included in the tariff calculations, and was recognised ex-post. Royal Decree 1634/2006 defined a new system to fund tariff deficits under which the Spanish government recognises ex ante the tariff deficit and appoints the CNE as the body to manage regular auctions of receivables, consisting of the right to receive a certain amount of tariff revenues. The auction system was implemented by Order 694/2008. Under the new system, electricity generators that were required to contribute to the tariff deficit pursuant to Royal Decree-Law 5/2005 (later replaced by Royal Decree-Law 6/2009) continue to be required to finance tariff deficits ex ante until such auctions take place. Following auctions, amounts financed are to be returned, with interest, to the electricity generators. Auctions have recently generated little investor interest.

Royal Decree-Law 6/2009 also introduced some further measures aimed at relieving electricity companies from deficit financing obligations. The royal decree-law provides for industry-wide caps on the amount of the deficit of €3.5 billion in 2009, €3.0 billion in 2010, €2.0 billion in 2011 and €1.0 billion in 2012, requiring that tariffs be increased so that these caps are not exceeded. Under the royal decree-law, beginning in 2013, tariffs are to be set so as to generate sufficient proceeds to cover the total cost of providing regulated services, thus avoiding the incurrence of further ex ante deficits. The maximum yearly amounts of ex-ante deficit have been recently revised by Royal Decree-Law 14/2010 published on 24 December 2010, which increased the level of the 2011 and 2012 caps up to €3.0 billion and €1.5 billion, respectively, and in practice set the cap for 2010 at €5.5 billion.

According to a Resolution published on 26 January 2011, the total amount of the system-wide recovery rights for financing the deficit pending recovery as of 31 December 2010, eligible to be transferred to the fund, was €16,694 million (the amount includes the 2011 ex-ante deficit and does not include the temporary mismatch for 2010).

Pursuant to Royal Decree-Law 6/2009, starting from 2013, tariffs are to be set so as to generate sufficient proceeds to cover the total cost of providing regulated services, thus avoiding the incurrence of further ex ante deficits.

Nuclear Power Regulation

The safety, construction and operation of all nuclear power stations in Spain is regulated and supervised by the Nuclear Safety Council (Consejo de Seguridad Nuclear), a government agency that reports directly to the Spanish parliament.

Nuclear facilities use enriched uranium as fuel. Under Spanish law, all enriched uranium supplies must be purchased from Enusa, which is owned by Spanish government agencies.

Enresa administers a fund to finance certain activities in connection with another governmental entity, which sets forth a program for decommissioning nuclear power stations and disposing of nuclear waste. Pursuant to Royal Decree-Law 5/2005, amended by Law 33/2007, and further by Royal Decree-Law 6/2009, all the waste treatment and dismantling costs attributable to the operation of nuclear power plants are financed by

the plant owners during the plants' operation, through a charge per nuclear kWh generated that is billed by Enresa. Enresa has responsibility for the decommissioning of nuclear stations and the treatment and disposal of nuclear waste.

The Iberian Electricity Market

On 1 October 2004, Spain and Portugal signed an international agreement for the constitution of the Iberian Electricity Market, or MIBEL. Pursuant to the agreement, a single operator for the Iberian electricity pool was created, Operador del Mercado Ibérico de Energía, with two poles, one in Spain (OMEL, in charge of the day-ahead market) and one in Portugal (in charge of the futures market). From July 2007 onwards, the wholesale markets of both countries have been jointly operated, incorporating market-splitting rules to manage the interconnection capacity. Market-splitting rules aim to ensure proper cross-border flow of electricity by establishing two price areas when the interconnection capacity is congested.

The Spanish Natural Gas Sector

The regulatory framework of Spain's natural gas industry is based on Hydrocarbons Law 34/1998 (the "Hydrocarbons Law"), enacted through Royal Decree 949/2001 and Royal Decree 1434/2002 and amended by Law 12/2007. Royal Decree 949/2001 regulates third-party access to natural gas facilities and provides for an integrated business system for the natural gas industry. Royal Decree 1434/2002 regulates the transportation, distribution, sales/marketing, supply and authorisation procedures for natural gas and natural gas facilities. There is a gas transmission system operator, Enagas.

In July 2007, Law 12/2007 was passed amending Law 34/1998 to bring the Hydrocarbons Law into compliance with EU Directive 2003/55/EC, known as the Gas Directive. Law 12/2007 introduced a number of significant changes in furtherance of an unbundled regime, the most important of which was the removal of the existing regulated natural gas tariffs and the supply of gas at regulated prices by distributors, and the introduction of a last-resort tariff similar to the one that would be introduced for electricity one year later. "Tariffs of last resort" are the prices at which "last resort suppliers" can supply consumers entitled to receive such supplies under the applicable regime from 1 July 2008 (residential clients and small industrial or commercial clients).

The Royal Decree 1068/2007, published in July 2007, established the framework for the supply of last resort and the list of suppliers of last resort. The tariffs of last resort represent the maximum and minimum prices that may be charged by a supplier of last resort to consumers entitled to it. This new framework entered into force in July 2008.

Therefore, in July 2008, the gas full-service tariffs (regulated tariffs) were eliminated and all clients supplied by distributors were obliged to switch to suppliers in the deregulated market. All low-pressure clients supplied by distributors were switched to suppliers of last resort. Low-pressure clients ($P \leq 4$ bar) with annual consumption up to 3 GWh were entitled to the tariff of last resort.

CO2 Emissions Allowances

As established in Directive 2003/87/CE, from 2005 onwards, all electricity companies in Europe that produce CO₂ emissions from their generation activity (one of the activities listed in the Annex I of that Directive) must, in the first months of the subsequent year, deliver to governmental authorities an amount of CO₂ Emissions Allowances equivalent to the volume of CO₂ emissions produced during the year. There is a free allocation of Emission Allowances to these CO₂ emitting facilities in order to satisfy their emission in accordance with the agreed Kyoto objectives which is regulated by the National Allocation Plans (additional Emission Allowances needed to cover the actual emissions must be "obtained" in the market).

The national allocation plans regulate the allocation of free Emissions Allowances to CO₂ emitting facilities

(additional Emission Allowances needed to cover the actual emissions must be purchased in the market). The second phase of the Spanish national allocation plan, which is governed by Royal Decree 1370/2006, covers the 2008-2012 period. CO2 Emissions Allowances allocated free of charge to the Spanish electricity sector for the 2005-2007 period amounted to 256.2 million tons, of which 118.67 million tons was allocated to facilities of Endesa (37.3 million tons and 39 million tons for 2007 and 2006, respectively). The second phase of the Spanish national allocation plan, which is governed by Royal Decree 1370/2006, covers the 2008-2012 period. CO2 Emissions Allowances allocated free of charge to the Spanish electricity sector for the 2008-2012 period amount to 272.8 million tons, of which 133.6 million tons was allocated to facilities of Endesa, before the divestiture of certain of such facilities to E.On. Taking into account the sale of these power plants to E.On, the total amount of free Emissions Allowances assigned to Endesa for the 2008-2012 period was 123.38 million tons.

There will be no free CO2 Emissions Allowances allocation beyond 2013 for electricity sector. All allowances must be acquired in auctions under EU rules or in the market.

Royal Decree-Law 3/2006, developed by Order ITC/3315/2007, provided that, for 2006 and 2007, the estimated impact of the CO2 Emissions Allowances in the wholesale electricity prices would be deducted from the remuneration of the electricity generators under the Ordinary Regime. Royal Decree-Law 11/2007 established a similar reduction of revenues from the period 2008-2012. Notwithstanding the above, the CO2 Emissions Allowances deduction system has been derogated from July 2009 onwards by Royal Decree-Law 6/2009.

The newest European measures will introduce restrictions on the use of CERs derived from certain CDM projects, which are expected to increase the cost of compliance with the CO2 Emissions Allowances regulation.

Other Environmental Regulations

In addition to obtaining general authorisations and municipal authorisation licenses, Endesa must obtain environmental licenses for a facility before it may begin to generate electricity. To receive approval for a new electricity production facility, an Environmental Impact Assessment (“EIA”) must be completed to analyse and predict the impact the proposed project will have on the physical and social environment. The EIA process requires that a proposed project be evaluated for its expected effects on the surrounding physical environment. Governmental authorities may impose preventative measures, based on the results of the EIA, which are often included as conditions to the final authorisation of a project. Each of Spain’s autonomous regions may also pass legislation to protect the local environment; as a result, regulation of the EIA process often varies from region to region.

In addition, pursuant to Law 1/2005, energy generation facilities rating a thermal input exceeding 20 MW are required to obtain authorisation from the regional authorities to produce CO2 emissions. Regional authorities will typically grant such authorisation upon a showing that the facility operator will fulfil the monitoring and information obligations set forth in Annex III to Law 1/2005.

Endesa’s nuclear power plants in Spain are subject to extensive regulations arising out of their operations for processing and storing low-level radioactive materials. Applicable regulations primarily take into account nuclear safety, environmental and public health protection and national safety considerations.

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RISK FACTORS

Due to recent revision of the credit rating of ENEL, the first sentence of the first paragraph of the Risk Factor headed *“ENEL’s ability to access credit and bond markets on acceptable terms is in part dependent on its credit ratings, which have come under scrutiny due to its level of debt”* on page 6 of the Offering Circular shall be replaced as follows:

Enel’s long-term debt is currently rated A- (negative outlook) by Standard & Poor’s, A- (stable outlook) by Fitch and A2 (negative outlook, on review for possible downgrade from 20 June, 2011) by Moody’s Investors Service. Recently (on 21 September, 2011), Standard & Poor’s re-affirmed its A- long-term debt rating, as well as the A-2 short-term rating. The outlook is still negative.

* * *

The information set out below supplements the section of the Offering Circular headed “Risk Factors” on pages 5 to 19 of the Offering Circular and, more specifically, replaces the risk factor entitled *“The Group is exposed to a number of different tax uncertainties, which would have an impact on its tax results.”* on page 13 of the Offering Circular.

The Group is exposed to a number of different tax uncertainties, which would have an impact on its tax results.

The Group is required to pay taxes in multiple jurisdictions. The Group determines the taxation it is required to pay based on its interpretation of the applicable tax laws and regulations in the jurisdictions in which it operates. The Group may be subject to unfavourable changes in the respective tax laws and regulations to which it is subject (e.g. including in respect of interest deductibility and the tax treatment of finance companies in The Netherlands as well as the increase of the additional income tax – so-called “Robin Hood tax” – recently enacted in Italy on a number of taxpayers, including companies engaged in the energy business, from 6.5% to 10.5%). Tax controls or audits and changes in tax laws or regulations or the interpretation given to them may expose the Group to negative tax consequences (including where any member of the Group is treated as being resident in a jurisdiction other than its place of incorporation), including interest payments and potentially penalties. The financial position of the Group and its ability to service the obligations under its indebtedness may be adversely affected by new laws or changes in the interpretation of existing laws.

TAXATION

The information set out below supplement the section of the Offering Circular headed “*Taxation*” on pages 200 to 212 of the Offering Circular and, more specifically, shall be deemed to be included following the last paragraph of the preamble on page 200 of the Offering Circular.

Article 1, paragraphs 6-34 of Law Decree 13 August 2011, No. 138, converted into law with amendments by Law 14 September 2011, No. 148 (the “Decree 138”) introduced a general reform of financial income and capital gains pursuant to which, inter alia, save for certain exceptions, such kind of income will be subject to withholding (or substitutive) tax at 20 per cent. rate (instead of the current 12.5 per cent. and 27% rates) starting from 1 January 2012. Provisional rules are set forth by the Decree 138, which are not described herein.

* * *

The information set out below amend, replace and supersede the section of the Offering Circular headed “*Taxation – The Republic of Italy*” on pages 200 to 209 of the Offering Circular.

THE REPUBLIC OF ITALY

Tax treatment of Notes issued by ENEL

Legislative Decree 1 April 1996, No. 239 (“**Decree 239**”) provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) within the meaning of Article 44 of Italian Presidential Decree 22 December 1986, No. 917 (“**Decree 917**”) issued, *inter alia*, by companies listed on an Italian regulated market, provided that the notes are issued for an original maturity of not less than 18 months.

For this purpose, pursuant to Article 44 of Decree 917, debentures similar to bonds are securities that (i) incorporate an unconditional obligation to pay, at maturity, an amount not lower than their nominal value and (ii) do not grant to the relevant holders any right to directly or indirectly participate to the management of the issuer or of the business in relation to which they are issued or to control the same management.

Italian resident Noteholders

Where Notes qualifying as bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) have an original maturity of at least 18 months, and an Italian resident Noteholder who is beneficial owner of the Notes is (i) an individual not engaged in an entrepreneurial activity to which the Notes are connected, (ii) a non-commercial partnership, (iii) a non-commercial private or public institution, or (iv) an investor exempt from Italian corporate income taxation (in each case, unless the relevant Noteholder has entrusted the management of its financial assets, including the Notes, to an Italian authorised intermediary and has opted for the application of the *risparmio gestito* regime provided for by Article 7 of Italian Legislative Decree 21 November 1997, No. 461 – the “**Risparmio Gestito**” regime— see under “*Capital gains tax*” below), interest, premium and other income relating to the Notes, accrued during the relevant holding period, are subject to a final tax, referred to as “*imposta sostitutiva*”, levied at the rate of 12.5 per cent. In the event that the Noteholders described under (i) or (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Pursuant to the Decree 138, interest relating to the Notes accrued as from 1 January 2012 will be subject to *imposta sostitutiva* at 20 per cent. rate. Furthermore, for such purposes the maturity of the Notes would become irrelevant.

Pursuant to Decree 239, *imposta sostitutiva* is generally applied by banks, SIMs, fiduciary companies, SGRs, stockbrokers and other entities identified by decrees of the Ministry of Finance who are (i) resident in Italy or permanent establishments in Italy of non-Italian resident financial intermediaries and (ii) intervene, in any way, in the collection of interest, premium and other income relating to the Notes or in the transfer of the Notes (each an “**Intermediary**”). For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change of the ownership of the relevant Notes.

Where an Italian resident Noteholder who is beneficial owner of the Notes is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, and the Notes are timely deposited together with the relevant Coupons with an Intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder’s income tax return and are therefore subject to general Italian corporate income taxation, currently applying at a 27.5 per cent. rate (and, in certain circumstances, depending on the “*status*” of the Noteholder, also to *imposta regionale sulle attività produttive*, the regional tax on productive activities (“**IRAP**”), generally applying at the rate of 3.9 per cent., IRAP can be increased by regional laws up to 0.92 per cent.).

Under the current regime provided by Law Decree No. 351 of 25 September 2001 converted into law with amendments by Law No. 410 of 23 November 2001, as clarified by the Italian Ministry of Economics and Finance through Circular No. 47/E of 8 August 2003, payments of interest, premium and other income in respect of the Notes made to Italian resident real estate investment funds established pursuant to Article 37 of Legislative Decree No. 58 of 24 February 1998, as amended and supplemented (the “**Real Estate Funds**”), and Article 14-bis of Law No. 86 of 25 January 1994, are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of a real estate investment fund, provided that the Notes, together with the relevant Coupons, are timely deposited with an Intermediary. Unitholders are generally subject to a 20 per cent. withholding tax on distributions from the Real Estate Funds. Law Decree 31 May, 2010, No. 78, converted into law, with amendments, by Law No. 122 of 30 July, 2010, amended the definition of “investment fund”. Furthermore, Law Decree 13 May 2011, No. 70, converted with amendments by Law 12 July 2011, No. 106, has repealed part of the provisions of Law Decree 31 May 2010, No. 78 and introduced new changes to the tax treatment of the unitholders of Real Estate Funds, including a direct imputation system (“tax transparency”) for certain non-qualifying unitholders (e.g. Italian resident individuals) holding more than 5 per cent. of the units of the fund.

If the Noteholder is resident in Italy and is an open-ended or closed-ended investment fund (the “**Fund**”) or a SICAV, and the Notes, together with the relevant Coupons, are timely deposited with an authorised Intermediary, interest, premium and other income accrued during the holding period on the Notes will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund or SICAV accrued at the end of each tax period, subject to an ad-hoc substitutive tax generally applicable at a 12.5 per cent. rate.

As from 1 July 2011, if the Noteholder is resident in Italy and is an open-ended or closed-ended investment fund (the “**Fund**”) or a SICAV, and the Notes, together with the relevant Coupons, are timely deposited with an authorised Intermediary, interest accrued during the holding period on the Notes are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the Funds. Proceeds paid by the Funds to their quotaholders are generally subject to a 12.5 per cent. withholding tax. Pursuant to Decree 138, withholding tax will apply at 20 per cent. rate to proceeds payable as from 1 January 2012.

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by Article 17 of Legislative Decree No. 252 of 5 December 2005) (the “**Pension Funds**”) and the Notes, together with the relevant Coupons, are timely deposited with an Intermediary, interest, premium and other income relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to an 11 per cent. substitutive tax.

Where an Italian resident Noteholder has opted for the Risparmio Gestito regime with respect to its investment in the Notes, such Noteholder will be subject to a 12.5 per cent. annual substitutive tax on the increase in value of the managed assets accrued at the end of each tax year. In such case, interest, premium and other income on the Notes will be included in the calculation of said annual increase in value of managed assets. Pursuant to Decree 138, such substitutive tax will apply at 20 per cent. rate on the results accrued as from 1 January 2012.

Where the Notes and the relevant Coupons are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any Italian intermediary (or permanent establishment in Italy of foreign intermediary) that intervenes in the payment of interest to any Noteholder or by the Issuer and Noteholders who are Italian resident companies or permanent establishments in Italy of foreign corporations to which the Notes are effectively connected are entitled to deduct *imposta sostitutiva* suffered from income taxes due.

Non-Italian resident Noteholders

Where a Noteholder who is the beneficial owner of the Notes is a non-Italian resident, an exemption from the *imposta sostitutiva* applies provided that the non-Italian resident beneficial owner is either (i) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy; or (ii) an international body or entity set up in accordance with international agreements which have entered into force in Italy; or (iii) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) an institutional investor which is resident or established in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of taxpayer in its own country of residence.

Please note that the currently applicable “white list” providing for countries allowing for a satisfactory exchange of information with Italy is provided for by Ministerial Decree 4 September 1996, as subsequently amended and supplemented. According to the Budget Law 2008 (Law No. 244 of 24 December 2007), a decree still to be issued is proposed to introduce a new “white list” replacing the current one.

The *imposta sostitutiva* will be applicable at the rate of 12.5 per cent. (or at the reduced or nil rate provided for by the applicable double tax treaty, if any, and in any case subject to compliance with relevant subjective and procedural requirements) to interest, premium and other income paid to Noteholders who are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy. Pursuant to Decree 138, *imposta sostitutiva* will apply at 20 per cent. rate on interest accrued on the Notes as from 1 January 2012 (or at the reduced or nil rate provided for by the applicable double tax treaty, if any, and in any case subject to compliance with relevant subjective and procedural requirements).

In order to ensure gross payment, qualifying non-Italian resident Noteholders must be the beneficial owners of the payments of interest, premium or other income and (i) deposit, directly or indirectly, the Notes, together with the relevant Coupons, with an Italian resident bank or SIM or other qualified intermediary or a permanent establishment in Italy of a non-Italian resident bank or SIM or other qualified intermediary or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economics and Finance and (ii) timely file with the relevant depository a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to meet the requirements to be eligible to benefit from the applicable

exemption from *imposta sostitutiva*. Such statement, which is not requested for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in the case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by Ministerial Decree of 12 December 2001. Additional statements may be required for non-Italian resident Noteholders who are institutional investors.

Early Redemption

Without prejudice to the above provisions, in the event that Notes issued by an Italian resident Issuer with an original maturity not less than 18 months are redeemed, in full or in part, prior to 18 months from the Issue Date, the relevant Issuer will be required to pay an additional tax equal to 20 per cent. of the interest and other proceeds accrued up to the time of the early redemption. According to one interpretation of Italian tax law, as recently confirmed by the Resolution of the Italian Revenue Agency No. 11/E of 31 January 2011, the above 20 per cent. additional tax may also be due in the event that the Issuer were to purchase the Notes and subsequently cancel them prior to the aforementioned eighteen-months period. Thus, the 20 per cent. additional tax would not apply in the event the Issuer undertakes to utilize the Notes repurchased by it for trading on the market and effectively sells them to third parties, provided that before their maturity the Notes are actually traded and held by third parties for a period (also not continuous) of at least eighteen months. Such tax would instead be due by the Issuer in the event at their maturity the Notes have not been actually traded for a period of at least 18 months (computed without taking into account the days during which the Notes have been held by the Issuer).

Pursuant to the amendments enacted by Decree 138, the above 20 per cent. additional tax will no longer be due as from 1 January 2012.

Notes with an original maturity of less than 18 months

Interest payments relating to Notes qualifying as bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) within the meaning of Article 44 of Decree 917 issued with an original maturity of less than 18 months are subject to a withholding tax, levied by the Issuer at the rate of 27 per cent. pursuant to Article 26, first paragraph, of Presidential Decree No. 600 of 29 September 1973, as subsequently amended.

Where the Noteholder is (i) an individual engaged in an entrepreneurial activity to which the Notes are connected, (ii) an Italian company or a similar Italian commercial entity, (iii) a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected, (iv) an Italian commercial partnership, or (v) an Italian commercial private or public institution, such withholding tax is a provisional withholding tax. In all other cases, including when the Noteholder is a non-Italian resident, the withholding tax is a final withholding tax. In the case of non-Italian resident Noteholders, the 27 per cent. withholding tax rate may be reduced (in certain cases, to nil) by the applicable double tax treaty, if any, and in any case subject to compliance with relevant subjective and procedural requirements.

As anticipated above (see paragraph “*Italian resident Noteholders*” above), the maturity of the Notes would become irrelevant for interest relating to the Notes accrued as from 1 January 2012. Pursuant to Decree 138, such interest will be subject to *imposta sostitutiva* at 20 per cent. rate, irrespectively of the original maturity of the Notes.

Tax treatment of Notes issued by ENEL N.V.

Decree 239 also provides for the applicable regime with respect to the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price) from notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle*

obbligazioni) within the meaning of Article 44 of Decree 917, issued, *inter alia*, by non-Italian resident issuers.

Italian resident Noteholders

Pursuant to Decree 239, a final *imposta sostitutiva* equal to (a) 12.5 per cent. in relation to Notes issued for an original maturity of not less than 18 months, and (b) 27 per cent. in relation to Notes issued for an original maturity of less than 18 months, is applied on interest, premium and other income relating to the Notes qualifying as bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) within the meaning of Article 44 of Decree 917 issued by a non-Italian resident Issuer accrued during the relevant holding period, if received by (i) an Italian individual not engaged in an entrepreneurial activity to which the Notes are connected, (ii) an Italian non-commercial partnership, (iii) an Italian non-commercial private or public institution, or (iv) an Italian investor exempt from Italian corporate income taxation (in each case and in relation to Notes issued for an original maturity of not less than 18 months only, unless the relevant Noteholder has entrusted the management of its financial assets, including the Notes, to an Italian authorised intermediary and has opted for the application of the *Risparmio Gestito* regime). If the Noteholders described under (i) and (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Interest relating to the Notes accrued as from 1 January 2012 will be subject to *imposta sostitutiva* at 20 per cent. rate, pursuant to changes introduced with Decree 138. Furthermore, for such purposes the maturity of the Notes would become irrelevant.

Imposta sostitutiva is generally applied by an Intermediary.

Where the Notes and the relevant Coupons are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any Italian intermediary (or permanent establishment in Italy of foreign intermediary) that intervenes in the payment of interest to any Noteholder. Where interest and other income on Notes beneficially owned by the subjects under (i) to (iv) above are not collected through the intervention of an Italian resident intermediary and as such no *imposta sostitutiva* is applied, the above Italian resident beneficial owners will be required to declare interest and other income in their yearly income tax return and subject them to final substitutive tax at a rate of 12.5 per cent. or 27 per cent. depending on the original maturity of the Notes (only limited to those Noteholders not engaged in a business activity to which the Notes are effectively connected), unless option for a different regime is allowed and made. Irrespective of the original maturity of the Notes, interest relating to the Notes accrued as from 1 January 2012 will be subject to *imposta sostitutiva* at 20 per cent. rate, pursuant to changes introduced with Decree 138.

Italian resident Noteholders that are individuals not engaged in entrepreneurial activity may elect instead to pay ordinary personal income taxes at the progressive rates applicable to them in respect of interest and other income on such Notes: if so, the beneficial owners should generally be entitled to a tax credit for withholding taxes applied outside Italy, if any.

Where an Italian resident Noteholder who is beneficial owner of the Notes is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected and the Notes and the relevant Coupons are timely deposited with an Intermediary, interest, premium and other income from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder's annual income tax return and are therefore subject to general Italian corporate taxation (and, in certain circumstances, depending on the "*status*" of the Noteholder, also to IRAP).

If the Notes are issued for an original maturity of less than 18 months, the 27 per cent. *imposta sostitutiva* is also applied to any payment of interest or premium relating to the Notes made to (i) Pension Funds, (ii)

Funds and (iii) Italian SICAVs. Pursuant to Decree 138, such *imposta sostitutiva* rate will be increased to 20 per cent., for interest payable as from 1 January 2012.

Where an Italian resident Noteholder has opted for the *Risparmio Gestito* regime with respect to its investment in Notes issued for an original maturity of not less than 18 months, such Noteholder will be subject to a 12.5 per cent. annual substitutive tax on the increase in value of the managed assets accrued at the end of each tax year. Pursuant to Decree 138, such rate will be increased to 20 per cent., for increase in value of the managed assets accrued as from 1 January 2012.

For those categories of Noteholders not specifically mentioned in this paragraph and for Noteholders who are Pension Funds, Funds, SICAVs and Real Estate Funds holding Notes issued for an original maturity of not less than 18 months, please refer to paragraph “*Tax treatment of Notes issued by ENEL – Italian resident Noteholders*” above.

Non-Italian resident Noteholders

No Italian *imposta sostitutiva* is applied on payments to a non-Italian resident Noteholder of interest, premium and other income relating to Notes issued by a non-Italian resident Issuer.

If Notes issued by a non-Italian resident Issuer and beneficially owned by non-Italian residents are deposited with an Italian bank or other resident intermediary (or permanent establishment in Italy of foreign intermediary) or are sold through an Italian bank or other resident intermediary (or permanent establishment in Italy of foreign intermediary) or in any case an Italian resident intermediary (or permanent establishment in Italy of foreign intermediary) intervenes in the payment of interest and other income on such Notes, to ensure payment of interest and other income without application of Italian taxation a non-Italian resident Noteholder may be required to produce to the Italian bank or other intermediary a self declaration stating that he, she or it is not resident in Italy for tax purposes.

Early Redemption

Without prejudice to the above provisions, in the event that Notes issued by a non-Italian resident Issuer and having an original maturity of at least 18 months are redeemed, in full or in part, prior to 18 months from the Issue Date, certain Italian resident Noteholders will be required to pay, by way of a withholding to be applied by any Italian withholding agent that intervenes in the collection of interest and other income or the redemption of the Notes, an additional amount equal to 20 per cent. of the interest and other income accrued on the Notes up to the time of the early redemption. For further details regarding the early redemption scenario, please refer to paragraph “*Tax treatment of Notes issued by ENEL – Early Redemption*” above.

Atypical securities

Interest payments relating to Notes that are not deemed to fall within the category of (a) bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) or of (b) shares or Securities similar to shares (*azioni or titoli similari alle azioni*), but qualify as atypical securities (*titoli atipici*) for Italian tax purposes, are subject to a withholding tax, levied at the rate of 27 per cent.

Where the Notes are issued by an Italian resident Issuer and the Noteholder is (i) an Italian individual engaged in an entrepreneurial activity to which the Notes are connected, (ii) an Italian company or a similar Italian commercial entity, (iii) a permanent establishment in Italy of a foreign entity to which the Notes are effectively connected, (iv) an Italian commercial partnership or (v) an Italian commercial public or private institution, such withholding tax is a provisional withholding tax. In all other cases, including when the Noteholder is a non-Italian resident, the withholding tax is a final withholding tax. Double taxation treaties entered into by Italy may apply allowing for a lower (or, in certain cases, nil) rate of withholding tax in case of

payments to non-Italian resident Noteholders, subject to compliance with relevant subjective and procedural requirements.

If the Notes are issued by a non-Italian resident Issuer, a 27 per cent. withholding tax may apply in Italy if the Notes are placed (“*collocare*”) in Italy and interest payments on the Notes are collected through an Italian bank or other qualified financial intermediary. However, such 27 per cent. withholding tax does not apply to interest payments made:

- (a) to a non-Italian resident Noteholder. If Notes issued by a non-Italian resident Issuer and beneficially owned by non-Italian residents are deposited with an Italian bank or other resident intermediary (or permanent establishment in Italy of foreign intermediary) or are sold through an Italian bank or other resident intermediary (or permanent establishment in Italy of foreign intermediary) or in any case an Italian resident intermediary (or permanent establishment in Italy of foreign intermediary) intervenes in the payment of interest and other income on such Notes, to ensure payment of interest and other income without application of Italian taxation a non-Italian resident Noteholder may be required to produce to the Italian bank or other intermediary a self-declaration stating that he, she or it is not resident in Italy for tax purposes; and
- (b) to an Italian resident Noteholder which is (i) a company or similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are effectively connected), (ii) a commercial partnership, or (iii) a commercial private or public institution.

With respect to the other categories of Italian resident Noteholders, if interest payments on Notes issued by a non-Italian resident Issuer are not collected through an Italian resident bank or other qualified financial intermediary, and as such no “entrance” withholding tax is required to be levied, such Noteholders will be required to report the payments in their yearly income tax return and subject them to a final substitutive tax at rate of 27 per cent. (only limited to those Noteholders not engaged in a business activity to which the Notes are effectively connected). Italian resident individual beneficial owners holding Notes not in connection with a business activity may elect instead to pay ordinary personal income tax at the progressive rates applicable to them in respect of interest payments: if so, the beneficial owners should generally benefit a tax credit for withholding taxes applied outside Italy, if any.

In case Notes issued by a non-Italian resident issuer are held by an Italian resident individual engaged in a business activity and are effectively connected with same business activity, the interest and other income will be subject to the 27 per cent. “entrance” withholding tax on a provisional basis and will be included in the relevant income tax return. As a consequence, the interest and other income will be subject to the ordinary income tax and the withholding tax may be recovered as a deduction from the income tax due.

Pursuant to the Decree 138, interest payable as from 1 January 2012 on the Notes qualifying as atypical securities (*titoli atipici*) will be subject to withholding tax at 20 per cent. rate.

Payments made by an Italian resident guarantor

There is no authority directly regarding the Italian tax regime of payments on notes made by an Italian resident guarantor. Accordingly, there can be no assurance that the Italian tax authorities will not assert an alternative treatment of such payments than that set forth herein or that the Italian courts would not support such an alternative treatment.

With respect to payments on the Notes made to Italian resident Noteholders by an Italian resident guarantor, in accordance with one interpretation of Italian tax law, any such payments may be subject to Italian withholding tax at the rate of 12.5 per cent. levied as a final tax or a provisional tax (“a titolo d’imposta o a titolo di acconto”) depending on the “status” of the Noteholder, pursuant to Presidential Decree No. 600 of 29 September 1973, as subsequently amended. In the case of payments to non-Italian resident Noteholders,

the withholding tax should be final and may be applied at (i) 12.5 per cent. if the payment is made to non-Italian resident Noteholders, other than those mentioned under (ii); or (ii) 27 per cent. If payments are made to non-Italian resident Noteholders who are resident in a “tax haven” (as currently defined and listed in Ministerial Decree 23 January 2002, as amended from time to time). Double taxation treaties entered into by Italy may apply allowing for a lower (or, in certain cases, nil) rate of withholding tax in case of payments to non-Italian residents, subject to compliance with relevant subjective and procedural requirements. Pursuant to the amendments enacted by Decree 138 payments made starting from 1 January 2012 would in any case be subject to withholding at 20 per cent. rate.

In accordance with another interpretation, any such payment made by the Italian resident guarantor should be treated, in certain circumstances, as a payment by the relevant Issuer and should thus be subject to the tax regime described in the previous paragraphs of this section.

Capital gains tax

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable business income (and, in certain circumstances, depending on the “*status*” of the Noteholder, also as part of the net value of the production for IRAP purposes) if realised by an Italian company or a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected. Pursuant to Decree 138, *imposta sostitutiva* will apply at 20 per cent rate on capital gains realized as from 1 January 2012.

Where an Italian resident Noteholder is an individual not engaged in an entrepreneurial activity to which the Notes are connected and certain other persons, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 12.5 per cent. (20%, as from 1 January 2012). Noteholders may set-off capital losses with gains of the same nature.

For the purposes of determining the taxable capital gain, any interest, premium and other income on the Notes accrued and unpaid up to the time of the purchase and the sale of the Notes must be deducted from the purchase price and the sale price, respectively.

In respect of the application of *imposta sostitutiva*, taxpayers may opt for one of the three regimes described below.

Under the tax declaration regime (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss of the same nature, realised by the Italian resident individual Noteholder holding the Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding the Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss of the same nature, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains of the same nature realised in any of the four succeeding tax years.

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the “*risparmio amministrato*” regime). Such separate taxation of capital gains is allowed subject to (i) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries (or permanent establishments in Italy of foreign intermediaries) and (ii) an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains

realised on each sale or redemption of the Notes, net of any incurred capital loss of the same nature, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains of the same nature subsequently realised, within the same securities management relationship, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return.

Any capital gains on Notes held by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called "*Risparmio Gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 12.5 per cent. substitutive tax, to be paid by the managing authorised intermediary. Under the *Risparmio Gestito* regime, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Pursuant to Decree 138, such substitutive tax will apply at 20 per cent. rate on the results accrued as from 1 January 2012. Under the *Risparmio Gestito* regime, the Noteholder is not required to declare the capital gains realised in the annual tax return.

As from July 1, 2011, any capital gains on Notes held by a Noteholder who is a Fund or a SICAV is subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the Funds. Please refer to paragraph *Tax treatment of Notes issued by ENEL – Italian resident Noteholder* above.

Any capital gains on Notes held by a Noteholder who is a Fund or a SICAV will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 12.5 per cent. substitutive tax.

Any capital gains on Notes held by a Noteholder who is a Pension Fund will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to an 11 per cent. substitutive tax.

Any capital gains realised by Real Estate Funds on the Notes are not taxable at the level of Real Estate Funds.

Capital gains realised by non-Italian-resident Noteholders without a permanent establishment in Italy to which the Notes are effectively connected from the sale or redemption of Notes traded on regulated markets in Italy or abroad are not subject to the *imposta sostitutiva*, regardless of whether the Notes are held in Italy. In such a case, in order to benefit from this exemption from Italian taxation on capital gains, non-Italian resident Noteholders who hold the Notes with an Italian authorised financial intermediary and elect to be subject to the *Risparmio Gestito* regime or are subject to the so-called *risparmio amministrato* regime according to Article 6 of Italian Legislative Decree No. 461 of 21 November 1997, may be required to produce in due time to the Italian authorised financial intermediary an appropriate self-declaration that they are not resident in Italy for tax purposes.

Capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes issued by an Italian or non-Italian resident Issuer not traded on regulated markets may in certain circumstances be taxable in Italy if the Notes are held in Italy. However, non-Italian resident beneficial owners of Notes without a permanent establishment in Italy to which the Notes are effectively connected are not subject to the *imposta sostitutiva* on capital gains realised upon sale or redemption of the Notes, provided that the effective beneficiary: (i) is resident in a country which allows for a satisfactory exchange of information with Italy; or (ii) is an international entity or body set up in accordance with international agreements which have entered into force in Italy; or (iii) is a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) is an institutional investor which is resident or established in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of

taxpayer in its own country of residence. In such cases, in order to benefit from this exemption from Italian taxation on capital gains, non-Italian resident Noteholders who hold the Notes with an Italian authorised financial intermediary and elect to be subject to the *Risparmio Gestito* regime or are subject to the so-called *risparmio amministrato* regime according to Article 6 of Italian Legislative Decree No. 461 of 21 November 1997, may be required to produce in due time to the Italian authorised financial intermediary an appropriate self-declaration stating that they meet the subjective requirements indicated above. Additional statements may be required for non-Italian resident Noteholders who are institutional investors.

Please note that the currently applicable “white list” providing for countries allowing for a satisfactory exchange of information with Italy is provided for by Ministerial Decree 4 September 1996, as subsequently amended and supplemented. According to the Budget Law 2008, a decree still to be issued is proposed to introduce a new “white list” replacing the current one. Moreover, in any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are connected that may benefit from a double taxation treaty with Italy providing that capital gains realised upon the sale or redemption of Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon the sale or redemption of Notes. In such a case, in order to benefit from this exemption from Italian taxation on capital gains, non-Italian resident Noteholders who hold the Notes with an Italian authorised financial intermediary and elect to be subject to the *Risparmio Gestito* regime or are subject to the so-called *risparmio amministrato* regime according to Article 6 of Italian Legislative Decree No. 461 of 21 November 1997, may be required to produce in due time to the Italian authorised financial intermediary appropriate documents which include, *inter alia*, a statement from the competent tax authorities of the country of residence.

Please note that for a non-Italian resident, the *risparmio amministrato* regime provided for by Article 6 of Italian Legislative Decree No. 461 of 21 November 1997 shall automatically apply, unless it expressly waives this regime, where the Notes are deposited in custody or administration with an Italian resident authorised financial intermediary or permanent establishment in Italy of a foreign intermediary.

In the case of Notes that qualify as atypical securities, based on a very restrictive interpretation, capital gains realised thereon could be treated as proceeds derived under the Notes, to be subject to the 27 per cent. withholding tax mentioned under paragraph “Atypical Securities”, above. At any rate such rate will be reduced to 20 per cent. for capital gain realized as from 1 January 2011, according to Decree 138.

Tax Monitoring

Pursuant to Italian Law Decree No. 167 of 28 June 1990, converted by Law No. 227 of 4 August 1990, as amended (“Decree No. 167”), individuals, non-commercial institutions and non-commercial partnerships resident in Italy who, at the end of the fiscal year, hold investments abroad or have foreign financial assets (including Notes held abroad and/or Notes issued by a non-Italian resident Issuer) must, in certain circumstances, disclose the aforesaid and related transfers to, from and occurred abroad, to the Italian tax authorities in their income tax return (or, in case the income tax return is not due, in a proper form that must be filed within the same time prescribed for the income tax return). This obligation does not exist (i) in cases where each of the overall value of the foreign investments or financial assets at the end of the fiscal year, and the overall value of the related transfers to, from and occurred abroad carried out during the relevant fiscal year, does not exceed € 10,000, as well as (ii) in case the financial assets are given in administration or management to Italian banks, SIMs, fiduciary companies or other professional intermediaries, indicated in Article 1 of Decree No. 167, or if one of such intermediaries intervenes, also as a counterpart, in their transfer, provided that income deriving from such financial assets is collected through the intervention of such an intermediary.

Inheritance and gift taxes

Transfers of any valuable asset (including shares, bonds or other securities) as a result of death or donation of Italian residents and of non-Italian residents, but in such latter case limited to assets held within the Italian territory (which, for presumption of law, includes bonds issued by Italian resident issuers), are generally taxed in Italy as follows:

- (i) transfers in favour of spouses and direct descendants or direct ancestors are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the value of the inheritance or the gift exceeding € 1,000,000 for each beneficiary;
- (ii) transfers in favour of relatives to the fourth degree or relatives-in-law to the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the value of the inheritance or the gift exceeding € 100,000 for each beneficiary; and
- (iii) any other transfer is subject to an inheritance and gift tax applied at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the beneficiary has a serious disability recognised by law, inheritance and gift taxes apply on its portion of the net asset value exceeding € 1,500,000.

Transfer tax

Article 37 of Law Decree No 248 of 31 December 2007, converted into Law No. 31 of 28 February 2008, abolished the Italian transfer tax previously applicable on certain transfers of securities, provided for by Royal Decree No. 3278 of 30 December 1923, as amended and supplemented by the Legislative Decree No. 435 of 21 November 1997.

Following the repeal of the Italian transfer tax, as from 31 December 2007 contracts relating to the transfer of securities are subject to the registration tax as follows: (i) public deeds and notarised deeds executed in Italy are subject to fixed registration tax at rate of € 168; (ii) private deeds are subject to registration tax at rate of € 168 only in case of use or voluntary registration.

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income (the “EU Savings Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest (and other similar income) paid by a person within its jurisdiction to an individual resident or certain other types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria may instead (unless during that period they elect otherwise) operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures. Belgium, which was formerly entitled to apply withholding tax, has replaced such system with a regime of exchange of information to the Member State of residence as from 1 January 2010.

Implementation in Italy of the EU Savings Directive

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of 18 April 2005 (“Decree 84”). Under Decree 84, subject to a number of important conditions being met, in the case of interest paid to individuals which qualify as beneficial owners of the interest payment and which are resident for tax purposes in another Member State, Italian qualified paying agents shall report to the Italian tax authorities details of the relevant payments and personal information on the individual beneficial owner. Such

information is transmitted by the Italian tax authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

With reference to the definition of interest subject to the above described regime, Article 2, paragraph 1, lett. a, of Decree 84 provides that it includes, *inter alia*: “*interest paid or credited, on accounts arisen from receivables of whatever nature, secured or not by mortgage (...), in particular interest and any other proceed, arising from public bonds and other bonds*”.

Prospective investors resident in a Member State of the European Union should consult their own legal or tax advisers regarding the consequences of the EU Savings Directive in their particular circumstances.

ANNEX I

MEDIA RELATIONS

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ENEL: BOARD OF DIRECTORS APPROVES THE RESULTS FOR THE FIRST HALF OF 2011

- *Revenues: 38,391 million euros (34,802 million euros in 1H 2010, +10.3%)*
- *EBITDA: 8,929 million euros (8,878 million euros in 1H 2010, +0.6%)*
- *EBIT: 6,072 million euros (6,083 million euros in 1H 2010, -0.2%)*
- *Group net income: 2,552 million euros (2,425 million euros in 1H 2010, +5.2%)*
- *Group net ordinary income: 2,305 million euros (2,425 million euros in 1H 2010, -4.9%)*
- *Net financial debt: 46,135 million euros (44,924 million euros at December 31st, 2010, +2.7%)*
- *CEO: "We confirm all 2011 guidance announced to investors"*

* * *

Rome, August 3rd, 2011 – The Board of Directors of Enel SpA, chaired by Paolo Andrea Colombo, today examined and approved the half-year financial report at June 30th, 2011.

Consolidated financial highlights (millions of euros):

	H1 2011	H1 2010	Change
Revenues	38,391	34,802	+10.3%
EBITDA	8,929	8,878	+0.6%
EBIT	6,072	6,083	-0.2%
Group net income	2,552	2,425	+5.2%
Group net ordinary income	2,305	2,425	-4.9%
Net financial debt	46,135	44,924 (*)	+2.7%

(*) At December 31st, 2010.

Fulvio Conti, Chief Executive Officer and General Manager of Enel, stated: ***"We are pleased with the results achieved by the Group in the first half of the year. Growth in Russia, the development of Enel Green Power as well as good results achieved by distribution and sales on the free market in Italy enabled us to record a positive half period. The initiatives aimed at continuously improving operational efficiency, the introduction of new generation capacity in renewables as well as in Russia and in Spain, along with an unwavering focus on optimising our financial position enable us to confirm all 2011 financial guidance previously announced to investors"***.

* * * * *

Unless otherwise specified, the balance sheet figures at June 30th, 2011 exclude assets and liabilities held for sale, which essentially regard (i) the net assets of Deval and Vallenergie, which on the basis of decisions made by management meet the requirements of IFRS 5 for such classification; and (ii) the assets of Endesa Ireland.

Having completed the process of allocating the purchase price of Enel's acquisition of 40% of SE Hydropower, in compliance with IFRS 3 and within the time limit established by that standard, a number of changes have been made to the values reported on a provisional basis in the financial statements at December 31st, 2010, as a result of the final determination of the fair values of the assets acquired and the liabilities assumed. Accordingly, the balances of those items at December 31st, 2010, have been adjusted appropriately and restated for comparative purposes only.

This press release uses a number of "alternative performance indicators" not envisaged in the IFRS-EU accounting standards (EBITDA, net financial debt, net capital employed, net assets held for sale). In accordance with recommendation CESR/05-178b published on November 3rd, 2005, the criteria used to calculate these indicators are described at the end of the release.

* * * * *

OPERATIONAL HIGHLIGHTS

Electricity and gas sales

Electricity sold by the Enel Group in the first half of 2011 amounted to 153.3 TWh, up 2.1 TWh (+1.4%) compared with the same period of 2010.

The increase is attributable to increased sales abroad (+6.9 TWh), mainly relating in Latin America (+2.7 TWh), France (+2.0 TWh) and Russia (+1.7 TWh), partially offset by decreased sales volumes in Italy (-4.8 TWh).

Sales of gas to end users in the first six months of 2011 came to 4.7 billion cubic metres, down 0.3 billion cubic metres (-6.0%) compared with the year-earlier period. Domestic sales fell 0.5 billion cubic metres, while sales of gas abroad by Endesa rose 0.2 billion cubic metres.

Power generation

Net electricity generated by the Enel Group in the first half of 2011 totalled 144.4 TWh (+2.5%) versus 140.9 TWh in the same period of the previous year, of which 39.3 TWh in Italy and 105.1 TWh abroad.

In Italy, Enel Group plants generated 39.3 TWh, down 1.6 TWh from the first half of 2010. The decrease in hydroelectric generation (-2.5 TWh) due to less favourable water conditions in the first half of 2011 compared with a year earlier was partially offset by a rise in thermal generation (+0.7 TWh) and generation from other renewable resources (+0.2 TWh).

Demand for electricity in Italy in first half of 2011 was 165.4 TWh, up 1.6% on the same period of 2010, while net imports contracted by 0.2 TWh (-1.0%).

Net electricity generated abroad by the Enel Group in the first half of 2011 was 105.1 TWh, up 5.1 TWh (+5.1%) on the first six months of 2010. The rise is mainly attributable to the higher output by Endesa in the Iberian peninsula (+3.9 TWh, despite the impact of 0.6 TWh associated with the ECyR plants that became part of Enel Green Power España at the end of March 2010) and to the increase in output by the companies of the Renewable Energy Division (+1.0 TWh), which was essentially a consequence of the change to the Division's perimeter following the ECyR operation.

Of the total generation by Enel power plants in Italy and abroad, 58.1% came from thermal generation, 28.9% from renewables and 13.0% from nuclear.

Distribution of electricity

Electricity distributed by the Enel Group network totalled 215.4 TWh in the first half of 2011, of which 121.6 TWh in Italy and 93.8 TWh abroad.

The volume of electricity distributed in Italy rose 0.1 TWh (+0.1%) versus the first half of the previous year.

Volumes distributed abroad totalled 93.8 TWh, up 2.6 TWh (+2.9%) on the corresponding period of 2010, mainly due to the increased contribution of Endesa (+2.3 TWh) in both the Iberian peninsula (+1.0 TWh) and Latin America (+1.3 TWh).

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CONSOLIDATED FINANCIAL HIGHLIGHTS

Revenues in the first half of 2011 totalled 38,391 million euros, up 3,589 million euros (+10.3%) compared with the first half of 2010. The rise is essentially attributable to increased revenues from electricity sales to end users and the growth in revenues from electricity generation and trading. More specifically, the greater volumes sold in Latin America and Russia, associated with the rise in average sales prices in those markets, more than offset the decline in sales in Italy. Revenues in the first half of 2011 also include gains totalling 398 million euros from the disposal of certain assets as well as fair value re-measurements of the assets and liabilities following changes in control of a number of companies as a result of transactions carried out during the period.

With regard to individual operating division results, Sales Division revenues totalled 8,803 million euros (-3.8%), those of Generation and Energy Management came to 10,222 million euros (+24.1%), Engineering and Innovation revenues totalled 206 million euros (-37.2%), Infrastructure and Networks revenues were 3,594 million euros (+5.3%), Iberia and Latin America Division revenues were 15,844 million euros (+6.7%), those of the International Division totalled 3,819 million euros (+22.8%) and those of the Renewable Energy Division totalled 1,329 million euros (+36.4%).

EBITDA for first half of 2011 was 8,929 million euros, up 51 million euros (+0.6%) year on year basis. In addition to the above-mentioned gains from the disposal of certain assets as well as fair value re-measurements, the rise is essentially attributable to improvement in the operating margins of the Sales, Infrastructure and Networks, and Renewable Energy Divisions,

the effects of which were only partially offset by the decline in the margin on electricity generation in Italy and the impact of the Iberia and Latin America Division. The latter factor also reflected the disposal, completed in the fourth quarter of 2010, of the gas distribution network and power transmission grid assets in Spain, as well as the impact of the recognition of the net-worth tax in Colombia.

More specifically, the EBITDA of the Sales Division amounted to 326 million euros (+68.9%), that of the Generation and Energy Management Division, including 237 million euros from fair value re-measurements, came to 1,229 million euros (in line with the first half of 2010), that of the Engineering and Innovation Division was 7 million euros (in line with the first half of 2010), that of the Infrastructure and Networks Division amounted to 2,025 million euros (+9.8%), that of the Iberia and Latin America Division totalled 3,611 million euros (-10.8%), that of the International Division totalled 798 million euros (-5.1%) and that of the Renewable Energy Division came to 876 million euros (+34.6%), including gains of 121 million euros from the fair value re-measurements.

EBIT in the first half of 2011 amounted to 6,072 million euros, down 11 million euros (-0.2%) compared with the same period of 2010, impacted by an increase of 62 million euros in depreciation, amortisation and impairment losses.

With regard to the results of the individual operating divisions, the EBIT of the Sales Division totalled 180 million euros in the first half of 2011, compared with 51 million euros in the corresponding period of 2010. The EBIT of the Generation and Energy Management Division amounted to 940 million euros (-2.1%), that of the Engineering and Innovation Division came to 5 million euros, in line with the first half of 2010, that of the Infrastructure and Networks Division amounted to 1,567 million euros (+11.5%), that of the Iberia and Latin America Division totalled 2,197 million euros (-14.8%), that of the International Division was 496 million euros (-14.6%) and that of the Renewable Energy Division amounted to 684 million euros (+38.2%).

Group net income in first half of 2011 was 2,552 million euros, compared with 2,425 million euros posted in the year-earlier period (+5.2%). This increase essentially reflects the decrease in net financial charges, which only partially offset the higher year-on-year tax charge in the first half of 2011 as well as the positive impact (247 million euros) resulting from the above-mentioned proceeds from the disposal of certain assets and the fair value re-measurements net of related fiscal charges. **Group net ordinary income** in the first half of 2011 totalled 2,305 million euros, down 120 million euros (-4.9%) compared with the same period of 2010.

The **consolidated balance sheet** at June 30th, 2011, shows net capital employed of 100,372 million euros (98,790 million euros at December 31st, 2010) including net assets held for sale of 479 million euros (620 million euros at December 31st, 2010). This was financed by total shareholders' equity of 54,237 million euros (53,866 million euros at December 31st, 2010) and net financial debt of 46,135 million euros (44,924 million euros at December 31st, 2010). The latter, excluding the amount relating to assets held for sale (23 million euros compared with 636 million euros at December 31st, 2010), increased by 1,211 million euros (+2.7%) from the end of 2010. The rise is essentially attributable to the payment of dividends, current income taxes and investments during the period, the effects of which were only partially offset by the cash flows generated by operations.

At June 30th, 2011, the **debt/equity ratio** was 0.85, compared with 0.83 at the end of 2010.

Capital expenditure in the first half of 2011 totalled 2,846 million euros, up 217 million euros, essentially attributable to the Renewable Energy Division.

At June 30th, 2011, there were 76,077 Group **employees** (versus 78,313 at December 31st, 2010). The Group's workforce declined by 2,236 units during the period, largely due to the change in the consolidation perimeter (down 2,287), mainly in relation to the disposals of CAM, Synapsis and Enel Operations Bulgaria and Enel Maritza East 3, as well as the change in the method used to consolidate Hydro Dolomiti Enel.

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RECENT KEY EVENTS

On **May 30th, 2011**, Enel Green Power SpA and its subsidiary Enel Green Power España SL (EGPE) finalized the agreement signed with Gas Natural SDG SA ("Gas Natural Fenosa") for the break-up of Enel Union Fenosa Renovables SA (EUFER), until that date a 50% joint venture between EGPE and Gas Natural Fenosa.

Specifically, EUFER assets were divided in two well-balanced parts in terms of value, EBITDA, installed capacity, risk and technology mix. One part was transferred to Gas Natural Fenosa, while EGPE has retained the other part as the sole shareholder of EUFER.

In accordance with the agreement, EGPE and Gas Natural Fenosa each received more than 500 MW of installed capacity (including wind, mini-hydro and cogeneration) and a pipeline of wind, thermal solar and biomass projects totalling about 800 MW. The net debt of EUFER was equally split between EGPE and Gas Natural Fenosa.

On **June 9th, 2011**, Enel Green Power España, acting through its subsidiary Finerge, acquired the remaining 50% of Sociedad Térmica Portuguesa SA (TP), thereby becoming the sole shareholder.

TP holds shares in 13 cogeneration plants and two wind farms in Portugal as well as a 20% direct stake in ENEOP, the consortium that was granted authorization to build a total of 1,200 MW of wind power in Portugal. Enel Green Power SpA owns a 20% direct stake in ENEOP.

On **June 16th, 2011**, the Board of Directors of Enel SpA approved the issue of one or more bonds by December 31st, 2012, for a total of up to €5 billion. The bonds will be placed with institutional or retail investors, depending upon the opportunities presented by the market. The bonds may be issued directly by Enel SpA or by its Dutch subsidiary Enel Finance International NV (guaranteed by the Parent Company), the latter based on the opportunities that may be available for placement of the bonds on foreign regulated markets. The Board of Directors delegated to the CEO the task of allocating the bond issues between the two above-mentioned companies and setting the amounts, currencies, timing and characteristics of the individual issues, with the option of seeking a listing on one or more regulated markets. The Board of Directors also revoked its previous resolution of March 2nd, 2011 that had authorized the issue of one or more bonds by December 31st, 2011, to be placed with institutional

investors, for a total amount of up to 1 billion euros, maintaining the validity and effects of the bonds issued under such resolution.

On **June 17th, 2011**, Enel Green Power North America Inc. (EGP NA) purchased a 51% stake in the Rocky Ridge wind project in Oklahoma. Construction activities are planned to start in the fall. Rocky Ridge was developed by EGP NA's partner TradeWind Energy, which has a power purchase agreement with the Western Farmers Electric Cooperative. The new wind farm's total installed capacity is approximately 150 MW. Once fully operational, the plant will generate about 630 million kWh annually, supplying power to some 55,000 US households and avoiding the emission of over 470,000 tons of CO₂ into the atmosphere each year.

On **June 28th, 2011**, the Dutch subsidiary Enel Investment Holding BV ("EIH"), in implementation of the agreement of March 14th, 2011 with Contour Global LP, sold the latter the entire capital of the Dutch companies Maritza East III Power Holding BV and Maritza O&M Holding Netherland BV. These companies respectively own 73% of the Bulgarian company Maritza East 3 AD, owner of a lignite-fuelled power plant with an installed capacity of 908 MW ("Maritza"), and 73% of the Bulgarian company Enel Operations Bulgaria AD, which is responsible for the operation and maintenance of the Maritza plant. ContourGlobal paid a total consideration of 230 million euros for the stakes.

On **July 5th, 2011**, the International Chamber of Commerce notified the parties of the ruling issued by the arbitration court on May 30th, 2011 in Paris, in the international arbitration proceeding initiated by Enel Green Power against its partner in the LaGeo joint venture, Inversiones Energéticas (INE), for recognition of its right to make investments in LaGeo by means of capitalization of such investments, thus achieving a majority stake in the Salvadorean company's share capital. The arbitration board recognized Enel Green Power's right to make further investments through LaGeo in geothermal energy in El Salvador and to capitalize such investments in LaGeo itself by way of the subscription of new shares in that company. This right, which is provided for in the agreement between LaGeo shareholders of June 4th, 2002, will enable Enel Green Power to acquire the majority of LaGeo's share capital. In addition, the arbitration court dismissed as unfounded a counterclaim brought by INE against Enel Green Power for alleged damages.

Again on **July 5th, 2011**, Enel SpA, through its subsidiary Enel Finance International NV, placed on the European market a multi-tranche bond issue totalling 1,750 million euros, aimed at institutional investors as part of its Global Medium Term Notes programme, thus putting into effect the resolution passed by the Enel S.p.A. Board of Directors on June 16th, 2011.

The operation, led by a syndicate of banks consisting of Banca IMI, BNP Paribas, Deutsche Bank, Société Generale and Unicredit in the role of joint-bookrunners, attracted subscriptions worth about 7,500 million euros, and is structured in the following tranches (all guaranteed by Enel S.p.A.):

- 1,000 million euros at a fixed rate of 4.125% to mature July 12th, 2017.
- 750 million euros at a fixed rate of 5% to mature July 12th, 2021.

On **July 15th, 2011**, the subsidiary Enel OGK-5 OJSC successfully launched the new combined cycle gas turbines (CCGT) unit with installed capacity of 410 MW at Nevinnomysskaya GRES in the Northern Caucasus. This is the first new power generating facility constructed by Enel in Russia as part of the current investment program in the country aimed at increasing the installed capacity as well as improving operational and environmental performances of the existing Enel OGK-5 generation fleet. The new unit is characterized by high reliability and automation. The efficiency of the new CCGT is about 58%, versus the 35-40% of conventional gas-fired power plants. Total investments into the construction of CCGT-410 at Nevinnomysskaya GRES amounted about 400 million euros (16 billion rubles).

Again on **July 15th, 2011**, Enel Produzione SpA and En&En SpA ("En&En"), a company involved in the development of energy projects, signed an agreement to develop new hydroelectric projects in the province of Belluno. The accord provides for the establishment of a new company (called ENergy Hydro Piave srl) held by Enel Produzione (51%) and En&En (49%) – or companies directly controlled by that company – to build and operate new hydroelectric plants in the province, in synergy with the existing Enel Produzione plants in the area and leveraging the contribution of the local business community. Enel Produzione and En&En have initiated the process of obtaining permits for two projects with a total capacity of about 60 MW, with the aim of obtaining, through ENergy Hydro Piave, the award of the first 30-year diversion concession from the Region of Veneto by the end of 2011.

On **July 25th, 2011**, the subsidiary Enel OGK-5 OJSC successfully launched the new combined cycle gas turbines (CCGT) unit with installed capacity of 410 MW at Sredneurskaya GRES near Yekaterinburg in the Urals Region. This is the second power unit constructed by Enel in Russia. The efficiency rate of the new CCGT is about 58%, compared to 35-40% of conventional gas-fired power units. The new unit is based on fourth-generation technologies and equipment, which allow to meet the ever-growing power and heat demand of the region while at the same time reducing negative impact on the environment. Total investments into the construction of the new unit amounted about 380 million euros (15 billion rubles).

OUTLOOK

The first half of 2011 saw steady growth of power demand in Latin America, Eastern Europe and Russia, and weak signs of recovery were registered in the other European countries. Against this backdrop, the dimension achieved by the Enel Group along with its geographical diversification, represent key success factors in reaching Enel's strategic goals.

The Group thus expects to benefit from the improvement in its margins with the introduction of new generation capacity in Russia and the Iberian peninsula as well as from the continued contribution of efficiency projects and improved operating cash flow.

Enel's integration with Endesa generated first-half operating synergies totalling 522 million euros, in addition to the 82 million euros produced by Endesa's Zenith programme, bringing the total synergies achieved in the period to 604 million euros.

A second wave of the Zenith programme will generate cumulative savings in the order of 1 billion euros between 2012 and 2015.

Enel will continue to implement programmes to develop new capacity in renewables as well as environmentally-sustainable thermal generation technologies and smart grids.

These measures, together with actions to further improve the Group's cash flow, enables us to confirm the consolidated financial targets for 2011 previously announced to investors.

2011 INTERIM DIVIDEND

Based on the results achieved in the first half of 2011 and the outlook for the current year, the Board of Directors will decide on September 28th regarding the distribution of an interim dividend and the amount of said dividend.

The dividend is scheduled to be paid from November 24th, 2011, with an ex-dividend date of November 21st, 2011.

BONDS ISSUED AND MATURING BONDS

The main bond issues made by the Enel Group in the first half of 2011 include the following:

- in January 2011, bonds denominated in Colombian pesos and Peruvian sols were issued respectively by Emgesa SA and Edelnor SAA, with a total value of 295 million euros;
- in March 2011, Enel Finance International NV carried out two private placements (guaranteed by Enel SpA) with a total value of 200 million euros. The issues have an weighted average maturity of about 20 years and an average interest rate of 5.78%;
- on May 27th, 2011, Enel Finance International NV issued a bond (guaranteed by Enel SpA) with a total value of 250 million Swiss francs (equal to about 205 million euros), weighted average maturity of 6.3 years and an average interest rate of 3.96%;
- on June 6th, 2011, Enel Finance International NV carried out a private placement (guaranteed by Enel SpA) with a total value of 11.5 billion yen (equal to about 100 million euros), with a maturity of 7 years, which was swapped into euros at an interest rate of 3.915%.

Between July 1st, 2011 and December 31st, 2012, a total of 3,134 million euros in bonds is scheduled to mature, including the most significant ones:

- 123 million euros relating to a fixed-rate bond issued by Enel OGK-5 OJSC, maturing in September 2011;
- 300 million euros relating to a floating-rate bond issued by Endesa Capital Finance LLC, maturing in November 2011;
- 600 million euros relating to a fixed-rate bond issued by Enel SpA, maturing in March 2012;
- 400 million euros relating to a floating-rate bond issued by Enel SpA, maturing in March 2012;
- 300 million euros relating to a floating-rate bond issued by Endesa Capital Finance LLC, maturing in July 2012;
- 624 million euros relating to a fixed-rate bond in pounds sterling issued by International Endesa BV, maturing in July 2012;
- 132 million euros relating to a fixed-rate bond in Brazilian reais issued by Ampla Energia e Serviços SA maturing in August 2012;
- 186 million euros relating to a fixed-rate bond in US dollars issued by International Endesa BV, maturing in September 2012;
- 150 million euros relating to a floating-rate bond issued by International Endesa BV, maturing in November 2012.

At 18:00 today, August 3rd, 2011, a conference call will be held to present the results of the first half of 2011 to financial analysts and institutional investors. Journalists are also invited to listen in on the call.

Documentation relating to the conference call will be available on Enel's website (www.enel.com) in the Investor Relations section from the beginning of the event.

Tables presenting the results of the individual Divisions (which do not take account of intersegment eliminations) are attached below, as are the income statement, the statement of comprehensive income, the balance sheet and the condensed cash flow statement for the Enel Group. These statements and explanatory notes were delivered to the independent auditor for evaluation. A descriptive summary of the alternative performance indicators is also attached.

The manager responsible for the preparation of the corporate financial reports, Luigi Ferraris, declares, pursuant to Article 154-bis, paragraph 2, of the Consolidated Law on Financial Intermediation, that the accounting information contained in this press release corresponds with that contained in the accounting documentation, books and records.

Results of the Divisions

The representation of performance and financial results by Division presented here is based on the approach used by management in assessing Group performance for the two periods.

Sales Division

Results (millions of euros):

	H1 2011	H1 2010	Change
Revenues	8,803	9,148	-3.8%
EBITDA	326	193	+68.9%
EBIT	180	51	-
Capital expenditure	12	16	-25.0%

Generation and Energy Management Division

Results (millions of euros):

	H1 2011	H1 2010	Change
Revenues	10,222	8,236	+24.1%
EBITDA	1,229	1,229	-
EBIT	940	960	-2.1%
Capital expenditure	109	293	-62.8%

Engineering and Innovation

Results (millions of euros):

	H1 2011	H1 2010	Change
Revenues	206	328	-37.2%
EBITDA	7	7	-
EBIT	5	5	-
Capital expenditure	1	4	-75.0%

Infrastructure and Networks

Results (millions of euros):

	H1 2011	H1 2010	Change
Revenues	3,594	3,414	+5.3%
EBITDA	2,025	1,845	+9.8%
EBIT	1,567	1,405	+11.5%
Capital expenditure	579	509	+13.8%

Iberia and Latin America

Results (millions of euros):

	H1 2011	H1 2010	Change
Revenues	15,844	14,843	+6.7%
EBITDA	3,611	4,047	-10.8%
EBIT	2,197	2,578	-14.8%
Capital expenditure	933	875	+6.6%

International

Results (millions of euros):

	H1 2011	H1 2010	Change
Revenues	3,819	3,111	+22.8%
EBITDA	798	841	-5.1%
EBIT	496	581	-14.6%
Capital expenditure	573	559	+2.5%

Renewable Energy

Results (millions of euros):

	H1 2011	H1 2010	Change
Revenues	1,329	974	+36.4%
EBITDA	876	651	+34.6%
EBIT	684	495	+38.2%
Capital expenditure	624	339	+84.1%

ALTERNATIVE PERFORMANCE INDICATORS

The following section describes a number of alternative performance indicators, not envisaged under the IFRS-EU accounting standards, which are used in this press release in order to facilitate the assessment of the Group's performance and financial position.

- **EBITDA:** an indicator of Enel's operating performance, calculated as "Operating income" plus "Depreciation, amortisation and impairment losses";
- **Net financial debt:** an indicator of Enel's financial structure, determined by "Long-term loans" and "Short-term loans and the current portion of long-term loans" less "Cash and cash equivalents", current and non-current financial assets (financial receivables and securities other than equity investments) included in "Other current assets" and "Other non-current assets";
- **Net capital employed:** calculated as the sum of "Current assets", "Non-current assets" and "Net assets held for sale", net of "Current liabilities" and "Non-current liabilities", excluding the items considered in the definition of net financial debt;
- **Net assets held for sale:** calculated as the algebraic sum of "Assets held for sale" and "Liabilities held for sale";
- **Group net ordinary income:** defined as that part of "Group net income" derived from ordinary business operations.

Consolidated Income Statement

Millions of euro	1 st Half			
	2011		2010	
		<i>of which with related parties</i>		<i>of which with related parties</i>
Revenues				
Revenues from sales and services	37,223	3,175	34,274	3,753
Other revenues	1,168	29	528	3
	<i>[Subtotal]</i>	38,391	3,204	34,802
				3,756
Costs				
Raw materials and consumables	19,795	4,686	16,944	5,285
Services	7,005	1,178	6,609	959
Personnel	2,176		2,254	
Depreciation, amortization and impairment losses	2,857		2,795	
Other operating expenses	1,330		1,001	18
Capitalized costs	(726)		(792)	
	<i>[Subtotal]</i>	32,437	5,864	28,811
				6,262
Net income/(charges) from commodity risk management	118		92	6
Operating income	6,072		6,083	
Financial income	1,765	13	2,441	12
Financial expense	3,175	3	4,207	
Share of income/(expense) from equity investments accounted for using the equity method	63		(1)	
Income before taxes	4,725		4,316	
Income taxes	1,536		1,263	
Net income from continuing operations	3,189		3,053	
Net income from discontinued operations ⁽¹⁾	-		-	
Net income for the period (shareholders of the Parent Company and non-controlling interests)	3,189		3,053	
Attributable to shareholders of the Parent Company	2,552		2,425	
Attributable to non-controlling interests	637		628	
<i>Earnings per share (euro)</i>	<i>0.27</i>		<i>0.26</i>	
<i>Diluted earnings per share (euro)</i> ⁽¹⁾	<i>0.27</i>		<i>0.26</i>	
<i>Earnings from continuing operations per share</i>	<i>0.27</i>		<i>0.26</i>	
<i>Diluted earnings from continuing operations per share</i> ⁽¹⁾	<i>0.27</i>		<i>0.26</i>	

(1) Calculated on the basis of the average number (9,403,357,795 shares) of ordinary shares in both periods, adjusted for the diluting effect of outstanding stock options (zero in both years).

Statement of comprehensive income

Millions of euro	1st Half	
	2011	2010
Net income for the period (shareholders of the Parent Company and non-controlling interests)	3,189	3,053
Other comprehensive income:		
- Effective portion of change in the fair value of cash flow hedges	139	3
- Income recognized in equity by companies accounted for using the equity method	-	32
- Change in the fair value of financial investments available for sale	131	53
- Exchange rate differences	(831)	2,753
Net Income (loss) recognized in equity	(561)	2,841
Comprehensive income for the period	2,628	5,894
Attributable to:		
- shareholders of the Parent Company	2,528	3,897
- non-controlling interests	100	1,997

Consolidated balance sheet

Millions of euro

ASSETS	at June 30, 2011	at December 31, 2010	
		<i>of which with</i>	<i>of which with</i>
		<i>related parties</i>	<i>related parties</i>
Non-current assets			
Property, plant and equipment	78,395		78,094
Investment property	291		299
Intangible assets	39,250		39,581
Deferred tax assets	5,985		6,017
Equity investments accounted for using the equity method	1,041		1,033
Non-current financial assets ⁽¹⁾	4,900		4,701
Other non-current assets	1,088		1,062
	<i>[Total]</i>		130,787
Current assets			
Inventories	3,274		2,803
Trade receivables	12,481	1,130	12,505
Tax receivables	1,980		1,587
Current financial assets ⁽²⁾	9,623	81	11,922
Cash and cash equivalents	3,708		5,164
Other current assets	2,605	17	2,176
	<i>[Total]</i>		36,157
Assets held for sale	602		1,618
TOTAL ASSETS	165,223		168,562

1) Of which long-term financial receivables for 2,764 millions of euro at June 30, 2011 (2,463 millions of euro at December 31, 2010) and other securities for 85 millions of euro at June 30, 2011 (104 millions of euro at December 31, 2010).

(2) Of which current portion of long-term financial receivables, short-term financial receivables and other securities at June 30, 2011 for 6,283 millions of euro (9,290 millions of euro at December 31, 2010), 1,647 millions of euro (1,608 millions of euro at December 31, 2010) and 38 millions of euro (95 millions of euro at December 31, 2010).

Millions of euro

LIABILITIES AND SHAREHOLDERS' EQUITY	at June 30, 2011		at December 31, 2010 <i>restated</i>	
		<i>of which with related parties</i>		<i>of which with related parties</i>
Equity attributable to the shareholders of the Parent Company				
Share capital	9,403		9,403	
Other reserves	10,767		10,791	
Retained earnings (losses carried forward)	16,100		14,345	
Net income for the period ⁽¹⁾	2,552		3,450	
	<i>[Total]</i>		37,989	
Equity attributable to non-controlling interests	15,415		15,877	
TOTAL SHAREHOLDERS' EQUITY	54,237		53,866	
Non-current liabilities				
Long-term loans	42,752		52,440	
Post-employment and other employee benefits	3,079		3,069	
Provisions for risks and charges	8,424		9,026	
Deferred tax liabilities	11,226		11,336	
Non-current financial liabilities	2,380		2,591	
Other non-current liabilities	1,305		1,244	
	<i>[Total]</i>		79,706	
Current liabilities				
Short-term loans	9,944		8,209	
Current portion of long-term loans	7,964		2,999	
Trade payables	11,308	2,685	12,373	2,777
Income tax payable	1,484		687	
Current financial liabilities	2,638	7	1,672	
Other current liabilities	8,359	31	8,052	13
	<i>[Total]</i>		33,992	
Liabilities held for sale	123		998	
TOTAL LIABILITIES	110,986		114,696	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	165,223		168,562	

(1) Net income for 2010 is reported net of the interim dividend (€940 million).

Consolidated Statement of Cash Flows

Millions of euro	1 st Half			
	2011	2010		
		<i>of which with related parties</i>	<i>of which with related parties</i>	
Income for the period (shareholders of the Parent Company and non-controlling interests)	3,189		3,053	
Adjustments for:				
Amortization and impairment losses of intangible assets	463		415	
Depreciation and impairment losses of property, plant and equipment	2,248		2,217	
Exchange rate gains and losses (including cash and cash equivalents)	(710)		1,350	
Accruals to provisions	398		315	
Financial (income)/expense	1,074		1,288	
Income taxes	1,536		1,263	
(Gains)/Losses and other non-monetary items	573		(1,088)	
<i>Cash flow from operating activities before changes in net current assets</i>	<i>8,771</i>		<i>8,813</i>	
Increase/(Decrease) in provisions	(941)		(618)	
(Increase)/Decrease in inventories	(462)		(222)	
(Increase)/Decrease in trade receivables	(232)	(65)	326	(47)
(Increase)/Decrease in financial and non-financial assets/liabilities	(325)	(75)	703	(10)
Increase/(Decrease) in trade payables	(1,043)	(92)	(2,075)	(448)
Interest income and other financial income collected	600	13	690	12
Interest expense and other financial expense paid	(1,877)	2	(1,931)	
Income taxes paid	(1,103)		(2,092)	
Cash flows from operating activities (a)	3,388		3,594	
Investments in property, plant and equipment	(2,712)		(2,435)	
Investments in intangible assets	(202)		(219)	
Investments in entities (or business units) less cash and cash equivalents acquired	(52)		(117)	
Disposals of entities (or business units) less cash and cash equivalents sold	104		375	
(Increase)/Decrease in other investing activities	84		(72)	
Cash flows from investing/disinvesting activities (b)	(2,778)		(2,468)	
Financial debt (new long-term borrowing)	3,601		5,053	
Financial debt (repayments and other changes)	(3,318)		(5,095)	
Charges related to sales of equity holdings without loss of control	(34)		-	
Dividends and interim dividends paid	(2,388)		(1,897)	
Cash flows from financing activities (c)	(2,139)		(1,939)	
Impact of exchange rate fluctuations on cash and cash equivalents (d)	(65)		239	
Increase/(Decrease) in cash and cash equivalents (a+b+c+d)	(1,594)		(574)	
Cash and cash equivalents at beginning of the period	5,342		4,289	
Cash and cash equivalents at the end of the period ^{(1) (2)}	3,748		3,715	

(1) Of which short-term securities equal to €38 million at June 30, 2011 (€82 million at June 30, 2010).

(2) Of which cash and cash equivalents pertaining to assets held for sale in the amount of €2 million at June 30, 2011 (€98 million at June 30, 2010).